Fed Links Rates to Joblessness, Expands Bond Purchases

The Federal Reserve for the first time linked the outlook for its main interest rate to unemployment and inflation and said it will expand its asset purchase program by buying $45 billion a month of Treasury securities starting in January to spur the economy.

“The conditions now prevailing in the job market represent an enormous waste of human and economic potential,” Fed Chairman Ben S. Bernanke said in a press conference in Washington today after a meeting of the Federal Open Market Committee. The Fed plans to “maintain accommodation as long as needed to promote a stronger economic recovery in the context of price stability,” he said.

Rates will stay low “at least as long” as unemployment remains above 6.5 percent and if inflation is projected to be no more than 2.5 percent, the FOMC said in a statement. The thresholds replace the Fed’s earlier view that rates would stay near zero at least through the middle of 2015.

The move to economic thresholds represents another innovation by Bernanke, a former Princeton University professor and Great Depression expert who has stretched the bounds of monetary policy as he battled the recession and then sought to jolt the world’s biggest economy out of a subpar recovery.

“The Fed has been very active since the crisis began, and they are feeling some time pressure because the longer Americans stay unemployed, the harder it is to incorporate them back into the labor force,” said Dana Saporta, a U.S. economist at Credit Suisse Group AG in New York.

Stocks Rise

Stocks erased gains as Bernanke said the Fed can’t offset the full impact in case the Obama administration and Congress can’t reach an agreement to avoid automatic tax increases and spending cuts set to take effect next year. The Standard & Poor’s 500 Index was little changed at 1,428.48 at the close of trading in New York after earlier rising as much as 0.8 percent.

Treasuries fell on concern additional bond purchases would fuel inflation. The yield on the 10-year Treasury note rose five basis points to 1.70

percent.