Holding rates near zero, Fed keeps option of a hike in December

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On Wednesday, the US Federal Reserve Board, as expected, held its benchmark interest rate at the near-zero level it has maintained since the height of the global financial crisis in December of 2008. At the same time, the statement released by the central bank's policy-setting Federal Open Market Committee (FOMC) made clear that the bank remained open to beginning to raise its federal funds rate at the next FOMC meeting in mid-December.

US stock markets initially plunged following the 2 p.m. release of the FOMC statement, deeming its language unexpectedly “hawkish” in pointing toward a possible rate hike at the end of the year. But the markets subsequently rallied, led by bank and energy shares, and ended the trading day at their highs. The Dow Jones industrial average gained 198 points (1.13 percent), the Standard & Poor's 500 index rose 24 points (1.18 percent) and the Nasdaq climbed 65 points (1.30 percent).

The Fed meeting was held in the context of surging stock prices--up 5 percent since the last FOMC meeting in mid-September--and record levels of speculative activities such as mergers and acquisitions, stock buybacks and dividend increases on the one hand, and mounting signs of stagnation and crisis in the real economy on the other.

The near-zero interest rate policy pursued by the Fed and other major central banks, reinforced by central bank bond purchases (ìquantitative easingî), has done virtually nothing to revive productive investment or restore growth in employment, trade and general living standards. Rather, the trillions of dollars of cheap credit pumped into the financial markets (the Fed alone accounts for $2.5 trillion) has underwritten an immense growth of social inequality and the fortunes of the rich and the super-rich.

It has subsidized an orgy of speculative and parasitic financial manipulation that is destructive of the productive forces and goes hand in hand with a relentless attack, in the form of austerity, layoffs, wage-cutting and speedup, on the living standards and social conditions of the working class.

On Tuesday, the first day of the Fed’s two-day meeting, the giant American drugstore chain Rite Aid announced that it had accepted a takeover bid from the even larger Walgreen’s chain. The merger, valued at $17.2 billion, will create a mega-monopoly leading to higher prescription drug costs, store closures and job cuts.

So far this year, spurred on by the Obama administration's health care counter-reform, drug makers, hospital chains, health insurance firms and now pharmacies have announced $427 billion in merger deals in the US. The year 2015 is on track to set a new record for mergers and acquisitions of all kinds in America.

In the real US economy, by contrast, job creation has sharply decelerated, with only 142,000 net new jobs added in September. Orders for business equipment have declined, new home sales have fallen, and both sales and profits of industrial and manufacturing companies are declining for the first time since the third quarter of 2009.

US manufacturing production rose in September at its slowest pace in two years. Last week, the industrial firm 3M announced it would lay off 1,500 workers, 1.7 percent of its workforce, and the heavy machinery giant Caterpillar reduced its profit forecast, citing weak demand. CSX, the railroad firm, announced it was cutting 500 jobs in Kentucky and Tennessee due to a slump in coal production.

The ongoing impact of falling wages, long-term

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unemployment and the gutting of social services on broad sections of working people was reflected in Wal-Mart’s announcement this month that its 2015 sales would be flat and its 2016 profits would fall by as much as 12 percent.

Economic growth in the US for the third quarter is estimated at between 0.6 percent and 1.6 percent, a fraction of the second quarter rate of 3.9 percent.

The slowdown in the US is entirely bound up with a general decline in the world economy, with slumping growth rates in China, Japan, Europe, Canada, Australia and so-called emerging market countries from South America to Russia.

Under these conditions, the Fed has come under enormous pressure to abandon its stated intention, declared last year, to begin gradually raising interest rates in 2015 for the first time in nine years. The so-called “liftoff” has been pushed back from last June, to September and now possibly to December.

The International Monetary Fund and World Bank, which have forecast the slowest rate of global economic growth since 2009, have urged the Fed to delay any rate hike until next year. They have been joined by prominent American economists, including former Treasury Secretary Lawrence Summers.

The divisions among capitalist policy makers and the financial elite have found open expression within the Fed itself. Earlier this month, two members of the five-member Governing Board, the Fed's highest body, broke ranks with Chairwoman Janet Yellen, who continues to speak of a possible rate hike in December, to publicly oppose any increase this year.

Lael Brainard and Daniel Tarullo gave separate speeches arguing against any increase until there was clear data showing a strengthening of the labor market and a rise of inflation toward the Fed's goal of 2 percent per year.

The FOMC statement issued Wednesday appeared to have something of the character of a reply to both internal and external critics of Yellen's stated policy. The statement downplayed the significance of economic reports pointing to a sharp slowdown in the real economy, saying business fixed investment has been increasing “at solid rates” and the “underutilization of labor resources has diminished.”

It dropped language in the September statement warning that global economic developments might “restrain economic activity” in the US, which was taken by the markets at the time as a sign that the Fed was less likely to begin raising rates this year. The statement further referred specifically to the Fed’s “next meeting” as the occasion for the FOMC to decide on a possible rate increase.

But it retained what has become the Fed’s standard pledge to financial markets, banks and hedge funds to keep interest rates extraordinarily low for an indefinite period, even after an initial rate increase, stating that “economic conditions may, for some time, warrant keeping the target federal funds rate below levels the Committee views as normal in the longer run.”

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