

Worst week for global markets since 1929

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World stock markets plummeted Friday, ending a week that saw the biggest collapse in share values since 1929. The looming threat of a world depression provided the backdrop for a meeting of finance ministers from the G7 industrialized countries, who gathered in Washington for emergency talks with US Treasury Secretary Henry Paulson and Federal Reserve Board Chairman Ben Bernanke.

After a day of panic selling on markets from Asia to Europe and Latin America, and wild swings on the US stock market, the G7 issued a statement that pledged to place the resources of their respective countries at the disposal of the most powerful banks, but failed to outline any specific coordinated actions to stem the slide to economic disaster.

Paulson issued a statement and held a press conference following the meeting to announce that the US government would use the virtually unlimited authority granted it under the \$700 billion Wall Street bailout passed one week before by the Democratic Congress to begin directly buying stock in banks and financial firms, an expansion of the government transfer of taxpayer funds to the most powerful sections of the financial aristocracy.

Major stock exchanges in Asia and Europe registered losses on Friday even greater than the 7.3 percent drop in Wall Street's Dow Jones Industrial Average on Thursday. Japan's Nikkei index fell 9.6 percent to its lowest level in five years. Since the start of the week, it has lost 24 percent of its value. Toyota shares dropped by 6.2 percent and a major Japanese insurance firm filed for bankruptcy.

Hong Kong's Hang Seng Index plunged 7.2 percent. Australia's S&P/ASX 200 index fell 8.3 percent and the broader All Ordinaries was down 8.2 percent. The Shanghai Composite Index declined 3.6 percent, leaving it 12.8 percent lower than it was a week earlier. The Indonesian stock exchange, which closed earlier in the week because of panic selling, remained suspended.

In Europe, the pan-European Dow Jones Stoxx 600 index fell 7.5 percent, which ranks among the worst one-day performances on record for the index.

London's FTSE finished Friday down 8.9 percent. Since its last peak in June 2007, it has declined 43 percent. Friday marked the British index's fifth consecutive losing day, during which it lost 20 percent of its value.

France's CAC-40 index fell 6.8 percent and Germany's DAX 30 plunged 7 percent. Trading in Italy, Russia and Austria was halted. The last of Iceland's major banks collapsed and was taken over by the government, and all stock trading remained suspended.

Markets across Latin American were lower. The Mexican central bank was forced to auction off \$6.4 billion in foreign reserves to

prop up the peso.

The MSCI World Index--a measure of international share prices--was down 19 percent for the week, its worst performance since records began in 1970.

An indication that the financial crisis is now plunging the world economy into a major recession is the fact that, alongside bank stocks, shares in oil, metal and other basic resource firms fell sharply.

"What we are witnessing is mass selling on a global scale due to a combination of sheer panic and fear, combined with complete uncertainty over the future of the world's major economies," said Martin Slaney, head of derivatives at GFT.

In the US, most stocks ended lower after the wildest intra-day swing in history. For the first time in its 112-year existence, the Dow Jones Industrial Average gyrated in a range of more than 1,000 points.

The Dow fell 696 points in the first 15 minutes, falling below the 8,000 mark. Later in the day it was up by more than 320 points, but closed with a loss of 128 points, or 1.5 percent, ending at 8,451.

That marked the eighth straight losing session for the index, which gave up more than 1,870 points, or 18.2 percent, in the course of the week. The weekly loss outstripped the week that ended July 22, 1933, in the depths of the Great Depression, which registered a 17 percent drop--at a time when there were six trading days in a week.

Since its record high a year ago, the Dow has lost 40.3 percent, wiping out \$8.4 trillion in stock values.

The Standard & Poor's 500 Index sank by 10.7 points, falling below the 900 mark to 899. The S&P 500 is down 42.5 percent from its 2007 peak. The Nasdaq Composite Index finished the day with a slight gain of 4.4 points, but was down 15 percent for the week.

It was the worst week ever for Wall Street, with both the Dow and the S&P 500 recording their biggest weekly losses in point as well as percentage terms.

Most financial stocks rose, in the expectation that the G7 and Paulson would announce new bailout measures. However, Morgan Stanley, which is widely seen as the next likely bank failure, fell 22 percent, and Goldman Sachs lost 12 percent.

Ford Motor Company stock fell another 4.33 percent and ExxonMobil ended down 8.29 percent.

