

GE dropped from the Dow Jones Industrial Average

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On June 26, General Electric was dropped as a component of the Dow Jones Industrial Average (DJIA) and replaced by Walgreens Boots Alliance. GE was the only remaining company out of the original 12 that were included in the DJIA when it was first calculated in 1896.

GE is in a deep crisis. It recently cut its dividend for only the second time since the Great Depression and its share price has dropped by more than 50 percent since the beginning of 2017. GE has suffered billions of dollars in losses and is dumping company divisions that include healthcare technologies, oilfield services and rail equipment. The latter had been part of the firm for more than 100 years.

Founded in the late 1800s through a combination of Thomas Edison's General Electric Company and the Thomson-Houston Electric Company, GE pioneered technologies that became common in US households by the middle of the 20th century, including electric light bulb filaments, toasters and radios. It demonstrated the first TV broadcast in 1927, developed jet engine superchargers, and created an early computer operating system in the 1960s. According to the *Financial Times*, GE controlled 85 percent of the US light bulb market at the end of World War II and had more than 200 units at the start of the 1960s.

When Jack Welch took over as CEO in 1981, GE had 411,000 workers. US manufacturing jobs were already being moved overseas. Between 1970 and 1995, more than 1.4 million US jobs overall were lost, even though total employment grew by double digits.

Welch's strategy was to buy up unrelated businesses while ruthlessly cutting the workforce. Some 81,000 jobs had been cut by the time he stepped down in 2001, but GE's market value had increased from \$12 billion to \$280 billion.

As of 2017, GE had only 106,000 employees in the US and slightly more than 300,000 worldwide. At its

Appliance Park location in Louisville KY, the number of jobs has dropped from 17,000 at the peak to 6,000 now.

For decades, GE Capital had the role of financing appliance purchases for people who couldn't pay upfront. However, under Welch it became a multi-billion dollar division. Kidder, Peabody & Co. was added in 1986 at a time when it was engaged in insider trading.

GE Capital also went into the business of long-term insurance for people needing elder care, and last year it had to increase its loss reserve for that business by more than \$10 billion. That loss, along with corporate debt, underfunded pension liabilities and a \$1.5 billion reserve for subprime mortgage penalties going back to the 2008 crash, is leading to its fire sale of corporate divisions. According to CNN, GE's total debt has nearly tripled since 2013.

When Welch retired in 2001 these crises had not yet burst, and GE Financial Services was worth \$81 billion. He received a retirement payment of more than \$400 million and went on to teach classes for years at Massachusetts Institute of Technology's Sloan School of Management, while having another business school named after him.

Welch's handpicked successor, Jeffrey Immelt, inherited a company with a \$14.6 billion surplus in its pension plans. As of 2016, the plans, which cover more than 600,000 current and former employees, had a deficit of \$30 billion. In 2014, GE notified 200,000 retirees that it was ending their supplemental health insurance and replacing it with a paltry \$1,000 per year flat payment.

Immelt, however, will not be uncomfortable, having been paid nearly \$120 million between 2007 and 2014. He stepped down last year.

GE Capital was heavily involved in commercial real estate under Immelt and bought subprime lender WMC Mortgage before the 2008 crash. In the wake of the Enron scandal, when the Securities and Exchange Commission

was looking for detailed financial reports from corporations, Immelt used a subterfuge to avoid compliance.

GE still has a reputation, even in the complicated world of stock analysts, of including in its financial statements calculations that are not part of generally accepted accounting principles.

“It’s gone on for years,” a Deutsche Bank analyst told CNN. “The important numbers are buried. They don’t want people to understand.” In 2009, the company paid a \$50 million penalty to the SEC to settle an accounting fraud charge.

GE is also notorious for paying no US federal taxes on its billions in profits, even receiving credits because of accounting gimmicks. In 2010, for example, it raked in \$5 billion in US profits but received a tax credit of \$3.2 billion.

GE’s corporate reorganization includes turning its health care division, which makes MRI and CT scanners and other technology, into a separate corporation. It also includes selling its century-old railroad engine business to a new company that will be half-owned by Wabtec Corporation. GE is also selling the Baker Hughes oilfield services business, which has suffered from low crude oil prices, and it is selling off a power turbine division it bought from Alstom for \$9.5 billion just three years ago.

It sold GE Appliances to Haier in 2016 for \$5.6 billion and sold off NBC to Comcast in phases between 2009 and 2013.

Some 12,000 layoffs are now planned in GE’s electric power division. In January 2016, the company announced that it was moving its headquarters—and approximately 800 executive, marketing and software jobs—from Fairfield, Connecticut to Boston. The company received \$145 million in tax incentives and other government handouts for the move, or approximately \$180,000 per job. Current CEO John Flannery is now threatening to reduce the size of the Boston HQ, which so far has brought fewer than 300 jobs to the city.

The expulsion of GE from the Dow is bound up with the financialization of the American economy and the proliferation of low-wage retail jobs. Boots UK, like Walgreens in the United States, has thousands of stores and pharmacies. Home Depot, Coca Cola, McDonald’s and Walmart are already components of the index.

GE’s low stock price is the technical reason it is being dropped from the DJIA. The index is calculated by summing up the stock prices of its 30 component companies and then applying a divisor that accounts for

stock splits that have occurred over the years. Because the divisor is less than 1, dividing the sum total by it results in an index value that is more than six times greater than the sum of the component stock values. And because the index is weighted, stocks with either very low or very high prices have an exaggerated effect on the whole.

For the same reason, Amazon (approximately \$1,700 per share) and Google (approximately \$1,200 per share) are not included.

The original 12 companies listed in the Dow Jones Industrial Average dealt in commodities that included cotton, oil, sugar, tobacco, gas for lighting, cattle feed, lead, coal, iron, leather and rubber.

While railroad stocks have always been tracked in a different index, Charles Dow was able to tie them to his industrial index at the end of the 19th century under the theory that prosperous railroads meant that large amounts of industrial goods were being moved. The value of the stock indices was based on production more than parasitism, at a time when American capitalism was still in its ascendancy.

In the current day, the sheer number of indices—more than 130,000—calculated by S&P Dow Jones Indices, which is owned partly by Rupert Murdoch’s News Corp, shows the number of opportunities for gambling and swindling that have been created by the financialization of capitalism.

While some recent changes in the 30 DJIA components have stemmed from technological advancements—the addition of Apple in 2016, for example—many more are a result of financialization. In February 2008, Bank of America replaced Honeywell, and General Motors was dropped from the index in 2009. In 2013, Alcoa, Bank of America and Hewlett-Packard were replaced by Goldman Sachs, Nike and Visa. Eastman Kodak Company was dropped from the DJIA in April 2004.



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