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Psychonomic Newsletter, Oct 23, 2011

Dow Jones Industrial Average (DJIA), Jul 1 2011 to Oct 18 2011



In short: The political backlash after the successful Bin Laden Raid and the loss of power for ruthless media mogul Rupert Murdoch¹ were responsible for the steepest decline of stock prices since March 2009. As a consequence the broad populace is exposed to huge existential threats to such an extent that the Bin Laden and Murdoch successes are nearly forgotten.

During the reporting period of this newsletter we saw from Jul 22 to Aug 9 the biggest decline of stock prices since the recovery from the financial crisis had begun in March 2009. After this decline followed a sideward movement of stock prices which lasted until Oct 4. Since then stock prices kept rising but were not able to make up for the losses in July and August.

The descent of stock prices was caused for one part by the negative economic consequences of the crisis of the US government as could be seen from the process which led to the debt ceiling deal and the content of this deal. That the performance of the US political system was poor could also be seen when the credit rating of the US was downgraded on Aug 6. In addition the European Sovereign Debt Crisis exerted some but until now not a major negative influence on global stock markets. The US political crisis is a crisis of US Congress and Administration. Problematic is the behaviour of the House of Representatives which is dominated by extremist Tea-Party representatives. In the following I shall describe the events which caused the descent of stock prices.

On Jul 21 it looked as if a bipartisan agreement to raise the national debt ceiling and avoid a government default was possible ("White House sees momentum on debt deal"). One day later the debt talks collapsed ("talks collapsed in acrimony") because the Republicans were against anything which could be interpreted as rising taxes. They did this although Obama had agreed to a far reaching impairment of the social systems.

¹ Cf Psychonomic Newsletter Jul 17, 2011

White House sees momentum on debt deal, but "not close"

Reuters – Thu Jul 21

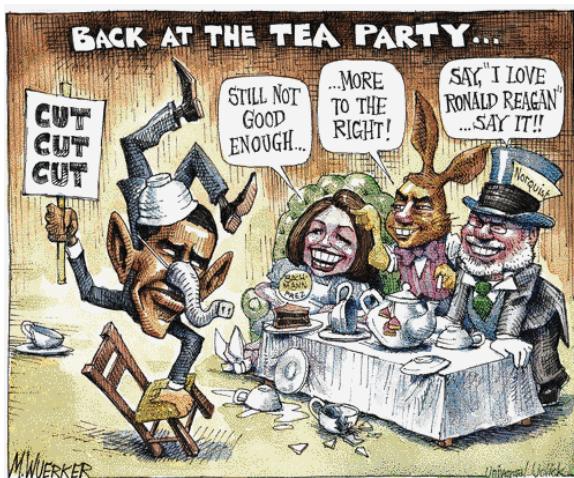
Obama, lawmakers scramble to salvage debt deal

By Alister Bull and Richard Cowan / Reuters – Sat Jul 23, 2011

WASHINGTON (Reuters) - Scolded by President Barack Obama, Congress scrambled on Saturday to produce a deficit plan within 48 hours that keeps the United States from a **catastrophic debt default now days away.**

A day after talks collapsed in acrimony, Obama held an **emergency meeting** with congressional leaders at the White House and told them to find areas of agreement...

Matt Wuerker, Gocomics.com, Jul 7



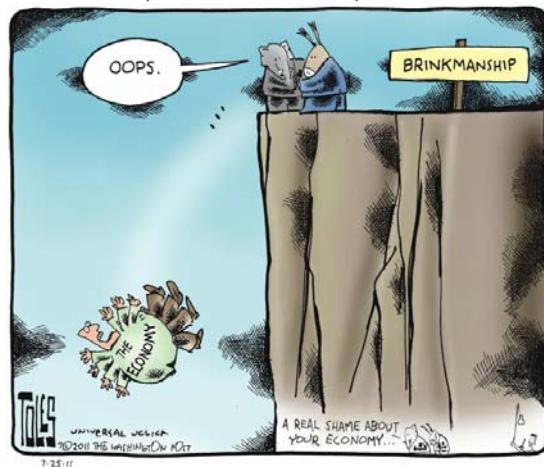
On Sunday Jul 31 Obama announced an agreement to avert government default. It would reduce federal spending by at least \$1 trillion over a decade and a super committee of lawmakers would have to come up with \$1.2 trillion more in deficit cuts from benefit programs or tax reform before Nov 23. Failure by the super committee "would trigger \$1.2 trillion in spending cuts, starting in 2013, evenly divided between military and domestic programs". (Reuters - Oct. 16, 2011, Cantor confident of deficit super committee deal).

