

Panic sell-off on Wall Street

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Collapsing confidence in the US and global financial system precipitated a panic sell-off of shares on Wall Street Wednesday, as all of the major indices registered drops in excess of 4 percent.

In the midst of the market frenzy, increasingly reminiscent of the 1929 crash that ushered in the Great Depression, more icons of American capitalism were set to topple, with investment bank Morgan Stanley and savings and loan giant Washington Mutual desperately seeking to avoid collapse by finding other banks willing to buy them.

The spreading financial panic is increasingly impacting on small investors, threatening the savings of millions of ordinary people. Late Tuesday, the money market fund Reserve Primary Fund announced that it had suffered a net loss as a result of its exposure to Lehman debt securities.

This is the first such loss by a money market fund in 14 years, but more funds are certain to report losses in the coming days and weeks. Tens of millions of Americans have money market accounts, which pay relatively low interest but have been deemed to be virtually as safe as cash.

Over the past eleven days, the US government has taken control of the mortgage finance giants Fannie Mae and Freddie Mac; Lehman Brothers, the oldest US investment bank, has gone into bankruptcy; Merrill Lynch has sold itself to Bank of America; and the government has taken over insurance giant American International Group (AIG) in order to stave off its collapse.

These unprecedented developments have only intensified fears in the US and around the world of a financial meltdown that could dwarf the collapse of the 1930s.

On Wednesday, the Dow Jones Industrial Average plummeted 449 points, a drop of 4 percent, the Nasdaq Composite Index fell 109 points, a 4.9 percent decline,

and Standard & Poor's 500 stock index dropped 57 points, a fall of 4.71 percent.

Following massive declines on Monday and a partial recovery on Tuesday, Wednesday's sell-off threatened to leave the Dow down by more than 300 points for the week, the first such weekly decline since the terrorist attacks of September 11, 2001.

All of the major US banks and financial firms were hit with huge losses. Shares of the investment bank Morgan Stanley fell 44 percent, prompting it to begin talks with potential buyers, including Wachovia Bank—which itself has suffered heavy losses from the collapse of the subprime mortgage and other credit markets.

Washington Mutual shares fell 13.4 percent. Hit with big losses and reeling from downgrades by the credit agencies, the Seattle-based savings and loan company is reportedly in talks with firms such as Citigroup, JP Morgan Chase, the British bank HSBC and Wells Fargo in search of a buyer.

The imminent demise of the 73-year-old Morgan Stanley and Washington Mutual will add tens of thousands more people to the ranks of financial services employees who have lost their jobs since the credit crisis erupted last August. Not counting the thousands of job losses at Lehman and Merrill Lynch, over 110,000 jobs have been cut at US banks and financial firms over the past year.

The other remaining independent investment bank, Goldman Sachs, reported a 70 percent drop in its quarterly profits on Tuesday and saw its shares fall by 26 percent on Wednesday. Shares of Citigroup and JP Morgan Chase also fell sharply.

Shares of AIG, which on Tuesday night was given an \$85 billion loan by the Federal Reserve in return for an 80 percent government stake in the company, fell 44 percent on Wednesday.

Credit markets in the US and around the world have

seized up in the wake of the government bailout of AIG and the demise of Lehman and Merrill Lynch. Banks and financial firms have all but ceased lending to one another, and the cost of short-term credit upon which the financial system depends has skyrocketed.

Big investors are bailing out of stocks and other securities and rushing to buy Treasury securities, which are considered relatively safe. As a result, the yield on Treasury bills has plummeted, at one point on Wednesday falling below zero.

Other signs of a collapse of confidence in the financial markets were in evidence. Crude oil jumped by \$6 a barrel and gold and silver futures soared, as investors scrambled to move their money out of stocks and bonds and into commodities and precious metals.

The financial turmoil was exacerbated by the release of a Commerce Department report showing that US housing starts fell in August by 6.2 percent, marking the slowest home building pace since January 1991. The decline was far higher than had been projected.

What is involved in the crisis is not simply the failure of certain large finance houses, but rather the bankruptcy of American capitalism itself.

The US central bank, the Federal Reserve Board, is heading toward insolvency. On Wednesday, the US Treasury handed over \$40 billion in taxpayer funds to bolster the Fed's dwindling reserves. One year ago, the Fed's balance sheet boasted close to \$800 billion in Treasury securities. By last week, that sum had fallen to just under \$480 billion.

The massive decline in the Fed's real assets is the result of its having doled out hundreds of billions of dollars in low-interest loans to prop up Wall Street, taking as collateral virtually worthless mortgage-backed securities and other assets that cannot be sold on the market because no one will buy them. Over the weekend, the Fed announced it would expand this bailout by accepting even more dubious bank assets, including bank stock whose value has collapsed.

If the Fed's pledge to provide \$200 billion in low-cost loans to Wall Street investment banks and its \$85 billion loan to AIG are taken into account, the Fed's reserves of Treasury securities fall below \$200 billion.

The Treasury's announcement of a bailout to the Fed, on the heels of its assumption of the \$5.3 trillion in Fannie Mae and Freddie Mac liabilities, is the precursor to a colossal government bailout of the banking system,

which will be engineered with the full support of the Democratic Congress and Democratic presidential candidate Barack Obama, and whose cost will be placed squarely on the working class.



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