

Christmas for Wall Street: Dow hits record 18,000 points

Jerry White

24 December 2014

A cheer rang up from traders on the floor of the New York Stock Exchange Tuesday morning as the Dow Jones Industrial Average hit 18,000 points for the first time ever. The index, which stood at 16,264 a year ago, closed at 18,024 Tuesday afternoon, having risen 1,000 points in the last week alone.

The media referred to the last several days of trading—which also saw the S&P 500 index reach record high—as a “Santa Claus rally.” This spike in share values was attributed to rising consumer spending, falling gas prices and a supposedly “roaring” US economy.

In reality, Wall Street is celebrating the sharp reduction of workers’ wages and living standards that have sparked record corporate profits and the Fed’s policy of unlimited free money, which has fueled a new speculative bubble. Behind this, however, are intractable contradictions in the US and world economy, which will inevitably lead to a new market “correction.”

The US Commerce Department’s Bureau of Economic Analysis released a revised GDP estimate Tuesday saying the US economy grew by five percent in three months that ended September 30, up from 3.2 percent in the second quarter and the biggest gain in 11 years. The report pointed to a rise in consumer spending of 3.2 percent, higher business investment, particularly in transportation and industrial equipment, an increase in US exports and more federal government spending, especially for defense, which shot up 16 percent, compared to 0.9 percent in the second quarter.

Corporate profits rose 3.1 percent in the third quarter of this year, following a rise of 8.4 percent in the second quarter. Profits reached a record high of nearly \$1.9 trillion in the third quarter, according to the latest data from the Bureau of Economic Analysis.

While there has been an uptick in car buying, largely due to falling gas prices and pent-up demand following the 2008 financial crash, the rise in corporate profits is primarily due to a savage campaign to cut labor costs and increase the exploitation of the working class. Productivity continued to rise (2.3 percent) in the third quarter, outpacing a meager increase in hourly compensation (1.3 percent). This led unit labor costs to fall by another one percent.

Major corporations like Boeing, Caterpillar and the Detroit automakers, with the assistance of the unions, have sharply lowered wages for new workers while reducing pension and health care outlays for so-called ‘legacy’ workers and retirees. In 2013, corporate profits reached their highest percentage of GDP since 1929. Meanwhile wages and other benefits employers contribute to, including Social Security and Medicare, fell to their lowest share of GDP since 1948.

Despite lower gas prices, more than 80 percent of consumers polled said they were holding back on holiday spending this year, according to a survey conducted by consumer financial services company Bankrate. “Consumers are still uneasy,” the company’s Chief Financial Officer Greg McBride said. “Many haven’t had a raise in quite some time. Their savings cushions are insufficient, and any breathing room from the drop in gasoline prices could prove temporary should those prices rebound.”

Orders for durable goods—computers, metals and other commodities expected to last longer than three years—declined by 0.7 percent in November, the Commerce Department reported Tuesday. Economists had predicted a rise of three percent. Instead orders fell for the third month in a row. Sales of new single-family homes also declined 1.6 percent in November, with drops in three of four US regions.

Since coming to office, the Obama administration has continued the Bush Administration's bank bailouts, allowed the financial criminals who wrecked the economy in 2008 not only to go scot-free but to become richer than ever and spearheaded the attack on workers' wages, pensions and health care benefits. Obama has promised to collaborate in the coming year with the incoming Republican Congress to cut corporate taxes and regulations even further.

The rise in the stock market has little or nothing to do with the real economy, let alone the conditions of life for tens of millions of American workers and their families. Over the last three-and-a-half decades, as factories were closed, production shifted to lower-wage countries, and workers faced a devastating reversal in their living standards, the American financial elite amassed the bulk of its profits through speculative activities largely disconnected from the actual production of goods.

This financial parasitism, which has accelerated since the 2008 crash, has coincided with a historic transfer of wealth from the working class into the hands of the richest one percent and one-tenth of one percent of the population.

With US corporations flush with an estimated \$1.5 trillion in cash, last year saw a sharp increase in mergers and acquisitions. According to Forbes, global M&A activity was up 22 percent year-over-year to \$3.58 trillion, the third highest figure on record and the highest reading since the global financial crisis. Analysts predict this frenzied pace will continue in 2015, with depressed oil prices likely to spark a wave of mergers and consolidations in the energy industry.

While this socially-destructive activity massacres jobs and leads to further demands for greater output and sacrifice from workers, it has and will continue to produce a windfall for the financial aristocracy. Citing an annual survey conducted by compensation consulting firm Johnson Associates the *New York Times* reported last month, "Investment bankers and employees at private equity firms involved in mergers and acquisitions should see their bonuses rise 10 to 15 percent" this year, while "asset managers, traditionally the more staid players in the financial industry, are also likely to land bigger paychecks."

Bonuses on Wall Street are likely to surpass last year's average of \$164,000—which was up 15 percent

from 2012—according to the consultancy firm Challenger, Gray & Christmas—with top executives and traders bagging multi-million dollar end-of-year bonuses.

As tens of millions of working class families face a Christmas of economic insecurity and the promise of higher credit card debt payments come the new year, the super-rich are having the merriest of holidays.

A recent BBC report listed some of the gifts being purchased this Christmas by ultra high-net-worth individuals—those with \$30 million in liquid assets or a disposable income of more than \$20 million. They include a 100th anniversary Neiman Marcus Limited-Edition Maserati Ghibli Q4, selling for \$95,000. And for \$475,000, two first-class tickets to Paris, dinner with famous perfume maker Olivier Creed, car service, private tours and more. "Six months after the trip," the BBC reports, "the buyer will receive their perfume in 24 14-karat gold-gilded six-litre falcons and 12 14-karat gold-accented leather atomizers."

People used to spend more freely, Ginger Reeder, Neiman Marcus' vice-president of communications told the BBC, but since the 2008 global recession, the rich "want to be more careful with what they buy. They want to purchase the perfect gift, rather than just an expensive one." Ari Zoldan, the CEO of New York-based Quantum Networks, told the BBC while most of his friends spend between \$30,000 and \$300,000 on individual gifts they get a kick out of "bargain" hunting.



To contact the WSWS and the
Socialist Equality Party visit:

wsws.org/contact