Wall Street crashes amid mounting signs of global recession

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10 October 2008

With a further dramatic plunge on Wall Street yesterday, the US and global economic crisis has entered a new stage, spreading from the financial system to the productive foundations of the economy. Along with banking and insurance stocks, shares in the industrial sector, including icons of American capitalism such as General Motors and Ford, were hammered amid declining sales, a continuing credit crunch and growing fears of a protracted global recession.

A highly volatile day on the New York stock exchange concluded with a panic sell-off in the last hour of trading. The Dow Jones Industrial Average fell through the 9,000 mark for the first time since 2003, creating a slew of headlines, only to plummet further and end at 8,579—down 679 points, or 7.3 percent.

The Standard & Poor's 500 Index fell even more sharply, losing 7.6 percent to close at 910. The Nasdaq Composite Index was also badly hit, falling 5.6 percent to 1,645. Declining stocks outnumbered rising stocks by 20 to one, as almost $900 billion in value was wiped off of US shares.

New York Times analyst Floyd Norris bluntly described the falls of the past week as "the crash of 2008," comparing them to the October 19, 1987 collapse that wiped 20.5 percent off of the S&P index. "So far in October—after only seven trading days—the S&P is down 22 percent," he wrote. "The only other time since the Depression that there was that large a fall within seven days was in 1987."

General Motors led the declines among major industrial stocks, plummeting by 31 percent to $4.76—the lowest level since 1950. Ford shares plunged by 22 percent. Another industrial giant, Alcoa, was down 15.3 percent. General Electric slid by 7.9 percent and is expected to fall even further today after revising downwards its third quarter profits and full-year outlook.

The collapse of US auto shares takes place amid a shrinking global market. GM reported an overall downturn in sales in Europe on Wednesday for the first nine months of the year. Market researcher J D Power & Associates estimated that sales of cars and light trucks in the US would fall to 13.6 million this year and 13.2 million next year—the lowest figure since 1992. The total last year was 16.1 million units.

GM and Ford—once symbols of US industrial might—confront the prospect of bankruptcy. Standard & Poor's warned yesterday that it might cut the ratings of both companies and their associated finance units, which are already at B-minus—six steps below investment grade.

S&P analyst Robert Schulz told *Bloomberg.com*: "These companies certainly wouldn't choose to file bankruptcy, but they could find themselves at a point where their liquidity reached a point where they no longer could run their businesses. We think that they could be pushed into that."

In financial stocks, the collapse continued apace. Morgan Stanley shares plunged about 22 percent amid concerns about the status of a planned $9 billion investment by Japan's top bank, Mitsubishi UFJ Financial Group. Bank of America and Citigroup fell by more than 10 percent, and JPMorgan Chase lost 6.7 percent. American Express was down 11.5 percent.

Overall, the S&P Financial index fell 12 percent to its lowest level since October 1996. Large insurers were also savaged, with XL Capital falling 54 percent and the second largest US life insurer, Prudential Financial, falling by 23 percent.

The crash on Wall Street came just one day after many of the world's major central banks took the unprecedented step of coordinating interest rate cuts designed to free up credit.

Just one week ago, Congress approved the Bush administration's $700 billion bailout package for Wall Street. The bill was pushed through against popular opposition with the claim that it was needed to avert a share market meltdown and economic depression. Since then, the Federal Reserve has announced that it will buy commercial paper from banks, businesses and local governments in a bid to avert a chain reaction of collapses, and the Treasury has affirmed that it is considering plans to prop up the banks by buying shares of their stock with taxpayer money.

None of these measures has freed up frozen credit markets, as a collapse in confidence in the financial system has left financial institutions reluctant to make loans. The key Libor rate—the interest charged on inter-bank loans—remains at record highs.

The claims made by President Bush, Treasury Secretary Henry Paulson, Federal Reserve Chairman Ben Bernanke, congressional leaders of both parties and the Democratic and Republican presidential candidates, Barack Obama and John

McCain, that the $700 billion bank bailout bill would halt the stock market slide and avert a recession have been exposed as lies. Since the bill was passed last Friday, the Dow Jones Industrial Average has fallen some 1,700 points and the financial panic has spread to basic industry.

The G-7 finance ministers and central bankers are due to meet in Washington today to discuss the crisis. Treasury Secretary Paulson has also called an emergency meeting over the weekend of the G-20 group of major economies, which includes China, India and South Korea.

Despite government bailouts in Europe and further interest rate cuts yesterday in Asia, panic continues in global share markets. The major European stock markets fell yesterday and, while share indexes were mixed in Asia yesterday, they plunged sharply on opening today. In early trading, Japan's Nikkei plunged 11.38 percent, South Korea's Kospi fell 7.5 percent and the Australian S&P/ASX200 fell more than 7 percent.

While calls for "international coordination" have now become a commonplace, none of the top officials or their advisers has been able to advance a plan to address the crisis. *New York Times* commentator Floyd Norris identified a significant difference between the Wall Street crashes of 1987 and 2008. "Directly after the 1987 crash, the Fed slashed rates and made cash available to the banks. That helped to stem the panic. This year, the Fed had done all that and much more before the crash came," he observed.

In so far as officials are guided by a theory, it is based on the notion that certain policy decisions were responsible for the Great Depression that followed the 1929 Wall Street crash. Federal Reserve Chairman Bernanke, in particular, concluded from his study of the 1930s that the collapse was due to the Fed's high interest rates and could have been avoided if enough money had been pumped into the financial system. The fact that such policies have been tried and failed in the current crisis points to a deep-going, historic crisis of American and world capitalism.

Decades of speculation on Wall Street fueled by the Fed's cheap credit policies and the lifting of banking regulations have been accompanied by a hollowing out of American manufacturing. At the root of the explosion of financial manipulation and parasitism is the separation of wealth creation from the creation of real value in the process of production. The new stage of the world economic crisis, engulfing manufacturing and the retail industries that ultimately depend on it, reveals the underlying source of the financial crisis. In a word, the rotten core of American industrial capitalism.

All of the measures being proposed to address the crisis in the US and globally have one fundamental feature in common: They all proceed from the need to maintain and defend the interests of the financial aristocracy. Nothing is being proposed to address the social crisis that is hitting hundreds of millions of working people in the US and internationally—a crisis that will rapidly escalate in the form of double-digit unemployment, the wiping out of retirement savings, home foreclosures, utility shutoffs and growing poverty.

The only rational answer to this chaos and social devastation is the replacement of the bankrupt profit system with socialism. The banks and major finance houses must be taken out of the hands of the financial elite and turned into public utilities, under the ownership and democratic control of the working people. Similarly, the major industrial corporations must be removed from private ownership. Only on this basis can the wealth created by the working class be allocated and developed to meet the needs of the people, instead of serving the insatiable drive of the ruling elite for profit and personal enrichment.

The global economy must be truly integrated on a progressive basis by doing away with the irrational and destructive constrictions imposed by the outmoded nation-state system, so that social and economic development can take place in a planned manner and on a world scale.

This requires the unification of the struggles of the international working class, the political independence of the working class from the parties and political representatives of big business, and the establishment of a workers' government.

This is the program being advanced by the Socialist Equality Party (SEP) and its presidential and vice presidential candidates—Jerry White and Bill Van Auken—in the 2008 US elections. We make an urgent appeal to all those who see the need for a socialist alternative to depression and war: Join our campaign, vote for our candidates and join the SEP.

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