Fed officials push for new corporate stimulus package

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Federal Reserve officials have launched what amounts to a full court press aimed at ensuring that Congress provides a further fiscal stimulus to corporations, as the COVID pandemic continues out of control and the limited revival of the US economy stalls.

While Fed representatives always couch their remarks in terms of giving assistance to the economy and even to workers, the fall in the stock market since the beginning of the month—the most significant downturn since the plunge in mid-March, when all financial markets froze—is the underlying concern.

The push began on Tuesday, when Fed Chair Jerome Powell gave testimony before the House of Representatives Committee on Financial Services. Powell repeated earlier calls for fiscal action, on top of the more than $3 trillion made available under the CARES Act.

He warned that while many economic indicators had shown an improvement, both employment and overall economic activity “remain well below their pre-pandemic levels, and the path ahead continues to be highly uncertain.”

Powell said the path forward would depend on “keeping the virus under control, and on policy actions taken at all levels of government”—a call for further stimulus measures.

Pointing to the measures taken by the Fed, which amount to an injection of around $3 trillion into the financial markets, he said they were designed to support the functioning of private markets, and stressed that the central bank had only lending, not spending, powers. While some borrowers would benefit from its programs, for others a loan that was difficult to repay might not be the answer, and in those cases “direct fiscal support may be needed.”

Together with the repetition of the commitment, at the start of his testimony, that the Fed would use all its tools “for as long as it takes,” these remarks temporarily halted the market slide, resulting in a slight upturn after a major fall on Monday.

But the downturn resumed on Wednesday, when the Dow fell more than 500 points, or 1.9 percent, the S&P 500 dropped 2.4 percent and the Nasdaq lost 3 percent. Since reaching record highs in August, the S&P and the Nasdaq have lost 9 percent and 12 percent respectively. There was a slight recovery on Thursday after a volatile session.

The market falls brought forward a series of comments by Fed officials on the need for government action, held up in Congress because of disagreements between Republicans and Democrats over the size and direction of any new measures.

In further testimony on Wednesday, Powell said economic recovery would move faster “if there is support coming both from Congress and the Fed. The power of fiscal policy is really unequalled by anything else.”

Others took up the same theme. In an interview with *Bloomberg*, Fed Vice-Chairman Richard Clarida claimed the economy had recovered “very robustly,” but added that “we’re still in a deep hole.”

In a speech, Boston Fed President Eric Rosengren said he was less optimistic than others about any recovery, because of both the continuation of the pandemic and the reduced prospects of further government spending.

“Additional support from fiscal policy, which I believe is very much needed, seems increasingly unlikely to materialize any time soon,” he said.

Chicago Fed President Charles Evans told reporters his projection for a fall in unemployment to 5.5 percent at the end of 2021 had been based on the assumption that there would be between $500 and $1 trillion in increased government spending, and that without that he expected higher joblessness and a slower recovery.

Atlanta Fed President Ralph Bostic was another to call for action. He told an Atlanta Chamber of Commerce virtual meeting he was "hopeful that policy makers in Washington as well as at the state level find creative ways to get that support out there." Without it, he warned, there was a "significant chance" temporary dislocation "can become permanent."

Cleveland Fed President Lorretta Mester said more government spending was very much needed because of the "deep hole" the economy was in.

But in the absence to this point of any movement from Congress for further bailouts, the comments by Fed officials on the need for more stimulus may be having a destabilising impact on Wall Street.

Quincy Krosby, chief market strategist for Prudential Financial, told the *Financial Times*: "When you hear that from the raft of Fed speakers, particularly from the top, it is of concern." The emergence of a second wave of coronavirus infections could have devastating consequences for any recovery and for equity markets, she added.

Krishna Guha, vice-chairman of Evercore ISI, told the *Financial Times* that the Fed's "increasingly shrill calls" for more fiscal action were "shaking confidence in the outlook, given the near-certainty that this additional fiscal support will not be forthcoming before January at the earliest."

As the Fed calls for more government fiscal support, evidence has emerged on how its unprecedented intervention into financial markets, including the indirect and direct purchase of corporate bonds, is aiding major corporations at the expense of workers.

A report prepared by the House of Representatives Select Subcommittee on the Coronavirus released on Wednesday found that the Fed had purchased bonds of corporations that have laid off more than 1 million workers, while paying out dividends to shareholders.

In a damning indictment of the Fed's actions, the staff of the committee said: "Fed Chair Jerome Powell testified in June that 'the intended beneficiaries of all of our programs are workers.' However, the Select Committee's analysis indicates that many large layoffs have occurred among the companies whose bonds were purchased by the Fed, suggesting that the primary beneficiaries of the program have been corporate executives, not workers."

According to the report, 383 companies whose bonds were bought by the Fed had paid out dividends and 95 had carried out layoffs. Meanwhile, 227 of the companies had been accused of illegal activity sometime in the previous three years.

Confronted by the evidence gathered by the committee's staff, the subcommittee chairman, Democrat Jim Clyburn, did his best to hold out some prospect for a reform of the Fed's program.

"I believe that the terms of the Fed's purchases of corporate bonds could have been improved so that benefits were equitably shared by workers as well as investors," he said.

He got short shrift from Powell in his remarks in response to the report. Powell said the corporate bond-buying program had been designed to restore the functioning of private markets and had achieved that goal, as evidenced by the record amount of debt being issued in capital markets.

In its report, the *Wall Street Journal* said, "Powell implied that the program wouldn't have achieved such an outcome if it had instead been conditioned on encouraging firms to borrow money in order to save jobs."

Powell's dismissive response underscores the fact that actions of the Fed and the Trump administration have never been about saving jobs. They have been directed entirely to maintaining corporate profits, via government bailouts, and providing free money to Wall Street, enabling speculators, investment houses and share traders to rake in money at the expense of workers.