Markets applaud speech by Fed Chair Yellen signaling delay in rate hikes

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Stock markets in the United States and internationally rose broadly in response to a speech Monday by Federal Reserve Chairwoman Janet Yellen indicating that the US central bank would put off any further increases in interest rates for at least several months. Speaking before the World Affairs Council in Philadelphia, Yellen responded to last Friday's disastrous US jobs report for May by omitting a reference made in a previous speech she gave just two weeks before to raising the Fed's benchmark federal funds rate "in the coming months."

While insisting she remained confident that the US economy was strengthening and that she continued to believe rates would have to be gradually raised in the future from the record low levels at which they have rested for nearly eight years, she cited the May jobs report as a "concerning" data point that argued in favor of delaying a rate hike for the present.

Previously, she and other Fed officials had suggested the central bank might raise rates from their current level of 0.25-0.50 percent as early as June 15, when the Fed's policy-making Federal Open Market Committee next meets. Last December, the Fed raised the federal funds rate—the overnight rate for loans between major banks—a quarter percentage point, the first increase in nearly a decade.

The May jobs report showed a net payroll gain of only 38,000, the lowest monthly increase since September 2010. Together with a downward revision in the jobs figures for March and April, the May total brought to three-month average to 116,000, a precipitous decline from last year's monthly average of 230,000. The report also showed a huge exit of people from the workforce and a sharp increase in people forced to accept part-time employment because they could not get a full-time job. The labor force participation rate fell to a nearly four-decade low of 62.6 percent.

The response of the stock market to these latest indicators of social misery and economic distress and the resultant signal from the Fed that it would keep the flood of cheap credit flowing was typical of the entire period since the 2008 financial crash—relief and exultation. On Monday, the Standard & Poor's 500 stock index rose 0.5 percent to close at its highest level this year. The Dow Jones Industrial Average gained 113 points, or 0.6 percent, to approach the 18,000 level. The Nasdaq also jumped 0.5 percent.

Yellen's speech was only the latest in a series of speeches and interviews by Fed officials reassuring Wall Street that no imminent increase in rates was likely. Lael Brainard, a Fed governor, said in a speech Friday, “There would appear to be an advantage to waiting until developments provide greater confidence.” Daniel Tarullo, also a Fed governor, said Thursday in an interview with Bloomberg that he had not yet seen “an affirmative reason to move.”

These developments are a further expression of the domination of the US and global economy by a financial aristocracy that accumulates its vast wealth on the basis of non-productive and anti-social activities. The supposed justification for the bailout of the banks following the 2008 Wall Street meltdown and the subsequent regime of zero or negative interest rates as well as central bank money-printing ("quantitative easing") was the claim that pumping virtually free and unlimited cash into the financial system would spark productive investment and the creation of new, decent-paying jobs.

In fact, the financial parasites who dominate economic life have used their tax payer-financed windfalls to further pad their stock portfolios and offshore bank accounts through various forms of speculation, while starving the economy of productive investment in machines, buildings, new technology, research and development, etc. The decline in productive investment, and the linked decline in labor productivity, are major factors in the ongoing slump in the real economy, even as stock prices and CEO pay soar to record heights.

In her speech Monday, Yellen took note of the decline in business investment and productivity, stating, "Business investment has been weak in the past six months or so, even beyond the energy sector, and investment in capital equipment is reported to have declined in the last quarter of 2015 and first quarter of this year. Labor productivity growth has been unusually weak in recent years, averaging less than 0.5 percent per year since 2010."

She was careful, however, to offer no hint that this had something to do with the policies of the Fed or the pervasive role of financial parasitism in the capitalist economy.

In an article published Wednesday, the *Wall Street Journal* did point to this connection. "One of the great mysteries of the recovery," the *Journal* wrote, "is why low interest rates have done so little to lift business investment.

"After all, that is supposed to be one of the ways monetary policy works: A lower cost of capital makes any project more viable. But what if lower interest rates are hurting investment by encouraging companies to pay dividends or buy back stock instead?"

The article cited research by economist Jay Thomas of the private equity giant Carlyle Group, which has revealed that "since 2009, just after the Federal Reserve took interest rates to near zero, US companies have boosted stock buybacks by 194 percent and dividends by 66.5 percent, but investment by 43 percent."

The article noted that major corporations not directly impacted by the fall in the price of oil and other commodities, including Eli Lilly, McDonald's and Verizon Communications, have either capped or slashed their capital budgets while raising dividends.

In other words, the enormous subsidies from governments and central banks are being used by banks and corporations not to increase the productive forces, but to reward their top executives and major shareholders by bidding up the value of their stock holdings and increasing their capital gains. This can best be described as a vast and criminal plundering of the world economy by the financial elite.