The agreement while allowing to avoid government default nevertheless had negative consequences. The fact that one of the two big political parties of the world's leading nation put the social state, economic prosperity and the whole world economy at risk for short-sighted populistic reasons could not calm stock markets or bolster confidence in the US political system:

Ben Sargent, Gocomics.com, Jul 27



Tom Toles, Gocomics.com, Jul 25



The debt deal was the expression that an extreme market fundamentalism was able to gain the upper hand in US politics. This had the consequence that fiscal and monetary policies to support the economy had become dubious:

Analysis: Obama, Bernanke out of ammo to boost jobs, growth

Reuters - Aug 4

WASHINGTON/NEW YORK (Reuters) - The United States has a jobs problem and there's not a lot President Barack Obama or Federal Reserve Chairman Ben Bernanke can do about it.

In the face of rising risks of a recession that could imperil his re-election chances next year, Democrat Obama wants Congress to extend a payroll tax cut and emergency unemployment benefits that are due to expire in December.

But the Republican-controlled House of Representatives is emboldened by budget concessions it made Obama swallow to lift the country's debt limit this week and he has little political leverage to win significant fresh spending to aid growth.

"Obama does not have much presidential persuasion left. He is running out of capital," said James Thurber, of American University's Center for Congressional and Presidential Studies.

Obama's political opponents have been openly scornful of the impact of two previous stimulus packages, which were accompanied by extraordinary measures by the Federal Reserve to kick-start the U.S. economy...

As a consequence the Dow fell 4.3 % on Aug 4:

Reuters - Aug 4

Wall Street suffers worst selloff in two years

NEW YORK - Investors fled stocks on Thursday, putting the S&P 500 into correction territory, as worries about the U.S. economy and European debt escalated. [More](#)

On Mon Aug 8 the Dow fell even 5.6 %. This happened after on Sat Aug 6 the credit rating agency Standard & Poor had first-ever downgraded the US credit rating. On Aug 7 the agency explained this decision as follows:

US downgrade fuels political inferno

AFP – Aug 7

...Standard and Poor's said it had changed its assumptions because it believed that a **repeal of tax cuts for the rich passed by ex-president George W. Bush, which could help ease the deficit, will not take place...**

In the following we see how the US politics were valued in some cartoons:

Ben Sargent, Gocomics.com, Aug 3



Matt Wuerker, Gocomics.com, Aug 9



After the US was able to wake up from the shocks of the debt deal and the downgrade of the credit rating and when the Fed was able to go on with its monetary politics in order to support the economy the stock market could stabilise again.

Reuters - Aug 9

Fed promises to keep rates low for at least 2 years

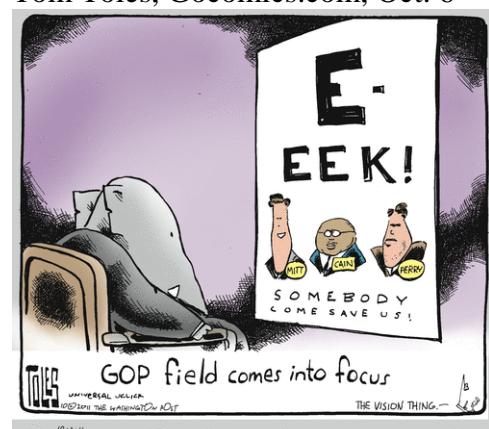
WASHINGTON - The Federal Reserve said on Tuesday it will keep interest rates near zero for at least another two years in a move that **disappointed markets hoping for more direct action to aid the flagging economy.** [More »Fed promises to keep rates low for at least 2 years](#)

In the aftermath stocks moved sideward until Oct 4. Since then stock prices moved higher again although the European Sovereign Debt Crisis escalated when the French-Belgian Bank Dexia had collapsed on Oct 3 and an international bank crisis is looming since then. The recovery of stock prices was possible after the Republican politician Chris Cristie announced that he will not run for president. Because the frontrunners among the remaining Republican candidates are not enough mainstream to win the presidential election under normal conditions it is probable that the Republicans will not win the presidential elections in 2012:

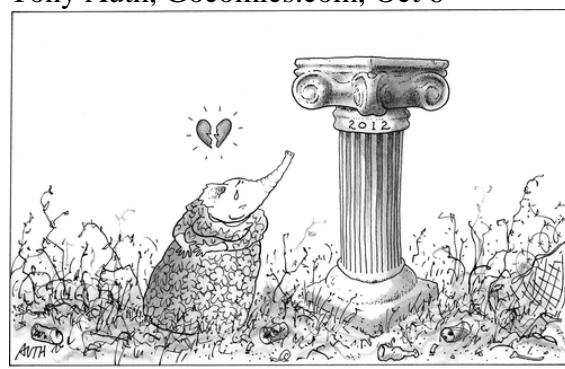
Signe Wilkinson, Gocomics.com, Oct 5



Tom Toles, Gocomics.com, Oct. 6



Tony Auth, Gocomics.com, Oct 6



Our reasonable personality parts found a second cause for confidence, namely the until then biggest rally of the progressive Occupy Wall Street movement in New York. This is important because until then only the conservatives had with the Tea-Party a popular movement where they could find support. This conservative monopoly was now broken.

