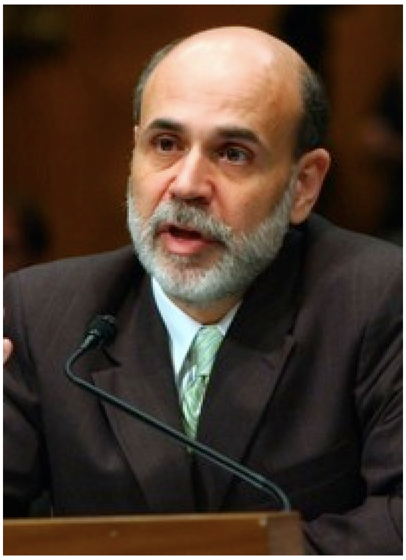
Fed to Keep Rates Low for “Extended Period”



The Federal Reserve decided on December 16 to keep interest rates at historic lows near zero percent. The Fed released a statement declaring that even though there are signs of improvement, economic conditions “are likely to warrant exceptionally low levels of the federal funds rate for an extended period.”

The federal funds rate is the benchmark for interest charged on home and consumer loans, business loans, and credit cards. The rate of return on savings is also keyed to the Fed’s benchmark, making the Fed’s announcement very bad news for savers and those on fixed incomes who are dependent on interest from certificates of deposit and the like.

The Fed decided to cut the funds rate to between 0% and 0.25% in December of last year, and they have left it there throughout all of this year. Despite saying “that economic activity has continued to pick up and that the deterioration in the labor market is abating,” the Fed did not see fit to budge on interest rates and gave every indication they are willing to leaves rates this low for a long time.

“With substantial resource slack likely to continue to dampen cost pressures and with longer-term inflation expectations stable, the Committee expects that inflation will remain subdued for some time,” went the Fed’s reasoning. Their conclusion: “The Committee will maintain the target range for the federal funds rate at 0 to .25% and continues to anticipate that economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, are likely to warrant exceptionally low levels of the federal funds rate for an extended period.”

The Fed’s decision coincidentally occurred on the same day *Time* magazine chose Federal Reserve Chairman Ben Bernanke as its “Man of the Year” for 2009. According to *Time’s* article on Bernanke, “The main reason Ben Shalom Bernanke is TIME’s Person of the Year for 2009 is that he is the most important player guiding the world’s most important economy.”

The importance of Bernanke’s decisions is beyond question, but whether his choices are doing good or ill is debatable. *Time’s* announcement comes a day before Bernanke faces a vote in the Senate Banking Committee on his confirmation for another four-year term as chair of the Fed.

Bernanke is likely to be confirmed, but the Fed is under increasing scrutiny. Representative Ron Paul’s (R-Texas) bill to audit the Fed is continuing to gain support. As of December 4, www.RonPaul.com stated that his bill had 317 co-sponsors in the House and 30 co-sponsors in the Senate.

For even more of Ron Paul’s unique and insightful perspective on Ben Bernanke and the Fed, watch the following video of Paul’s December 16 appearance on MSNBC’s *Morning Joe* show.

Thumbnail hoto of Fed Chm. Ben Bernanke: AP Images