Biggest global stock market plunge since 2008

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World stock markets fell precipitously on Monday, with US indices registering their sharpest declines since December 2008. The panic in financial markets occurs amidst growing signs of a new economic downturn in the US and internationally, a worsening of the European debt crisis, and the destabilizing impact of Friday's downgrade of US government debt.

The sell-off puts to rest any claim that the crisis that erupted in 2008 was temporary. All of the measures taken by governments and international organizations, led by the Obama administration in the US, in response to the 2008 financial meltdown have completely failed to address its underlying causes. The handing out of trillions of dollars to the banks to guarantee the bad debts of the financial oligarchs succeeded only in inflating a new speculative bubble.

The collapse of share values in the US wiped out some $1 trillion in assets in just one day. The Dow Jones Industrial Average fell 634 points, or 5.6 percent. The S&P 500 fell 6.6 percent and the NASDAQ composite plunged 6.9 percent. The S&P 500 index has fallen 16.8 percent since July 22. All major stock indexes closed near their lows for the day, portending further falls today.

The US debacle followed a dismal showing in Europe, where the British FTSE 100 fell 3.4 percent and the German DAX index fell 5 percent, its 9th consecutive daily decline. In Asia, stock markets fell more than 2 percent Monday and by Tuesday afternoon had registered even sharper declines.

Standard & Poor's downgrade of US credit on Friday was followed Monday by additional downgrades, including of long-term government-backed debt issued by banks and the government-sponsored mortgage finance companies Fannie Mae and Freddie Mac.

However, funds flooded into US Treasuries on Monday seeking a "safe haven" from the bloodletting in equity markets and other speculative markets, including commodities other than precious metals.

Meanwhile, the Organization for Economic Cooperation and Development (OECD) reported Monday that its composite of leading indicators fell to 102.2 in June from 102.5 in May, suggesting a deepening of the global slowdown. "Compared to last month's assessment, stronger signs of turning points in growth cycles have emerged in the United States, Japan and Russia," the OECD said in its statement.

It is now widely acknowledged in the financial press that the world economy is likely entering a second recession. In the *Financial Times*, New York University economist Nouriel Roubini noted Monday, "Even before last week's panic, the US and other advanced economies were odds-on for a second severe recession."

Roubini wrote that "The first half of 2011 showed a slowdown of growth–if not outright contraction–in most advanced economies." Observing that "Another recession may not be preventable," he concluded that the best governments could shoot for was to head off a "second depression."

Another factor underlying the stock plunge was the growth of currency conflicts, fueled by the cheap dollar policy of the US government and the Federal Reserve. Last week, Japan and Switzerland intervened into currency markets in an attempt to lower their exchange rates, recalling the competitive devaluations that exacerbated the Great Depression of the 1930s.

The European sovereign debt crisis has continued to flare out of control, now centered on Italy and Spain. The European Central Bank attempted to reassure investors Monday by promising to purchase Italian and Spanish bonds. But even this extraordinary measure failed to stave off a European and global sell-off.

Behind these immediate causes stands a fundamental breakdown of the world capitalist system, at the center of which is the protracted decline of American capitalism. In issuing its downgrade of US credit, S&P was pursuing, on behalf of Wall Street, the political agenda of escalating pressure for more severe austerity measures, but it was also acknowledging the fact of the sharp decline in the global economic position of the United States.

Amidst deepening global conflicts, the only thing on which all of the ruling classes of the world agree is the need to escalate their assault on the international working class. By means of ever more brutal cuts in social programs, jobs and wages, they seek to extricate themselves and make the working class pay for the failure of the capitalist system.

Obama made a statement from the White House Monday afternoon in which he reaffirmed his support for additional cuts in social spending, saying the downgrade of US debt occurred “not so much because they doubt our ability to pay our debts” but because they “doubted our political system’s ability to act.”

Unprecedented cuts in social programs, including basic entitlement programs such as Medicare, Medicaid and Social Security, are to be worked out by the congressional “super committee” established as part of the debt ceiling deal passed last week. The administration has indicated that it will push the committee to go beyond the $1.5 trillion in cuts it is required to recommend and aim instead to achieve the full $4 trillion in deficit reduction that Standard & Poor’s is demanding.

Significantly, Obama did not make his usual demagogic call for the elimination of tax loopholes for the wealthy, which he had previously demanded to supposedly “balance” the spending cuts. He instead merely reiterated his call for “tax reform,” by which he means proposals advanced by earlier bipartisan commissions that would substantially reduce the tax rate on corporations and the rich, while eliminating or reducing tax deductions that currently benefit broad sections of the population.

This program of austerity will not only have devastating consequences for the vast majority of the population; it will exacerbate the recessionary tendencies in the world economy.

Investors are looking to a policy meeting of the Federal Reserve on Tuesday for signs that the US central bank might embark on a new round of “quantitative easing,” i.e., the flooding of markets with cash.

Such measures will solve nothing. The current crisis exposes the bankruptcy of the policies of the Obama administration and the entire ruling class. They have no viable response to the economic breakdown.

The underlying, insoluble contradictions tearing apart the world capitalist system, which erupted initially in 2008, are once again expressing themselves with full force. The government staggers from one improvisational measure to the next, guided solely by its goal of defending the wealth of the financial aristocracy.

There are clear signs of growing opposition in the working class internationally, including mass demonstrations in Israel, growing opposition to the military junta in Egypt, intense hostility to austerity demands in Europe, and a strike of tens of thousands of telecommunications workers in the United States.

This latest crisis demonstrates that if these struggles are to be successful, the working class must find a different path, one that begins with irreconcilable opposition to all bourgeois governments and parties and the capitalist system they defend.