

# Market illusions vs. the reality of capitalist crisis

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A month-long upturn in the stock market has sparked a round of optimistic media commentaries and statements by Obama administration officials suggesting that the US economy is on the road to recovery. But any serious examination of the state of both the financial system and the broader economy suggests that such celebrations are unwarranted.

The Dow Jones Industrial Average has risen some 1,500 points since hitting an 11-year low of 6,547 on March 9. The market closed April 9 at 8,083. Far from marking a definitive end to the financial crisis, the recent rise is the third such surge since the crash of September-October 2008 that followed the failure of Lehman Brothers and the federal bailout of American International Group (AIG).

There was a similar 1,500-point run-up during the week that culminated in the election of Barack Obama as US president last November 4, after which the Dow lost 2,000 points over the next three weeks. The average staged another 1,500-point gain in December, triggered by Obama's selection of Wall Street favorite Timothy Geithner as treasury secretary, before plunging 2,500 points during the first two months of 2009.

The latest rise was likewise sparked by a positive Wall Street response to an Obama intervention on its behalf, as the vast dimensions of the next round of the Treasury bailout of the financial system became known. The market rise could well give way to a new market plunge, however, particularly in the event of new financial shocks, like the failure or federal takeover of another large banking institution, such as Citibank or Bank of America, or a major assault on the overvalued US dollar.

President Obama nonetheless seized on the market's rise, as well as Wells Fargo's projection of a record

first-quarter profit, to pronounce Friday, after a meeting of his top economic advisers, "What you're starting to see is glimmers of hope across the economy." He added, "We're starting to see progress... And if we stick with it, if we don't flinch in the face of some difficulties, then I feel absolutely convinced that we are going to get this economy back on track."

Obama's top economic adviser, Lawrence Summers, began the latest round of "talking up" the economy, declaring in a widely reported speech April 9 to the Economic Club of Washington: "The sense of a ball falling off a table, which is what the economy has felt like since the middle of last fall, I think we can be reasonably confident that that is going to end within the next few months, and we will no longer have that sense of a free-fall."

He added that while unemployment would continue to rise throughout the year, the White House bailouts and stimulus program would overcome "an excess of fear."

What is involved here is an attempt to equate a rising stock market and improved bank profits with economic recovery, even as unemployment, homelessness and poverty envelop ever larger sections of the population. This only underscores the class interests represented by the Obama administration.

The administration's rosy projections are belied by the actual development of the economic crisis:

- Factory orders have fallen so rapidly that US manufacturers are using less than 68 percent of capacity, the lowest level since records began in 1948.
- March saw 35 corporations default on bond payments, the largest monthly total since the Great Depression, according to Moody's. The default rate has shot up from 1.5 percent a year ago to 7 percent, and will reach 14.6 percent by the fourth quarter, the rating

service said.

- Bloomberg News forecasted that corporate profits for the first quarter will fall 37 percent, the seventh consecutive quarterly decline, the worst since the 1930s.
- As measured by the market for credit default swaps, investors have been making large bets that Citigroup and Bank America will collapse. Similar bets were seen before the liquidation of Bear Stearns and Lehman Brothers last year.
- World trade is shrinking more rapidly than during the plunge of 1929-30 according to a paper published this week by economists Barry Eichengreen of the University of California and Kevin O'Rourke of Ireland's Trinity College.

The deepening crisis is demonstrated above all in its effects on jobs and living standards for the working class:

- The Bureau of Labor Statistics reported that 24 million workers, 15.6 percent of the labor force, are either unemployed or working only part-time when they want full-time work. This is an increase of 10 million workers in barely a year.
- Forty percent of US companies said they plan to freeze or cut salaries this year, according to a survey reported by Reuters April 7.
- Companies have cut back in five employee benefit areas, including 401(k) matches and tuition reimbursement, according to a report in *USA Today*.
- The average 401(k) account plunged in value by 27 percent in 2008, according to the huge Fidelity Investments mutual fund.
- Personal bankruptcy filings are up 38 percent compared with a year earlier, according to Mike Bickford, president of Automated Access to Court Electronic Records, a bankruptcy data and management company. In all, 130,793 people filed for bankruptcy in March.

The only realistic conclusion that can be drawn from these figures is that the capitalist system is sinking into the deepest slump since the 1930s, one that appears far closer to the beginning of the crisis than to its end. This crisis is shattering political illusions, not only in the Obama presidency, but in the profit system itself.

An opinion poll last week asked Americans whether capitalism or socialism was their preferred economic system, without defining either. Some 20 percent opted

for socialism, compared to 53 percent for capitalism and 27 percent undecided—astonishing figures in a country which has been saturated with propaganda against socialism for generations.

The present crisis vindicates the perspective on which the *World Socialist Web Site* is based. Millions of youth and working people are looking for an alternative to the existing socio-economic system, which has manifestly failed. The central political task is the building of a political movement of the working class which can provide that alternative.

The WSWS, together with the Socialist Equality Party and the International Students for Social Equality, are sponsoring a series of conferences in the United States on “The World Economic Crisis, the Failure of Capitalism, and the Case for Socialism.” These conferences—in Detroit, New York City and Los Angeles—will examine the historical origins of the present crisis and develop a programmatic response that meets the needs of the working class.

We urge all our readers to attend these conferences and commit yourself to the critical task of building a socialist movement of the American and international working class.

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*To find out more about the conferences or register to attend, click here.*



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