On Inauguration Day

US markets plummet as banks falter and world slump deepens

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Even as Barack Obama was sworn in as the 44th US president, Wall Street markets fell sharply in response to further indications of the accelerating crisis of American and world capitalism. The stock market decline, triggered by reports of massive losses suffered by US and European banks, was the worst ever inauguration day sell-off.

The Dow Jones Industrial Average closed 4 percent lower, losing 332 points and falling below the 8,000 mark to 7,949. Also sharply down were the Standard & Poor's 500 Index (-5.3 percent) and the Nasdaq Composite Index (-5.8 percent). The Dow and S&P are now at two-month lows, largely erasing the rebound that followed the November presidential election, which saw the markets anticipate an Obama administration stimulus package. "Optimism that government spending would revive the economy [has] evaporated," *Bloomberg News* reported.

The financial sector took the biggest hit yesterday, with the S&P 500 Financials Index closing down 17 percent to its lowest level in 13 years.

Bank of America stocks closed 29 percent lower, Wells Fargo lost 24 percent, JPMorgan Chase fell 21 percent, and Citigroup declined 20 percent. Boston-based bank State Street, the world's largest institutional money manager, plummeted 56 percent after it announced $6.3 billion of unrealized losses in its investment portfolio, shocking financial analysts who had regarded State Street's financial operations as among the safest in the market.

Stocks in British-based banks also plunged as they announced massive losses and the government unveiled a new bailout package. (See "British government mounts new bank bailout amid warnings of economic collapse") The New York-listed shares of Royal Bank of Scotland fell by 69 percent, Barclays was down 42 percent, and HSBC Holdings lost 15 percent of its value.

Underlying the latest plunge of US and European banking stocks is the growing awareness that none of the multibillion-dollar bailout packages has resolved the underlying crisis of the financial sector that was first triggered by the collapse of the American subprime mortgage market. New York University Professor Nouriel Roubini yesterday estimated that US financial losses may total $3.6 trillion. "If that is true, it means the US banking system is effectively insolvent because it starts with capital of $1.4 trillion," he said. "This is a systemic banking crisis."

The financial meltdown has in turn triggered an increasingly sharp decline in global economic activity.

The European Commission yesterday forecast that the Eurozone economy will contract by 1.9 percent this year, before recording just 0.4 percent growth in 2010. The official forecast may underestimate the situation. Bank of America economists, for example, anticipate a Eurozone contraction of 2.6 percent this year.

The European Commission described the situation as a "deep and protracted recession," and said it expected unemployment in the 16 countries using the euro to exceed 10 percent by 2010. Europe's largest economies—and major trading partners with the US—are among the worst affected. Britain is forecast to lose 2.8 percent of its gross domestic product this year, Germany 2.3 percent, France 1.8 percent, Italy 2 percent.

The Spanish economy is also expected to decline by 2 percent this year, triggering a massive rise in unemployment from 11 percent to 19 percent. Spain lost its Standard & Poor's triple-A credit rating on Monday in response to concerns over its growing budget deficit. The downgrading follows a similar revision of Greece's credit rating last week. Standard & Poor's has said it is now reviewing several European economies, including Ireland and Portugal. Analysts say the region's largest economies, including Germany and France, are also likely to be affected.

Britain's ballooning debt has led to speculation concerning its credit worthiness. "Investors are concerned about the cost of the government measures and the implications they might have, with escalating borrowing and the possible doubling of Britain's debt ratio," Neil Mackinnon, chief economist at ECU Group, told Associated Press.

Lower credit ratings make it more difficult and expensive for governments to access finance. This in turn makes sustaining budget deficits problematic, creating pressures for increased taxes and lower social spending—measures which have the potential to accelerate the deflationary spiral, plunging Europe further into recession.

European producers have already sharply curtailed output. A recent article in *Newsweek* magazine reported: "The numbers are horrifying, and increasingly so. There's been a violent collapse in industrial production in Europe; the latest monthly data now show annual contractions of 17 percent in Spain, 13 percent in the UK, 9 percent in France and Italy, and 6 percent in Germany. Emerging economies are now on the same course, with contractions of 9 percent in Russia and 4 percent in Brazil."

Major industrial sectors have been among the hardest hit. The EU's industry commissioner, Guenter Verheugen, last week warned that some of the leading carmakers could face bankruptcy. "The outlook for the industry is, to say the least, brutal," he declared. "We have seen a dramatic decrease in car sales, especially in the last quarter of 2008—with a drop of more than 20 percent—and we expect another drop of 20 percent for 2009 that will affect hundreds of thousands, if not millions, of workers. There is no guarantee that all the main European manufacturers can survive the crisis."

Massive job losses, wage cuts and potential corporate bankruptcies are also anticipated in the US auto industry. Italian firm Fiat yesterday announced it was taking a 35 percent stake in Chrysler. The agreement is aimed at allowing Chrysler to use Fiat's technology to produce smaller and more fuel efficient vehicles and also access Fiat's European distribution networks. Fiat's shares declined after the announcement, however, indicating the markets' lack of confidence across the auto sector.

Whatever the impact of the agreement on each firm's balance sheet, there is no doubt that autoworkers will be faced with additional plant closures, job losses and wage cuts. While no details have yet been announced, Fiat and Chrysler announced that they expect "substantial cost savings opportunities." Chrysler executives added that they would be asking employees to make "sacrifices" to support the company's restructuring.

Major layoff announcements are being issued on a daily basis. Vehicle hire company Hertz Global is to cut 4,000 jobs worldwide due to declining travel demand. Clear Channel, the largest US radio broadcaster, has sacked 1,850 employees, or about 9 percent of its workforce. Also cutting 9 percent of its staff is audio manufacturer Bose Corp., which is to lay off about 1,000 workers. Warner Bros. Entertainment is slashing about 800 positions, or 10 percent of its workforce. Several hundred of these positions are to be outsourced to cheap labor platforms, including India and Poland.

Conoco Phillips, the second-largest refiner in the US, has announced that it will cut 4 percent of its staff, or 1,350 jobs. Chemical company Rohm & Haas is sacking 900 workers, nearly 6 percent of its total, and is also freezing salaries. Further layoffs are also expected across the financial sector. According to the *Financial Times*, Bank of America will soon announce an additional 4,000 job cuts.

In addition to mounting layoffs, increasing numbers of workers are being forced to accept significant wage cuts. An article in the *Wall Street Journal* last Saturday noted: "In addition to layoffs, companies are increasingly trimming wages, a tactic economic historians said hasn't been wielded broadly since the Great Depression... The last time the US had widespread wage cuts was during the great Depression, when benefits were a smaller slice of overall compensation."