Fed acts to fix jobs market

Literature, Russian Literature

The U. S Federal Reserve has announced some major policy initiatives in order to improve the high unemployment rate in the country and to stabilize the inflation in the economy. According to the program, the Federal Reserve would purchase mortgage-backed securities amounting to $40 billion every month by which it expects to reduce the interest rates in the long run, encourage buying of other assets such as stocks and decrease dollar appreciation though the program directly aims at the housing sector which is on the verge of stabilization. However, according to Mr. Bernanke, Chairman of the Federal Reserve, this move would urge the people to spend more in buying commodities, investments and exports. The Federal Reserve has given its commitment to this program until the job market scenario in the US improves. This move has resulted in heavy investments in the stock market, gold and other such assets and the Dow Jones average for industries reached a new high after a similar rise in 2007. However, this announcement has resulted in a price hike for basic commodities such as oil that has created unease among the people who fear an impending rise in basic essentials. Though the present program is considerably less compared to the $1. 25 trillion and $600 billion bond-buying programs which were launched in 2009 and 2010 respectively, the Federal Reserve has further announced that the current program could be extended to buy agency-mortgage securities and other assets if no major improvement is seen in the job market. Though this move has been criticized as being less aggressive by academics and economists, the central bank chairman has argued that the Federal Reserve is doing its best to stimulate the economy and also the present program could be further extended if and when required. The Federal Reserve has mainly aimed its program on those who have been out of employment and are in need of economic security until they find employment. In his address to the media, Mr. Bernanke noted that the longer people are out of work the harder it is to find another job as their work experience is at stake. The central bank has also announced that it would continue its Operation Twist program through which it would buy treasury bonds amounting to $45 billion every month which will be used to fund the mortgage purchases. And if the economic situation does not improve significantly it has proposed to purchase treasury bonds through money printing in addition to purchasing mortgages. In addition it also plans to keep short-term interest rates near zero even after the economy stabilizes.

There have been several criticisms on the effect that this bond-buying program will have on the economical growth of the country. Many economists believe that such programs can actually do very little to better the economical situation and unemployment rate and according to a recent survey reduction of the interest rates has kindled little interest among investors with majority of investors having no plans to change their investments plans. Mr. Bernanke, while acknowledging the fact that the programs launched cannot by itself keep check of the unemployment rate and economic situation, it would however contribute to channeling the economic growth of the country in a positive direction. And with the program receiving overwhelming support from a majority of officials in the department barring one individual, it is expected to gain widespread public support. Also with the housing market showing signs of stabilization, the current program could contribute to its revival. In the chairman’s words, consumers will begin to spend once the house prices begin to increase as they would feel wealthier and disposed to buy.

Thus the mortgage bond-buying program has been targeted to improve the consumer buying potential which will in turn help in the growth of the economy and also reduce unemployment in the country.

Reference

Hilsenrath, J & Peterson, K. (September 14, 2012). Fed Acts to Fix Job Markets. The Wall Street Journal. Retrieved September 21, 2012, from http://online. wsj. com/article/SB10000872396390444023704577649602607207034. html