Occupy Wall Street Protests: Police Make Numerous Arrests

By GREGORY J. KRIEG

Oct. 5, 2011

The cavalry arrived in Lower Manhattan.

Representatives from at least 15 of the country's largest labor unions joined the Occupy Wall Street protesters for a mass rally and march yesterday in New York City. The "Union March" drew thousands and appears to be the movement's largest yet...



ABC News - An aerial view of the Occupy Wall Street march shows the crowds have grown larger, Oct. 5, 2011.

Occupy Wall Street protests

Mike Luckovich, occupy wall street, Oct 4

New York Times, October 6, 2011

Confronting the Malefactors

By PAUL KRUGMAN

There's something happening here. What it is ain't exactly clear, but we may, at long last, be seeing the rise of a popular movement that, unlike the Tea Party, is angry at the right people, ...

Obama: Wall St. protests reflect public frustration

Reuters – Oct 6

WASHINGTON (Reuters) - President Barack Obama on Thursday said the protests on Wall Street and some other cities reflect public anger that those who helped cause the financial crisis are fighting efforts to curb abuses.

Oct 6 - Insight: Occupy Wall St, the start of a new protest era?

NEW YORK (Reuters) - When Paul Friedman met the rag-tag youth camped out near Wall Street to **protest inequality** in the American economy, he felt he was witnessing the **start of a protest movement not seen in America since the 1960s**.

"It felt in my gut very much like what I was a part of in the 1960s," Friedman said. "What people are expressing ... is an experience that their **opportunities are shrinking, not growing and their hopes are shrinking, not growing**, and that is an unnatural feeling for the young," he said.

The protesters object to the Wall Street bailout in 2008, which they say left banks enjoying huge profits while average Americans suffered under high unemployment and job insecurity with little help from the federal government.

What the Occupy Wall Street movement has in common with the 1960s, he said, was that the weak economy hits home, just like racism or the chance that you or your boyfriend or brother or your son might be drafted to fight in Vietnam.

Let me end this newsletter with some remarks on the European Sovereign Debt Crisis and to the ongoing EU summit which will last until next Wednesday. The crisis can hardly be resolved if the solution is limited to the enlargement of the European Financial Stability Facility (EFSF)² because such a solution would only further deteriorate the European Sovereign Debt Crisis. The enlargement of the EFSF would cause higher cost to the Eurozone countries. This in connection with austerity politics in order to come up for the increased EFSF costs would just lead to the contrary, to diminished economic growth and increased sovereign debts. (In addition you can expect a deflationary effect for the world economy.) Furthermore the structural instability of the Eurozone would not be improved enough by such a limited resolution. The structural instability is rooted in cultural differences, for example

² The European Financial Stability Facility (EFSF) is a company which was agreed by the 16 countries that share the euro on May 9th 2010 and incorporated in Luxembourg under Luxembourgish law on June 7th 2010. The EFSF's objective is to preserve financial stability of Europe's monetary union by providing temporary financial assistance to euro area Member States in difficulty. In order to reach its objective the EFSF can, with the support of the German Debt Management Office (DMO), issue bonds or other debt instruments on the market to raise the funds needed to provide loans to countries in financial difficulties. Issues would be backed by guarantees given by the 16 euro area Member States (see table below) of up to €440 billion on a pro rata basis, in accordance with their share in the paid-up capital of the European Central Bank (ECB). (http://www.efsfs.eu/attachments/faq_en.pdf)

between Germany and Greece. The Greek cannot take advantage of the Euro if they are not able to bring their economic and political behavior more in line with northern European states. A solution which would restore stability in the Eurozone would require the overcoming of the Neoliberalism and the Neoconservatism which were dominant during the last 30 years. So the dogma that the state is bad and low taxes for the rich are good should be overcome.

The social state is not bad but in the contrary was prerequisite for the rise of the middle classes during the last century. Large parts of the middle classes are threatened to fall back and become lower classes as was the case in the 19th century. The social state is in the interest of the middle classes and it should not unnecessarily be reduced, for example for the reason of austerity politics. The Eurozone should also not unnecessarily be put at risk. It is a foundation for the European competitiveness and prosperity. In a democracy low taxes for the rich have not such a high importance as the living conditions for the broad populace. Finally the rich were able to improve their position during the last 30 years and therefore it is not unjust to raise their taxes again. And already in the 1930s higher taxes for the rich had been important among the politics which were implemented by the administration of F.D. Roosevelt in order to overcome the Great Depression.

In order to solve the problems of the Eurozone two key politics would be advisable:

1. to overcome the deflation problem by expansive fiscal and monetary politics. The cost should be financed by progressive taxes.
2. Intensification of the European integration. Departure from nationalism and instead moving in the direction of an European federal union, towards the United States of Europe. This would lead to a cultural homogenisation over time and would be a prerequisite for long-term stability of the present European Currency Union.

English Proofreading by Rudy Weiler (www.rweiler.ch)