Wall Street's crisis and the shattering of illusions

The Editorial Board
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US financial markets are opening Monday morning amid considerable nervousness. No doubt there have been frantic weekend efforts going on behind the scenes to restabilize the market before stock trading resumes today. It is impossible to predict whether the market will rally once again or continue to plunge. But whatever the short-term movements, there is a widespread sense that the speculative mania of the last decade has run its course and that last week's crash signals a fundamental change in the economic climate.

First of all, the losses that have been incurred so far—an estimated $2 trillion (an average of $7,000 for every person in the United States)—are so huge that they cannot be repaired by a technical rally. Already there are innumerable stories of investors, large and small, who were forced to liquidate substantial portions if not all of their holdings to meet margin calls as share prices fell.

The *New York Times* reported Sunday that major securities brokers like Morgan Stanley Dean Witter and Goldman Sachs had become so intertwined with the Internet stock bubble, as underwriters of initial public offerings and other stock sales, that a collapse of high-tech stocks threatened their own future. The losses among hedge funds and other private speculative ventures must be huge, but will not be known until actual collapses or liquidations take place.

The NASDAQ itself was down 25.3 percent for the week, its worst-ever performance, while the Dow Jones industrial average fell 7.3 percent, its worst since 1989. By Friday the decline was across the board, as all 30 stocks in the Dow average fell, 95 out of the 100 companies in the NASDAQ index and 484 out of the Standard & Poor 500.

Since the tech stocks reached their peak on March 10, more than $2.2 trillion has been wiped out in the paper value of companies listed on the NASDAQ alone. The biggest drops are among the highest-flying Internet-related stocks. Amazon.com has fallen to $46.875 a share, down 56 percent from its all-time high. Priceline.com is down 64 percent, E-trade down 69 percent, WebMethods down 79 percent, MicroStrategy down 89 percent. Other, less speculative, computer-related stocks are also down by huge amounts: AOL, down 41 percent; Microsoft, down 38 percent; Cisco Systems, down 29 percent; IBM, down 24 percent.

There are many warning signs of a deeper instability in the financial system. The bulk of Friday's trading, which degenerated into panic selling by the end of the day, was carried out by big institutional investors, not small traders. This suggests that the worst is far from over, if the millions of small investors and day-traders who have flocked to the stock exchange in the last several years take fright and try to get out of the market.

As for the population as a whole, for the first time in US history—and unlike the 1987 stock market crash—a majority of the people have a significant stake in the stock exchange. Forty million people have entered the stock market since 1991. For many working people, the 401(k) has replaced the company-financed pension plan as the guarantor of adequate retirement income. The bulk of these funds are invested through mutual funds in stocks and bonds. The financial losses of the past week, and those which loom ahead, will thus have an enormous social and political impact.

For many months the financial press, both within the US and internationally, has been filled with discussion of the unprecedented speculative bubble on Wall Street, and the likelihood of its collapse. It is more than three years since Federal Reserve Board Chairman Alan Greenspan warned of "irrational exuberance" in US financial markets, at a time when the NASDAQ stood at 1300, compared to Friday's closing mark of just above 3300, and the March 10 record of over 5000. Prices of dot.com stocks are running at over 200 times earnings, compared to 30 times earnings for the S&P 500, which is itself at a speculative level compared to the historical average of 13 times earnings.

What is the fundamental significance of the gross overvaluation of stocks? It means that for an extended period, the process of the creation of real value—which takes place in the labor process, through the productive activity of working people—has been increasingly divorced from the accumulation of wealth. Vast paper fortunes have been built up through IPOs, buyouts, mergers and other even shadier and more suspicious financial manipulations. These do not represent any actual increase in the wealth of society as a whole, but rather additional claims on the value which is produced by labor.

This fictitious capital grows like a swelling malignancy of the entire society. On the basis of this explosion of paper wealth, the social divide in America between the wealthy and the rest of the population has reached unprecedented proportions. Of all the increase in wealth over the past decades—the 1980s of Ronald Reagan and the 1990s of Bill Clinton—97 percent has gone to the richest 20 percent of the population, only 3 percent to the remaining 80 percent.

