Wall Street Celebrates Fed Announcement, Sending US Stocks to Record Highs

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Wall Street celebrated yesterday's decision of the US Federal Reserve Board to virtually guarantee near-zero interest rates for at least another year, while gradually cutting back its massive bond purchases, by sending the Dow Jones Industrial Average and the Standard & Poor's 500 stock index to record highs.

The stock indexes began to soar Wednesday afternoon after the Fed's policy-making Federal Open Market Committee (FOMC) released its statement following a two-day meeting. Prices continued to spiral upward during a press conference by outgoing Fed chairman Ben Bernanke, who repeatedly assured the banks and corporations that, despite the beginning of "tapering" of the Fed's quantitative easing bond-buying program, monetary policy would remain "highly accommodative" for the foreseeable future.

In plain language, this means the US central bank will continue to make credit available to the major banks on a virtually unlimited and nearly free basis, promoting ever-higher stock prices, corporate profits and personal wealth for the rich and the super-rich.

Bernanke several times during his hour-long press conference pointed to the "extended forward guidance" on interest rates given by the Fed in its policy statement. He was referring to language amending the Fed's previous pledge to begin increasing its benchmark federal funds rate once the official unemployment rate fell to 6.5 percent.

Wednesday's FOMC statement says: "The Committee now anticipates… that it likely will be appropriate to maintain the current target range for the federal funds rate *well past the time* that the unemployment rate declines below 6.5 percent…" (Emphasis added).

This language was calculated to offset market concerns over a paring back of Fed asset purchases, by making an unprecedented pledge to keep interest rates at historic lows.

To drive home the point, Bernanke told the assembled press: "Nothing we did today was intended to reduce accommodation." In response to a reporter's question, he stated categorically that the spigot of cash to the financial markets would remain open under his likely successor, current Fed vice chairman Janet Yellen, nominated by President Obama to succeed Bernanke when he steps down on January 31.

The Dow ended the trading day up 292 points, or 1.8 percent, closing at a record high of 16,167. The S& P 500 jumped 29 points (1.7 percent) to a record 1,810. The Nasdaq composite index soared 46 points (1.2 percent), closing at 4,070.

The Fed has kept its benchmark interest rate at between zero and 0.25 percent since the end of 2008. The policy statement it released Wednesday suggests it could remain at the near-zero level until 2016, after which it would likely remain below 2 percent.

For most of this period, the Fed has also been pumping huge amounts of cash into the financial markets by purchasing Treasury bonds and mortgage-backed securities in three separate rounds of what it has called “quantitative easing” (QE). To do so, it has effectively printed trillions of dollars to subsidize the banks, hedge funds and big speculators.

The combination of virtually free credit and cash infusions has had the intended effect of fueling an unprecedented boom in the stock market and financial assets in general. Since late 2008, the Fed’s asset holdings have ballooned from $870 billion to nearly $4 trillion—one measure of the scale of the use of public funds to prop up the financial elite.

The S&P 500 index has nearly tripled in value since hitting a low of 666 in the spring of 2009, following the Wall Street crash of September 2008. This year alone, it has risen by 25 percent.

The current round of QE began in September 2012, with the Fed buying $85 billion a month ($1 trillion a year) of Treasury bonds and mortgage-backed assets. For some months, the Fed has been talking of beginning to trim its asset purchases, claiming such a move to be warranted by an improving labor market.

In fact, the real economy, beneath the frenzied money-making in the financial markets, remains mired in slump, with unemployment at near-depression levels, notwithstanding official figures that grossly understate the level of joblessness. In its statement Wednesday, the Fed pointed to a decline in the official jobless rate to 7.0 percent, but it knows full well that most of the decline is the result of millions of long-term unemployed people dropping out of the labor market, and therefore not being counted in the government’s estimate.

The US economy has grown at an average annual rate of just 2.3 percent since the recession officially ended in June 2009. This compares to a 4.1 percent average for the first four years of other expansions since World War II.

In an economic forecast that accompanied its Wednesday policy statement, the Fed predicted the US economy would grow by only 2.2 percent to 2.3 percent for all of 2013, with the official jobless rate ending the year at 7.0 to 7.1 percent. The central bank forecasts that the economy will grow by 3.0 percent to 3.4 percent in 2015, and between 2.5 percent and 3.2 percent in 2016.

By 2016, according to the Fed’s estimates, the jobless rate will have declined to 5.3 percent to 5.8 percent. In May 2007, prior to the financial meltdown, the official unemployment rate was 4.4 percent.

The FOMC statement makes the point that inflation is running well below the Fed’s target rate of 2 percent. This is part of a broader phenomenon, with inflation in Europe at less than 1 percent. The extremely low inflation rate is a further expression of the deeply recessionary, even deflationary, state of the real economy.

The main reason for the Fed’s move to gradually reduce its asset purchases is fear that the financial bubble it has fueled will burst, triggering another financial crisis even worse than the 2008 disaster. The FOMC statement said the Fed would, beginning in January, reduce its monthly purchases of Treasury bonds from $40 billion to $35 billion, and cut its purchases of mortgage-backed securities from $35 billion to $30 billion, for a net reduction in asset-buying from $85 billion to $75 billion.

The statement said the Fed would "likely reduce the pace of asset purchases in further measured steps at future meetings."

The Fed's ongoing windfall for Wall Street takes place the very week that the Obama administration and Congress pushed through a budget that allows unemployment benefits for the long-term unemployed to lapse, slashes federal employee pensions and continues the "sequester" budget-cutting framework. It also coincides with the near-completion of a farm bill that will further slash food stamp benefits for millions of Americans.

The class axis of government policy—directed at impoverishing the working class and further enriching the corporate-financial elite—could hardly be more naked.

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