

Wall Street at record highs as global growth slows

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7 November 2019

As Wall Street reaches new highs—all three major indexes (the Dow, the S&P 500 and the Ndaq) hit records in the past week—there are further indications that what the International Monetary Fund (IMF) has called a “synchronised” global slowdown is accelerating.

While stock prices can rise and fall, the phenomenon of a surging stock market amidst a slowing real economy—bringing mass layoffs and stepped-up austerity—underscores the class role of the central banks and governments in supplying the financial elite with unlimited cash, even as the conditions of masses of workers continue to worsen.

While US auto workers and teachers, transport workers in India, and impoverished workers and youth from Lebanon and Iraq to Chile and Ecuador are told “there is no money” for jobs, wages, schools or health care, trillions are made available to the speculators and big investors to increase their stock portfolios and enlarge their personal fortunes.

But this divergence between the financial markets and the real economy is undermining the financial system itself and producing increasing nervousness in sections of the corporate elite, who fear above all the revolutionary implications of the growth of the class struggle.

In its update on the European economy issued Wednesday, the IMF said economic activity in the region had slowed as a result of weakness in trade and manufacturing. It forecast a fall in growth from 2.3 percent in 2018 to 1.4 percent for this year.

While saying that most of the decline was “externally driven,” the IMF warned that “some signs of softer domestic demand have started to appear, especially in investment.”

The European economy is highly dependent on

Germany, the fourth largest in the world, and here all indications point to a significant downturn. In its annual report, submitted to the German parliament yesterday, the Council of Economic Experts cut its growth forecast for the year from 0.8 percent to 0.5 percent, and for next year from 1.7 percent to 0.9 percent.

The predictions stand in marked contrast to the previous situation. Over the past five years, the German economy has averaged growth of 2 percent. Now it stands on the edge of a technical recession—defined as two consecutive quarters of contraction—after shrinking by 0.1 per cent in June, with third quarter results, due out next week, likely to show a similar result.

The German economy has been hit in particular by the US-China trade war and a contraction in the auto industry.

There are now clear indications that the slowdown in global growth is extending to the US. Labor Department figures issued yesterday show that economic output per hour fell by 0.3 percent in the September quarter, the biggest decline in four years. Over the past year, productivity is only 1.4 percent higher.

This is despite the massive corporate tax cuts carried out by the Trump administration at the end of 2017, which it claimed would boost productivity by enhancing investment. In fact, much of the tax cut bonanza went into share buybacks, which have played a significant role in boosting the value of the stock market.

Productivity did see an increase in 2018, but is now falling back to the low levels experienced in the period following the financial crisis and recession of 2008–2009.

Other data on the US economy point in the same direction. New orders for factory goods fell by 0.6

percent in September, while orders for non-military goods, an indicator of investment, dropped by 0.6 percent. While the official overall unemployment rate in the US is down to a 50-year low of just 3.6 percent, it is starting to rise, particularly in industrial states.

According to data from the Labor Department, in 1,000 counties, around one in three, unemployment is on the rise. The states most affected are Wisconsin, Michigan and Minnesota. The areas hardest hit are those that are dependent on agriculture and manufacturing and have been impacted by the Trump administration's trade war against China.

The figures on the state of the real economy, both in the US and internationally, make clear that the rise of the stock market to record highs is not a sign of economic health, but an indicator of a permanent and deepening malaise.

It is rooted in financial manipulation, such as share buybacks, and the supply of ultra-cheap money from the US Federal Reserve and other major central banks around the world. Last month the Fed cut its interest rate by 0.25 percent for the third time since July, and indicated that it had no intention of lifting rates again in the foreseeable future, deferring to the financial markets and scrapping any commitment to "normalising" monetary policy. In addition, the Fed has been pumping money into overnight credit markets and is committed to buying at least \$60 billion worth of short-term assets a month.

Ostensibly these measures have been introduced to stabilise the interest rates in the overnight money market, which spiked to 10 percent in September, after major banks refused to lend money from their reserves. But they are widely regarded as another form of quantitative easing aimed at boosting the financial markets.

In an editorial comment published last month, in the wake of the IMF report on the state of the world economy, Bloomberg said the prospect of recession would be concerning under any circumstances, but under present conditions it was "truly alarming." The "hesitant recovery" of the past decade had depleted the conventional tools of macroeconomic policy in many countries, including in the US, it noted, because budget deficits had boosted ratios of public debt to national income.

Furthermore, the "extraordinary measures"

undertaken since the financial crisis—ultra-low interest rates and quantitative easing—had "heightened financial fragility," manifested in "outlandish asset valuations and heightened credit risk." Banks, it said, had added capital since 2009, "but not enough to make them safe in another big downturn."

The political consequences of the orgy of financial speculation, which has seen the greatest transfer of wealth to the financial elites in history, were highlighted at an economic conference held in Greenwich, Connecticut earlier this week.

The head of the hedge fund Bridgewater Capital, Ray Dalio, whose wealth is estimated to be around \$17 billion, told the conference that the growing wealth gap had to be treated as a national emergency. He warned that unless urgent action was taken to address the growth of economic inequality, the US faced the prospect of revolution, in which "we are all going to try to kill each other."

"The world has gone mad and the system is broken," he said.

He was supported by fellow billionaire and hedge fund manager Paul Tudor Jones, who noted that there were 6 million employees of public companies, on whose boards many of the attendees at the conference sat, who did not make a living wage. He noted, "Fifty years ago, 6.5 percent of corporate revenues went to shareholders. Today that number is 13 percent."

Both Dalio and Jones called for reforms to make the economic system more equitable by ensuring that corporations were more socially responsible, with Jones claiming the problem would be "easy" to fix if companies would shift their focus to more than just shareholder value.

The prospects of such a reorientation are zero because the present situation is not the outcome of the mindset of corporate chiefs or capitalist politicians. Rather, it expresses the essential, objective logic of the capitalist mode of production, which, as Karl Marx drew out, inexorably leads to the accumulation of fabulous wealth at one pole and poverty and misery at the other.



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