

# Fed resets monetary policy framework to meet Wall Street's demands

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The US Federal Reserve has announced a major shift in its official framework for determining monetary policy to bring it into line with its existing practice of supporting financial markets, following the 2008 financial crisis and now the pandemic, and to assure them such support will continue indefinitely.

The shift was announced in a statement released by the policy-making Federal Open Market Committee (FOMC) yesterday morning before a keynote address by Fed chair Jerome Powell to the Jackson Hole conference of central bankers.

The FOMC said in future its interest rate policy would be formulated with the aim of seeking to ensure the inflation rate achieved an “average” of 2 percent over time, removing the concern in the markets that the Fed would look to lift rates once the inflation rate went above 2 percent.

The effect of this change is to assure Wall Street that the Fed rate, and the interest rate structure of the entire financial system based on it, will remain at their present ultra-low levels for a long time.

To bolster this assurance, the FOMC also made clear that because low official unemployment rates in the period prior to the pandemic had not produced significant wage rises or set off inflation the Fed would not look to lift interest rates if the labour market tightened.

The breakdown in the previous relationship is largely the result of changes in the labour market in the past decade through the increased use of gig economy employment, part-time working and casualisation which have been the major source of increased employment rather than full-time jobs.

Announcing its new policy framework, the FOMC said the “updates reflect changes in the economy over the past decade and how policymakers are taking these changes into account in conducting monetary policy.”

That was an accurate assessment as far as it went. But

the rest of the statement and the address delivered by Powell explaining the change was largely an exercise in covering up the real driving forces of the shift.

Powell spoke of the need to ensure the achievement of the Fed’s congressionally mandated goals of achieving price stability and maximum employment “in service to the American people,” together with the claim that through its “listening” program it had been taking into account their views and those of their communities.

There was no reference to the most significant change over the past period, especially in the wake of the financial crisis of 2008, that is, the growing divorce of Wall Street from the underlying real economy and the accumulation of wealth in the hands of a financial oligarchy at the expense of the rest of society.

This process—epitomised by the news on Wednesday that the wealth of Amazon chief Jeff Bezos has now reached \$200 billion as he rakes in \$321 million per day—has seen the institutionalisation of mechanisms whereby profit is accumulated via speculation, share buy backs and other forms of “financial engineering.”

These mechanisms, which involve the siphoning of ever increasing amounts of wealth produced by the labour of hundreds of millions of workers into the coffers of a tiny financial elite, depend above all on the guaranteed maintenance of ultra-low interest rates and a Fed commitment that it will step in to back the markets whenever rampant speculation threatens a financial crisis.

This has been the actual practice of the Fed, going back to the stock market crash of October 1987 and accelerating after the meltdown of 2008.

But to the extent it was not formally codified and there was any degree of ambiguity in the central bank’s policy framework statement the financial markets demanded that changes be made in the interests of so-called “forward guidance.” That demand has now been met.

In his Jackson Hole speech, Powell recalled that the

review of the Fed's monetary policy statement was initiated in early 2019.

The timing is significant. From December 2015, the Fed had begun to raise interest rates from the near-zero levels it had sent in place following the 2008 crash. This was in line with the claim that the measures it had introduced, including the purchases of trillions of dollars of Treasury bonds, were of an emergency character and would be gradually withdrawn once the economy started to return to "normal."

In 2017 and 2018 there was a brief upturn in the US and world economy with the largest increase in gross domestic product since the period just prior to the financial crash and the Fed decided to press on in order to provide it with some room to manoeuvre in the event of another sharp downturn.

In 2018, it carried out four interest rate rises, each of 0.25 percentage points, and indicated there would be a further three such rises in 2019. It also stated it would continue winding down its holdings of financial assets, which had accumulated from around \$800 billion prior to 2008 to more than \$4 trillion, at the rate of \$50 billion per month. In October 2019, Powell said the program of asset reductions was on "auto pilot."

However, the orgy of financial speculation that had accelerated after 2008 had now become deeply entrenched in Wall Street and the entire financial system.

This meant that even very gradual moves to anything resembling what had previously been regarded as "normal" and the merest hint the supply of ultra-cheap money was an emergency measure, to be withdrawn at some point, produced a violent reaction.

It took the form of a sell-off on Wall Street in December 2018, recording its worst result for that month since 1931 in the midst the Great Depression. Together with a campaign in sections of the financial press, especially the *Wall Street Journal*, as well as the continued denunciations of Powell by US President Trump for keeping interest rates too high, this led to a U-turn.

In a speech in January 2019, Powell made clear that interest rate rises were off the agenda and the reduction of the Fed's assets would be put on hold. This was followed by cuts in rates from the middle of 2019.

But Powell and the FOMC recognised this was not sufficient so long as there was even a trace of ambiguity remaining in the Fed's policy framework. This led to the policy review the results of which were announced yesterday—a guarantee to the financial oligarchy that the ultra-cheap monetary policy, so essential to its operations,

would continue indefinitely.

In his speech, Powell did not specifically deal with the measures initiated by the Fed in response to the meltdown of the financial system in mid-March when the Fed stepped in to act as the backstop for every area of the market.

It announced further massive purchases of Treasury bonds, the buying up of student loan and credit card debt, short-term commercial paper and initiating, for the first time, a program of buying corporate bonds, including from companies that had been junk-rated as a result of the pandemic

There were more than enough reassurances for Wall Street in the speech that these measures, described as temporary and to be withdrawn at some point, would also be permanent.

Powell noted that in previous times expansions in the economy typically ended in overheating and rising inflation but in the past period long expansions had been more likely to end with financial instability "prompting essential efforts to substantially increase the strength and resilience of the financial system."

In another part of the speech, he said Fed policy was determined by risks to the economic outlook, "including potential risks to the financial system that could impede the attainment of our goals" and that to "counter these risks, we are prepared to use our full range of tools."

There can be mistaking the essential content of the Fed's adjustment to its statement of objectives. It makes clear that the orgy of speculation, leading to the creation of fabulous wealth at one pole and increasing poverty and misery at the other, is the official policy of the central financial arm of the capitalist state.



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