Dow climbs to 10,000 as jobless rate nears 10 percent

Bill Van Auken
16 October 2009

Wall Street's breaking the Dow Jones's 10,000 mark Wednesday was hailed as a further sign of the recession's end, even as foreclosures rose to an all-time high and the official unemployment rate continued to edge toward 10 percent.

The *New York Times* called the Dow's rise to 10,000 "a milestone of the stock market's recovery from the depths of the financial crisis."

Leading the market rally Wednesday were third quarter figures released by one of the country's biggest banks, JPMorgan Chase, which took in $3.6 billion in profits, and by the computer chip giant Intel, which reported $1.9 billion in net earnings, an 18 percent increase over the last quarter.

The market closed at just over 10,000 Thursday, with rising oil prices pushing up share prices of energy conglomerates, even as financial stocks fell.

The Dow is up more than 50 percent in only seven months, the steepest rise since the aftermath of the stock market collapse in 1987. Still, it has recovered less than half of the losses recorded since the market peaked in October 2007.

Moreover, the surge in the stock market has taken place under conditions in which the rest of the economy remains mired in deep recession.

While Wall Street celebrated its supposed milestone, the growing crisis and misery engulfing ever wider layers of the population found stark expression in a record number of home foreclosures for the three-month period ending in September, with nearly a million homes receiving foreclosure letters during the third quarter.

A total of 937,840 homes received foreclosure letters, including default notices as well as bank repossessions, according to RealtyTrac, a private firm that tracks foreclosure activity and markets foreclosed homes online. Of these, 238,000 homes were actually repossessed by lenders, a 21 percent increase over the previous quarter.

Since the beginning of this year, 623,852 homes have been repossessed.

In the worst-hit states, foreclosures have risen to epidemic proportions, with one in 23 housing units receiving notices in Nevada, and one in 53 in Arizona. Fully a quarter of a million homes faced foreclosure in California during the past quarter.

The impact of the economic crisis has far outstripped the foreclosure prevention program introduced by the Obama administration, "Making Home Affordable." The program offers little to homeowners who have lost their jobs, under conditions in which mass unemployment is making it impossible for a growing number of people to meet mortgage payments and stay in their homes.

The depth of the housing crisis is partially hidden by the fact that the banks themselves are delaying foreclosures, rather than placing houses on a depressed market and being forced to record the losses on their books, driving down paper profits.

The wiping out of 7.2 million jobs in the US since the onset of the financial crisis is the principal cause of homes falling into foreclosure. This crisis of unemployment is only deepening, with the national unemployment rate set to top 10 percent this month.

When combined with so-called "discouraged workers," who have given up looking for employment under conditions in which there are six applicants for every job, and workers involuntarily relegated to part-time jobs, the real jobless rate has risen to over 17 percent.

Mass layoffs are continuing. Last week saw the computer giant Dell closing its North Carolina factory and putting 905 workers on the unemployment line, and Thermo Fischer, a medical technology firm, closing plants in New Hampshire and Iowa, laying off 480.

Public sector jobs are also being wiped out as the economic crisis cuts deeply into state and local budgets.

A survey released Thursday by the Nelson A. Rockefeller Institute of Government found that state tax revenues fell by a record 16.6 percent compared with the same period a year ago. The steepest decline was in income taxes, where a 27.5 percent decline reflected the massive increase in unemployment over the past year.

Tax revenues for the fiscal year that ended in June were down $63 billion – twice the amount allotted to the states for fiscal relief under the Obama administration's stimulus plan. This gap will be made up through draconian budget cuts across the country, gutting social services at precisely the moment that they are most needed due to rising unemployment and falling wages.

Retail sales in September registered their steepest decline so far this year, falling by 1.5 percent. The drop in consumer spending was due in large part to a collapse in auto sales following the end of the government's "Cash for Clunkers" program. Anemic growth in non-auto sales—0.5 percent—was led in part by the rise in gasoline prices. Given that consumer demand drives 70 percent of total US economic activity, such figures belie the claims of economic recovery.

