Wall Street rules

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5 January 2019

The Federal Reserve sent a clear message to Wall Street on Friday: It will not allow the longest bull market in American history to end. The message was received loud and clear, and the Dow rose by more than 700 points.

Hundreds of thousands of federal workers remain furloughed or forced to work without pay as the partial government shutdown enters its third week, but the US central bank is making clear that all of the resources of the state are at the disposal of the financial oligarchy.

Responding to Thursday's market selloff following a dismal report from Apple and signs of a manufacturing slowdown in both China and the US, the Fed declared it was "listening" to the markets and would scrap its plans to raise interest rates.

Speaking at a conference in Atlanta, where he was flanked by his predecessors Ben Bernanke and Janet Yellen, both of whom had worked to reflate the stock market bubble after the 2008 financial crash, Chairman Jerome Powell signaled that the Fed would back off from its two projected rate increases for 2019.

"We're listening sensitively to the messages markets are sending," he said, adding that the central bank would be "patient" in imposing further rate increases. To underline the point, he declared, "If we ever came to the conclusion that any aspect of our plans" was causing a problem, "we wouldn't hesitate to change it."

This extraordinary pledge to Wall Street followed the 660 point plunge in the Dow Jones Industrial Average on Thursday, capping off the worst two-day start for a new trading year since the collapse of the dot.com bubble.

William McChesney Martin, the Fed chairman from 1951 to 1970, famously said that his job was "to take away the punch bowl just as the party gets going." Now the task of the Fed chairman is to ply the wealthy revelers with tequila shots as soon as they start to sober up.

Powell's remarks were particularly striking given that they followed the release Friday of the most upbeat jobs report in over a year, with figures, including the highest year-on-year wage growth since the 2008 crisis, universally lauded as "stellar."

While US financial markets have endured the worst December since the Great Depression, amid mounting fears of a looming recession and a new financial crisis, analysts have been quick to point out that there are no "hard" signs of a recession in the United States.

Both the Dow and the S&P 500 indexes have fallen more than 15 percent from their recent highs, while the tech-heavy NASDAQ has entered bear market territory, usually defined as a drop of 20 percent from recent highs.

The markets, Powell admitted, are "well ahead of the data." But it is the markets, not the "data," that Powell is listening to.

Since World War II, bear markets have occurred, on average, every five-and-a-half years. But if the present trend continues, the Dow will reach 10 years without a bear market in March, despite the recent losses.

Now the Fed has stepped in effectively to pledge that it will allocate whatever resources are needed to ensure that no substantial market correction takes place. But this means only that when the correction does come, as it inevitably must, it will be all the more severe and the Fed will have all the less power to stop it.

From the standpoint of the history of the institution, the Fed's current more or less explicit role as backstop for the stock market is a relatively new development. Founded in 1913, the Federal Reserve legally has had the "dual mandate" of ensuring both maximum employment and price stability since the late 1970s. Fed officials have traditionally denied being influenced in policy decisions by a desire to drive up the stock market.

But like all institutions of the capitalist state, the central bank functions not to impartially and equally protect the interests of worker and capitalist. Rather, to quote the *Communist Manifesto*, it is an essential part of the "committee for managing the common affairs of the whole bourgeoisie."

Federal Reserve Chairman Paul Volcker, appointed by Democratic President Jimmy Carter in 1979, deliberately engineered an economic recession by driving the benchmark federal funds interest rate above 20 percent. His highly conscious aim, in the name of combating inflation, was to quash a wages movement of US workers by triggering plant closures and driving up unemployment.

The actions of the Fed under Volcker set the stage for a vast upward redistribution of wealth, facilitated on one hand by the trade unions' suppression of the class struggle and on the other by a relentless and dizzying rise on the stock market.

Volcker's recession, together with the Reagan administration's crushing of the 1981 PATCO air traffic controllers' strike, ushered in decades of mass layoffs, deindustrialization and wage and benefit concessions, leading labor's share of total national income to fall year after year.

These were also decades of financial deregulation, leading to the savings and loan crisis of the late 1980s, the dot.com bubble of 1999-2000, and, worst of all, the 2008 financial crisis.

In each of these crises, the Federal Reserve carried out what became known as the "Greenspan put," (later the "Bernanke put")—an implicit guarantee to backstop the financial markets, prompting investors to take ever greater risks.

In 2008, this resulted in the most sweeping and systemic financial crisis since the Great Depression, prompting Fed Chairman Bernanke, New York Fed President Tim Geithner and Treasury Secretary Henry Paulson (the former CEO of Goldman Sachs) to orchestrate the largest bank bailout in human history.

Since that time, the Federal Reserve has carried out its most accommodative monetary policy ever, keeping interest rates at or near zero percent for six years. It supplemented this boondoggle for the financial elite with its multi-trillion-dollar "quantitative easing" money-printing program.

The effect can be seen in the ever more staggering wealth of the financial oligarchy, which has consistently enjoyed investment returns of between 10 and 20 percent every year since the financial crisis, even as the incomes of workers have stagnated or fallen.

American capitalist society is hooked on the toxic growth of social inequality created by the stock market bubble. This, in turn, fosters the political framework not just for the decadent lifestyles of the financial oligarchs, each of whom owns, on average, a half-dozen mansions around the world, a private jet and a super-yacht, but also for the broader periphery of the affluent upper-middle class, which provides the oligarchs with political legitimacy and support. These elite social layers determine American political life, from which the broad mass of working people is effectively excluded.

The Federal Reserve is a key mechanism for perpetuating this whole filthy system, in which "Wall Street rules." But its services in behalf of the rich and the super-rich only compound the fundamental and insoluble contradictions of capitalism, plunging the system into ever deeper debt and ensuring that the next crisis will be that much more violent and explosive.

In this intensifying crisis, the working class must assert its independent interests with the same determination and ruthlessness as evinced by the ruling class. It must answer the bourgeoisie's social counterrevolution with the program of socialist revolution.