US stocks plunge amid mounting signs of global recession

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US stock indexes plummeted on Tuesday despite new moves by the government to prop up Wall Street with billions more in taxpayer funds.

Ahead of the opening of the trading day, Federal Reserve Board Chairman Ben Bernanke announced that the Fed, backed by Treasury funds, would begin to buy commercial paper directly from banks, businesses and local governments that are unable to sell the short-term IOUs on the market due to a credit crisis that has assumed global dimensions.

The unprecedented action was aimed at averting a chain reaction of defaults and failures of a wide range of businesses that rely on the commercial paper market to meet immediate expenses. The cost of the program could well run into hundreds of billions of dollars, eclipsing the $700 billion bailout of the banks proposed by Treasury Secretary Henry Paulson and passed by the Democratic Congress on Friday.

US stock markets initially rebounded from the panic selling on Monday that had left the Dow Jones Industrial Average below the 10,000 mark for the first time in four years. By the time Bernanke delivered an afternoon speech in New York, however, all three major indexes had turned negative, and his grim prognosis for the US economy only accelerated the slide.

Not even Bernanke's broad hint that the Fed would soon cut interest rates, making credit cheaper, stemmed the decline. A subsequent rambling and semi-coherent speech by President Bush touting the so-called Emergency Economic Stabilization Act passed Friday added fuel to the fire, and the downward trend turned into a rout in the final hour of trading.

The Dow Jones Industrial Average was down 508 points, or 5.1 percent, at the close of trading. The Nasdaq Composite Index fell 108 points, or 5.8 percent, and the Standard & Poor's 500 Index declined 60.7 points, a drop of 5.7 percent, leaving that index below 1,000, its lowest level in five years.

Major banks suffered huge losses in the stock sell-off. Bank of America shares fell more than 26 percent, Morgan Stanley stock declined nearly 25 percent, Citigroup shares fell 13 percent, National City shares fell 11 percent as did those of JPMorgan Chase. Other big losers included United Airlines, down 25 percent, and Sun Microsystems, whose stock plunged by more than 10 percent.

Since Friday's passage of the bailout bill-which was presented as the means to save "Main Street" from a deep and protracted recession-the Dow has lost more than 1,000 points and the financial crisis has intensified, both in the US and around the world. It is already clear that the bailout, while covering the losses of the Wall Street architects of the financial debacle, will do nothing to resolve what is a systemic crisis of the capitalist system that threatens the people of the US and the world with catastrophe.

Already the financial crisis, the result of speculation in pursuit of high profits, is having a cruel impact on working people. The government reported Tuesday that more than $2 trillion in retirement savings has been wiped out over the past 13 months.

The Associated Press released a survey showing that the number of Americans whose electricity or gas has been shut off for non-payment of bills rose sharply through August of this year. Shut-offs have been running 17 percent higher in New York state and 22 percent higher in Michigan, according to the report, and they are up in dozens of other states.

No emergency action is being proposed to address the social crisis engulfing the working class, which is compounded by rising unemployment and an epidemic of home foreclosures.

There are other indications that the economic crisis is intensifying. The International Monetary Fund's latest

Global Financial Stability Report concludes that world economic growth is headed for a "major downturn" in 2009. "The global economy is entering a major downturn," the fund states, adding, "Many advanced economies are now close to recession, while emerging economies are also slowing rapidly."

In its report, the IMF raises its estimate of the total cost of write-downs to financial institutions with exposure to the US mortgage market to $1.4 trillion, up from its April estimate of $945 billion.

Another indication of deepening recession is a report from the Federal Reserve showing that borrowing by US consumers fell in August by the most on record, as banks shut off access to loans. According to the Fed, consumer credit fell by $7.9 billion, the sharpest drop recorded since such statistics began in 1943. Economists had forecast an increase of $5 billion.

Fueling the ongoing sell-off on US markets is a growing recognition that Paulson's bailout program will not solve the financial crisis and concerns over the lack of any coordinated policy by US, European and Japanese central banks and governments. There is also a sense that not only the markets, but also the US government is in disarray.

Speaking of the Fed's new program to buy commercial paper, Mark Gertler, a New York University economist and co-author with Bernanke, said it and other emergency measures taken by the US central bank were aimed at "stemming the bank run-like panic."

Dirk Van Dijk, director of research at Zacks Equity Research, said, "Under all this, the real economy is headed south in a very big way. That is in itself going to put a lot more pressure on these banks." He said he foresaw 200,000 to 250,000 jobs lost in October. "It's going to be quite bad," he added.

In his speech to the National Association of Business Economists, Bernanke said, "Overall, the combination of the incoming data and recent financial developments suggests that the outlook for economic growth has worsened and that the downside risks to growth have increased." He sought to discourage hopes that the $700 billion bailout program, which he praised, would lead to an early end to the crisis. "With time," he said, "strengthening our financial institutions and markets will allow credit to begin flowing again..."

While his remarks were couched in the soporific language that is typical of Fed chairmen, they included scattered sentences that indicated the scope of the crisis. Speaking of the extraordinary measures he has taken in an attempt to contain the crisis, he said, "These are momentous steps, but they are being taken to address a problem of historic dimensions." At another point he spoke of the financial system "and thus the health of the broader economy" as being "at risk."

Bush's speech, delivered to an audience of small businessmen in northern Virginia, was predictably banal and devoid of any sign that the speaker comprehended his subject matter. It included the standard bromides about the virtues of American capitalism.

Acknowledging that these are "serious times," he declared, "We also know that we're the most dynamic economy in the world... Our entrepreneurial system has delivered unparalleled levels of productivity and growth and prosperity."

Nevertheless, he was at pains to warn his audience not to expect the bailout program he had signed into law to visibly ease the crisis any time soon-a stark contrast to the speeches he gave when he was promoting the plan, which depicted it as a bulwark against recession.

His speech was peppered with remarks like: "It's going to take time..." "It's not going to happen all at once." "And it's going to take a while."

Longer term, he said, the solution was more drilling for oil in the US and making his tax cuts for the wealthy permanent.

At one point, Bush stressed that the crisis was global and required a coordinated solution agreed upon by the nations of the world. He then proceeded to call for a nationalist program of "energy independence" at the expense of foreign oil producers.

Asked by a member of the audience, "What do you think is going to happen to my 401(k) and other people's retirement plan?" Bush replied, "I think in the long run they're going to be fine because the stock markets will reflect real value. In the short term, they're going to take a hit."