Other indices of increasing desperation include a 23 percent surge in applications for Social Security, much of which is attributed to older jobless workers who are opting to take the reduced benefits that are paid before age 67 because they have no other source of income.

And, in New York City the number of homeless families forced to sleep in city shelters has risen to the highest level since the Great Depression of the 1930s. The 10,000 families using these facilities each night include some 16,500 children, a 12 percent increase since last year.

Another indication of the immense gulf separating the fortunes of Wall Street and those of the rest of the economy came on Tuesday with the release of the National Federation of Independent Business index, representing some 350,000 small businesses. The index was up barely 10 percent since March, compared to the 50 percent rise on Wall Street, as smaller firms continue to suffer falling profits and carry out cuts in jobs.

"The decoupling represented by the Dow and the NFIB show the economy may be much weaker than we think," the financial web site MarketWatch commented. "Most economic indicators—payroll growth, retail sales, manufacturing orders—by design do a better job of measuring big business activity. Usually, it doesn't matter. But it matters now. The health of big business—and the rebound in the stock market—may be blinding us to just how weak the rest of the economy is."

The fact that the Dow Jones Industrial Average has risen in tandem with the rate of unemployment and the growth in social misery may appear to be a "decoupling" of Wall Street from the rest of the economy, but in reality the two trends are inseparable.

The rise in share prices on Wall Street has been made possible by the biggest transfer of social wealth from working people to a narrow financial aristocracy in US history. More than $12 trillion has been spent, loaned or guaranteed in the government's bailout of the big banks and Wall Street finance houses. That such immense resources are capable of generating a market rally is hardly a surprise.

Beyond that, what has driven stocks up? Increased corporate profits have been generated not through the expansion of production, nor do they reflect any comparable rise in revenues. Rather they are the product of drastic cost-cutting, which has meant the destruction of jobs, and using the threat of unemployment to impose wage cuts and intensified exploitation on those still working. This is what Wall Street has celebrated with the return to 10,000.

In the case of the huge profit increases for the banks—Goldman Sachs registered a four-fold increase over last year—the source is renewed financial speculation, made possible through the injection of immense public funds: in Goldman's case $10 billion outright and another $13 billion surreptitiously funneled through the bailed-out insurance giant AIG.

Significantly, Goldman attributed its spectacular rise almost entirely to trading in currencies, commodities and assets, while it registered a continuing drop in its investment banking income.

As the Associated Press reported Thursday: "The big banks are showing they can still make money, even as Main Street struggles — though not from lending, refinancing homes or other bread-and-butter business. Instead, they're doing what Wall Street does best — betting big on stocks, bonds, commodities and other assets."

In other words, the banks' profits are not a reflection of any productive, socially useful activity, but rather speculation. They represent the creation of another asset bubble which is paving the way to another, deeper collapse.

In the meantime, the bankers and financial speculators at the top of Wall Street are determined to appropriate to themselves as much wealth as possible. Goldman Sachs has set aside $16.7 billion for bonuses, and is on track to increase this reservoir of money to $21 billion, just slightly less than the combined total it received in direct funds and money passed through AIG in the bailout.

The ongoing complicity of the Obama administration in this massive transfer of wealth from working people to a ruling financial oligarchy was noted Thursday in a cynical column in the *Wall Street Journal* entitled "Bonus Outrage? That's so last March," a reference to the furor over AIG's payout of $165 million in bonuses seven months ago.

"After indulging in a round of populist outrage, Congress and the Obama administration have turned down the volume," the *Journal* notes.

The column goes on to quote JPMorgan CEO Jamie Dimon as insisting that banks just want to "continue doing what we have been doing."

This is precisely what the Obama administration has allowed. More than a year after the outbreak of the deepest financial crisis since the 1930s, not a single banker or financier has been held accountable for wrecking the US and world economies. No restrictions or demands have been imposed on the financial markets, even as trillions of dollars in taxpayers' money have been poured into them. The same methods of accounting fraud and outright criminality continue. And they will produce the same results, an intensified crisis and an even deeper social catastrophe for the working class.