US stocks hit new highs following Senate testimony by Fed chief

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Wall Street liked what it heard from Federal Reserve Chairwoman Janet Yellen, who testified Tuesday before the Senate Banking Committee. All of the major US stock indexes, spearheaded by bank shares, closed at new highs, with the Dow Jones Industrial Average gaining 92 points to end the day at 20,504, the Standard & Poor's 500 index notching a nine point increase to close at 2,337 and the Nasdaq picking up 18 points to finish at 5,782.

The S&P 500 financial index rose 2.8 percent, with shares of Goldman Sachs gaining 1.29 percent and Bank of America rising by 2.82 percent.

Yellen's appearance, her first before Congress since the inauguration of Donald Trump, was officially for the purpose of introducing the Fed's semi-annual Monetary Report to Congress, as mandated by the 1978 Humphrey-Hawkins law. The twice-yearly event, hailed when the law was passed as a means of promoting full employment, was long ago reduced to a hollow ritual. On Wednesday, Yellen will complete the process by testifying before the House Financial Services Committee.

In her opening remarks and her responses to questions from committee members, Yellen reaffirmed the US central bank's intention of gradually raising interest rates while keeping them at historically low levels. In terms of monetary policy, this suits the major Wall Street institutions, which stand to extend their record profits even further under conditions where credit is still cheap but higher rates guarantee better returns on loans.

The banks were also pleased by Yellen's stated support for Trump's executive order mandating his treasury secretary, the former Goldman trader Steven Mnuchin, and his top economic adviser, former Goldman President Gary Cohn, to work with the Fed and other government bank overseers to roll back bank regulations. Trump issued the order two weeks ago as part of his stated policy of dismantling the 2010 Dodd-Frank bank act, which imposed minor restraints on the banks following the Wall Street crash of 2008.

While Yellen, urged on by Democrats on the Senate committee, defended Dodd-Frank, she repeatedly stated her support for "mitigating" the regulatory "burden" on financial firms and declared her support for the "core principles" laid down in Trump's order.

There was considerable discussion during the hearing on the impending resignation, announced last Friday, of Daniel Tarullo, the Fed Board of Governors member who served during the Obama administration as the central bank's point man in enforcing the Dodd-Frank regulations. Tarullo's resignation brings to three the number of vacancies on the seven-person Board of Governors, giving Trump an opportunity to significantly shift the balance at the Fed even more strongly in favor of Wall Street.

In her opening remarks, Yellen painted a generally rosy picture of the US economy while acknowledging that the gross domestic product rose by only 1.9 percent in 2016, the same as 2015. This is by far the slowest rate of economic growth for any period designated by the government as an economic "recovery" since World War II. The main negative feature to which she pointed was chronically low productivity growth.

What she did not explain is that low productivity growth is linked to a low level of productive investment. This, in turn, reflects the degree to which the so-called "recovery" from the Great Recession is centered on the stock market and the speculative and parasitical activities of banks and hedge funds, rather than the real economy.

Yellen also hinted at the potentially negative impact on the economy of uncertainty over fiscal and "other" policies of the Trump administration. She warned indirectly of a surge of debt as a result of Trump's plans to slash corporate taxes, dramatically increase military spending and provide a financial windfall for corporations awarded infrastructure contracts.

"I would also hope," she said, "that fiscal policy changes will be consistent with putting US fiscal accounts on a sustainable trajectory."

There was little discussion, either in Yellen's remarks or in the ensuing question-and-answer period, of the "America First" protectionist trade and monetary policies of the new administration. This is under conditions where attacks by Trump officials on Germany and the euro, China and the renminbi, and multi-lateral trade agreements in general have provoked sharp rejoinders from nominal US allies.

Last week, European Central Bank Chief Mario Draghi denied Trump's charges of a deliberately undervalued euro, and the *Financial Times* editorialized: "If it continues this course, the Trump administration is a clear and present danger to the global trading and monetary system. Other countries must stand ready to resist bullying, and not to let the US drive wedges between them."

In the question period of Tuesday's hearing, Republican senators generally attacked Dodd-Frank as an intolerable burden on the banks and impediment to economic growth. They echoed Trump, who has called the law a "disaster," and his advisor Gary Cohn, who claims the law "shackles" the banks.

For their part, the Democrats characterized the law as a major reform of the banking system and defended the regulatory status quo. In reality, Dodd-Frank is a toothless reform that was passed as part of the series of measures by which the Obama administration rescued the banks and the financial aristocracy at a cost of trillions of dollars.

It was enacted in large measure to provide political cover for the bank bailout and the "quantitative easing" monetary policies that pumped trillions of dollars of virtually free money into the financial markets, fueling a three-fold-plus rise in the Dow and a further transfer of wealth from the bottom to the top. It has done virtually nothing to rein in the banks, which have recorded record profits even as the real economy has stagnated and tens of millions of working people have grown poorer.

The most absurd and brazen defense of Dodd-Frank was offered by the representative of the supposed left wing of the Democratic Party and ostensible scourge of Wall Street, Massachusetts Senator Elizabeth Warren. In her round of questioning, she prompted Yellen to debunk Republican claims that Dodd-Frank was hamstringing US banks, preventing them from lending, and weakening them in relation to foreign banks.

She defended Dodd-Frank essentially on the grounds that it was a boon to Wall Street, declaring that "our banks" are making "record profits," that "commercial and consumer lending is robust," and that "our banks are blowing away our competitors."

She held up an issue of the *Wall Street Journal* with the headline "US Banks Report Record Profit in Third Quarter" and urged that it be entered into the record of the hearing.