According to one recent report, the personal wealth of the CEOs of the 60 biggest computer and Internet companies was more than $110 billion, a sum greater than the entire federal budget for education or anti-poverty programs. For corporate America as a whole, the average CEO makes as much in a day as the average worker makes in a year; the CEOs of major corporations average over $11 million apiece in total compensation—salary, bonus and stock options.

Indeed, the momentum of the consumer boom has been sustained over the last several years largely by the spending of the most privileged layers, who have been purchasing expensive luxuries and hiring domestic servants at an unprecedented rate. In other words, all the resources of this society, including its human resources, have been placed at the disposal of the high-income minority, while living standards for working people as a whole remain stagnant.

The enormous mass of fictitious capital cannot be sustained indefinitely. A colossal liquidation is inevitable, and there are many factors which could trigger it.

One similarity to the 1987 market crash, which has been little noted in media commentaries on the current market rout, is that tensions are mounting internationally between the major capitalist blocs, and especially between the United States and the European Union. The 1987 crash took place in the context of a clash between the Reagan administration and West Germany over monetary policy and currency rates. The current market turmoil coincides with a bitter dispute between the Clinton administration and the Schroeder government in Germany, provoked by the US rejection of Schroeder's nominee to head the International Monetary Fund. The US torpedoed Schroeder's first choice and even challenged the 50-year-old understanding that a European nominee would always head the IMF (an American nominee traditionally heads the World Bank).

European banking and finance officials have made no secret of their concern over the speculative bubble on Wall Street and their fear that a US financial debacle would plunge the entire world economy into depression. They have also pointed to the growing US trade and balance of payment deficits which have swelled to gargantuan proportions in the past five years, levels only sustainable because as dollars have flowed out to pay for exports, they have been pumped back into the US economy by foreign investors seeking to profit from the bonanza on Wall Street.

Any disruption in this influx of funds, which amounted to $720 billion last year alone, would have a disastrously deflationary effect on the stock exchange and the US economy as a whole, as well as triggering a collapse in the value of the US dollar.

The present crisis has all the elements required for a vicious circle of falling stock prices and falling US currency values. If foreign capital begins to be withdrawn from the US market because of a collapse in share prices, this will place enormous downward pressure on the dollar as capital is repatriated into yen, marks, francs, etc. Any significant fall in the value of the dollar will only accelerate the capital flight, since it will further reduce the real value of dollar-denominated investments in US stocks.

The stock market crisis takes place, moreover, under conditions of increasingly bitter conflicts within the ruling elite, reflected in an array of events, from the failed Clinton impeachment drive to the current antitrust lawsuit against Microsoft. These divisions and internal conflicts make the ruling elite that much less prepared for the kind of shocks which will be unleashed by a major financial/economic crisis. Indeed, there is considerable evidence that such internal conflicts, and especially resentment against the dot.com billionaires on the part of other sections of capital, played a role in precipitating the current plunge.

Working people, too, are unprepared for this crisis, as they have been left politically disarmed by the decay and collapse of the old labor organizations, which have become part of the structure for controlling and disciplining workers. But from the standpoint of their political consciousness, the stock market convulsions must have a fundamentally healthy impact.

Like any great crisis, it will expose fictions and falsehoods, above all the mythology of the market, which has been used to block any effort to ameliorate the social conditions produced by the profit system. The collapse of illusions in the market will engender a sense that the people have been lied to and betrayed, and that they must seek a new road.

A great crisis of capitalism must necessarily renew popular interest in alternatives to the profit system. On the part of the most advanced and conscious working people and youth, it means a turn to the examination of the historical experiences of the nineteenth century and the first half of the twentieth century, when masses turned to Marxism as the basis for movements seeking revolutionary social change. Those ideas will once again acquire enormous relevance and burning urgency.