

Wall Street celebrates Fed credit boost, Obama deal on tax cuts

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Buoyed by a huge infusion of cheap credit from the Federal Reserve and the guarantee of continued tax cuts for the wealthy after the Republican victory on Tuesday, the US stock market roared upward Thursday in a spectacle that was as obscene as it was predictable.

The financial aristocracy is celebrating the continued rise in its wealth, even as the working people, who comprise the vast majority of the population, enter the fourth winter of the longest slump since the Great Depression.

The Dow Jones Industrial Average leapt more than 219 points, closing at 11,434.84, the highest level since September 2008, when the collapse of the investment bank Lehman Brothers triggered the financial crash.

The rally was touched off late Wednesday by the announcement by the Federal Reserve Board that it would pump another \$600 billion into the financial markets over the next eight months through the purchase of Treasury bonds. It was further fueled by signals from the White House that the Obama administration is about to capitulate to Republican demands for an extension of Bush-era tax cuts for the rich.

A headline on CNNMoney's web site summed up the Fed's action as a "\$600 billion gift" to Wall Street. The US central bank is ensuring that corporations and banks have easy access to low-cost funds, even while working people and small businesses find credit unaffordably expensive, if available at all.

The stock market rose despite a sharp increase in new claims for unemployment compensation, up 20,000 last week to 457,000. For many sections of the corporate establishment, currently enjoying near-record profits, the indication of continuing layoffs is good news because it suggests there will be no upward pressure on wage levels.

The new unemployment claims figure has averaged close to 450,000 a week this year, well above the figure of 400,000 claims that has been taken to indicate an expanding labor market.

Labor productivity also rose 1.9 percent, as corporations continued to cut jobs and load additional work onto those employees who remain. Cary Leahey of Decision Economics told Reuters news service: "The big picture is that firms are trying to squeeze every ounce out of the workers they have and this is one reason they feel no need to hire."

Market strategist Stephen Wood of Russell Investments told CNN, "We're seeing a tale of two economies. Corporate America continues to do well while housing and the labor market are still struggling."

This stark class divide was expressed in the October retail sales figures, which were stagnant for most mass retailers, but were up sharply for two luxury department store chains: Saks Fifth Avenue, up 8.1 percent, and Nordstrom's full-price stores, up 4.8 percent.

The first policy decision facing Washington in the wake of the elections is the November 30 expiration of extended unemployment benefits for the long-term jobless. Some 800,000 unemployed workers are expected to lose benefits in the first four days of December.

Nearly 10 million workers have collected unemployment benefits at some point this year, and these benefits, averaging just under \$300 a week, kept 3.3 million workers from falling below the official poverty line, according to a report by the Center on Budget and Policy Priorities.

Senate Republicans blocked extension of unemployment benefits three times this year, each time using filibusters to extract policy concessions, including cuts in food stamps and other programs for

the poor and unemployed. The House and Senate will return for a brief lame-duck session in November and another filibuster would likely push the issue into the next Congress, when Republicans opposed to extended benefits will have a majority in the House of Representatives.

President Obama announced Thursday that he was inviting top congressional Republicans and Democrats to meet with him at the White House on November 18, after he returns from his trip to Asia and the congressional lame-duck session convenes. Obama told reporters during an impromptu briefing that the session is “not just going to be a photo op,” but would include discussion of impending tax and budget policy decisions.

“We can’t afford two years of just squabbling,” Obama said, promising to “make a sincere and consistent effort to try to change how Washington operates.” He listed economic issues, including both the extension of the Bush tax cuts and extension of unemployment benefits, implicitly suggesting a trade-off that would provide hundreds of billions in additional handouts to the wealthy as the price of continuing the pittance to the unemployed.

As in his press conference the day before, Obama was at pains to reassure corporate America. The government had to provide “some certainty” for American businesses in relation to tax and investment policy, he said, so as to encourage companies to increase economic activity.

White House spokesman Robert Gibbs confirmed that Obama would consider extending the tax cuts for the wealthy, as demanded by the Republicans. “Making those tax cuts for the upper end permanent is something that the president does not believe is a good idea,” Gibbs said, but, he added, the president was willing to discuss it.

Senate Majority Leader Harry Reid, in a conference call with reporters, urged congressional Republicans to take joint responsibility for government policy since they now control the lower house. “No is not the answer,” he said. “It has to be yes. Not our yes, but a combined yes, something we work out, a consensus yes. The time for politics is over.”

The *New York Times* reported Thursday, citing administration sources, that “the White House and many congressional Democrats privately anticipate a

compromise that would extend the Bush rates for the middle class for at least five years, and the rates for higher-income individuals for a year or two—in a nod to Republicans’ contention that no one’s taxes should go up until the economy has fully recovered.”

Other sops to business include a tax credit for corporate research and development that expired at the end of 2009 and would cost \$35 billion to revive.



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