The Toronto stock exchange fell 535 points.

"There is a downward spiral of fear," said Richard Sparks, senior equities analyst at Schaeffer's Investment Research.

The seize-up of credit markets showed no signs of lifting. Banks

are hoarding their cash and refusing to lend to other banks, or charging usurious interest rates, because they have no confidence in the other banks' solvency.

The three-month Libor rate, a key lending benchmark for inter-bank loans of US dollars, climbed to 4.82 percent, the highest in nearly ten months. The flight of capital to what is deemed the safe haven of US government debt deepened, resulting in a decline in the yields on one-month and three-month Treasury bills to nearly zero.

Hedge funds, whose previous outsized profits have turned to losses, are contributing to the panic sell-off of stocks. Many of these firms are facing redemption demands from clients as well as demands from their bank creditors for more collateral and larger margins on their borrowings, and are dumping stocks to raise cash.

Amid the market turmoil, the reality of the decay of American capitalism was summed up by the fact that General Motors felt compelled to announce that it was not contemplating filing for bankruptcy. After decades of plant closures, wage cuts and attacks on the benefits and pensions of auto workers, justified by the claim that they were necessary to restore the biggest US auto maker to profitability and enhance its competitive position, this one-time icon of American capitalism is teetering on the edge of collapse.

GM's announcement underscores the new stage that has been reached in the economic crisis, which has moved far beyond the situation that existed even two weeks ago, when the Bush administration announced its bailout plan for the banks and insisted it was the only way to avert a market meltdown and severe recession. That supposed panacea-designed to cover the losses of the biggest banks and facilitate a further consolidation of financial power in their hands-has done nothing to stem the crisis. Nor could it, since it did not address the underlying rot in the industrial base of American capitalism.

Now, the crisis is rapidly engulfing the broader economy, heralding a wave of plant closures and cutbacks in every branch of economic life.

The *Wall Street Journal* reported Friday that the consensus of economists it surveyed was that the US gross domestic product would contract in the third and fourth quarters of this year, as well as in the first quarter of 2009. "This is the first time that survey forecasts for those periods have turned negative," the newspaper wrote. "If those predictions bear out, it would mark the first time US GDP has contracted for three consecutive quarters in more than half a century."

President Bush made another White House appearance Friday morning in a futile attempt to revive confidence in the financial markets. Aside from making clear that his administration had decided to begin buying equity stakes in order to inject more capital into US banks, he had nothing to add to his previous remarks on the crisis.

He declared that the "federal government has a comprehensive strategy" to resolve the crisis, without explaining the abject failure of his previous "strategy"-the \$700 billion bailout package-to stem the financial panic.

Bush has come to symbolize the disarray not only in the financial markets, but also at the highest levels of government. Even as he spoke the Dow began falling, and was down more than

300 points minutes after he finished speaking.

Summing up the prevailing attitude toward Bush and other political leaders, Howard Silverblatt, senior index analyst at Standard & Poor's, said, "People are scared. Nobody believes what is coming out of the mouths of politicians or chief executives."

There is mounting evidence that more costly measures to prop up the banks are under consideration, including a government guarantee for hundreds of billions in bank debt and inter-bank loans and government insurance for all bank deposits.

All of the proposals to deal with the worst economic crisis since the Great Depression, whether from the Bush administration and the Democrats and Republicans in the US, or the governments of Europe and Asia, have one thing in common: They all proceed from the need to maintain and defend the interests of the financial aristocracy.

None of the measures address the social tsunami that is about to engulf the working class.

As for the multi-millionaires and billionaires who monopolize the economy and dominate the US government, they will remain as ruthlessly preoccupied with their personal enrichment as ever. As the *New York Times* reported on Friday, a sticking point in the government plan to purchase stock from the banks with taxpayer money is the existence of token provisions in the bailout bill imposing certain limitations on the pay of top executives. The *Times* wrote: "It is not clear, administration officials said, that the largest American banks would agree to this, particularly given the restrictions on executive pay."

The events of Friday, culminating two weeks of mounting financial crisis and a flurry of measures by governments to prop up their banking systems at public expense, confront the working people of the world with the prospect of rapidly rising unemployment, poverty and social misery. They raise urgently the need for a coordinated international socialist strategy to defend the interests of the world's people against the financial elites who are responsible for the unfolding catastrophe and are seeking to impose the burden of the crisis on the working class.



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