US Federal Reserve expands "quantitative easing"

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The Federal Reserve announced Wednesday a significant expansion of its bond-buying program and low-interest-rate policy, in a move aimed at propping up the assets of the banks and super-rich amid signs of an intensification of the world economic crisis.

Speaking at a press release at the conclusion of the Federal Open Market Committee's policy meeting, Federal Reserve Chairman Ben Bernanke said that the Fed would significantly expand the "quantitative easing" bond-buying program that it announced in September, adding an additional $45 billion of treasury securities per month to the $40 billion in mortgage-backed securities that it is already purchasing.

This move will expand the Fed's balance sheet, from its current size of $2.9 trillion to nearly $4 trillion by the end of 2014.

About half of the assets being purchased by the Federal Reserve through the combined quantitative easing programs will be in the form of mortgage-backed securities, an effort to keep the value of these assets elevated while simultaneously removing them from the balance sheets of the banks.

Bernanke added that the Fed would, for the first time, officially tie its benchmark federal funds rate to the state of the economy, saying that it would keep the rate near zero percent "at least as long as the unemployment rate remains above 6.5 percent." According to economic projections released by the Fed the same day, it does not expect the unemployment rate to fall to 6.5 percent for another three years.

The Fed also implied that it would tolerate more inflation as a consequence of the additional stimulus, stating that this policy would continue unless inflation hit 2.5 percent, half a percentage point higher than its nominal inflation target of 2 percent.

The Federal Reserve is taking these steps in part because it foresees a significant deterioration in the US economy.

Last week, the University of Michigan said that its confidence index fell sharply in December to 74.5, down from 82.7 percent. The Institute for Supply Management (ISM), meanwhile, reported last week that its index of manufacturing activity fell to 49.5, the lowest level since July 2009.

These figures have led economists to conclude that the US economy has slowed significantly in the last quarter of this year. At the same time, the US is deeply intertwined with the world economy, and global conditions are deteriorating rapidly.

Neither the Federal Open Market Committee press release nor the press statement given by Ben Bernanke explicitly notes a worsening of economic conditions. Rather, Bernanke couched the Fed's policy moves as a response to concern over the continuing prevalence of unemployment.

This is a fraud. In fact, the Federal Reserve's policy of providing unlimited free cash to the banks, all the while buying up the toxic assets on their balance sheets, has nothing to do with providing jobs to the unemployed.

US corporations are sitting atop a cash hoard that is estimated to be as much as $5 trillion dollars, while levels of investment have dropped to the lowest levels in years. Instead of putting people to work, banks and corporations are either hoarding or using the money to speculate.

The real goal of the Federal Reserve is to guarantee the continual profitability of Wall Street and the personal incomes of the super-rich.

First, the policy of zero interest rates guarantees the banks a profitable investment opportunity, at the very least by borrowing money at zero interest rates and using it to buy the government's own debt.

Second, one of the stated aims of the quantitative easing program is to reduce interest rates on mortgages, and therefore prop up the US housing market. This is essential

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for inflating the values of "toxic" mortgage-backed securities, trillions of dollars of which remain on the balance sheets of the banks.

The quantitative easing program works by having the Federal Reserve create billions of dollars with which to purchase these worthless mortgage-backed securities from the banks at face value, keeping them on the balance sheet of the Federal Reserve.

The move by the Fed is only the latest of a string of announcements of monetary easing by global banks, including the central banks of Europe, England, Japan and Australia.

Last week the Japanese government stated that the country's economy was probably in recession and gave its worst economic assessment since April 2009. That week, the German Central Bank said that the country's economy would probably contract in this quarter and the next, while the European Central Bank recently said that economic growth in the 17-member euro zone would contract by at least 0.3 percent next year.

Since the eruption of the world economic crisis in 2008, the response of the ruling class internationally—led by the United States—has been to make available trillions of dollars to the banks, in the form of direct bailouts and monetary policy. Corporate profits are at record highs, and the stock markets have largely "recovered." The very social layer responsible for the crisis has utilized it to its own benefit.

The corollary to this handout has been a coordinated assault on the jobs, wages and social programs of the working class. Governments throughout the world are pursuing brutal austerity measures in order to pay off the banks and investors. In the United States, the Democrats and Republicans are conspiring to slash trillions of dollars from government health care and retirement programs.

The Fed's move is a signal to the markets that while there is supposedly "no money" for the basic rights of the working class, the spigot is always open and flowing for the financial aristocracy.

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