US stock rally collapses amid fears of global slump

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US stock markets plunged following an early rally Tuesday, with the Dow Jones industrial average plummeting 600 points from the day's peak to close down 205 points, or 1.29 percent.

The Standard & Poor's 500 index lost 1.35 percent, falling for a sixth consecutive day to end 12 percent below its peak in May. A *Financial Times* headline summed up the day's events succinctly: "Wall Street recovery turns to dust."

The stock selloff reflected extreme nervousness over the decline in economic growth and stock market turmoil in China, a growing crisis in emerging economies and a collapse in commodity prices. Market confidence in the ability of any government or central bank to restore stability and ensure sustained growth has been all but shattered, and fears are mounting of a crisis of even greater proportions than the financial meltdown of September 2008.

The US selloff occurred despite a substantial monetary policy intervention Tuesday by the Chinese central bank, which took the unusual step of slashing interest rates and cutting banks' reserve requirements simultaneously.

The Chinese central bank acted after yet another massive plunge in the Chinese stock market earlier in the day. Its stimulative moves led to a rally in most Asian and all major European markets, with the UK's FTSE 100 index closing up by 3.13 percent and the German DAX gaining nearly five percent.

The US rally largely held until the last hour of trading, when the markets were hit by a wave of sell orders. The general sentiment was to recoup some of the losses of the previous week by taking the gains from the day's rally, pocketing them and exiting as quickly as possible.

Tuesday's selloff followed an even sharper rout Monday, when the Dow lost nearly 1,100 points at the opening bell, a record intraday drop. Less than five minutes later, a wave of buy orders, likely orchestrated by the Federal Reserve and other government agencies, halted and partially reversed the meltdown, preventing a full-scale collapse of the US financial system. Nevertheless, the Dow ended the day down 588 points, or 3.6 percent.

The failure to stage a reversal of Monday's selloff underscored the disarray and perplexity of capitalist governments and central banks. There is virtually no confidence that any of the major imperialist powers—the United States, Europe or Japan—acting either separately or in concert, can lead the way out of the crisis. Instead, all hopes are pinned on crisis-ridden China.

This sentiment was expressed by Mohamed A. El-Erian, the former head of the world's largest bond trading firm Pimco, who wrote that the only longer-term solution to the crisis gripping the world economy was an economic normalization in emerging markets, most notably China.

El-Erian declared that a significant portion of the selloff "arose from the correct realization that the primary response would have to come from the emerging economies that are the source of the growth and financial concerns."

The prospects of China or another emerging market country (India, Brazil, etc.) even temporarily rescuing the world capitalist system are remote. In a statement announcing Tuesday's rate cut, the Chinese central bank declared: "China's economic growth is still facing downward pressure, and the task of stabilising growth, adjusting institutions, advancing reform, benefiting people's lives and preventing risks is still extremely arduous."

El-Erian admitted that "the best that can be hoped for right now is short-term market stabilization through another series of liquidity-driven Band-Aids." He added, "This approach would provide much-appreciated immediate relief, but it wouldn't be sufficient to deliver the longer-term anchor of stability that the global financial system is searching for."

The one constant of economic policy on which there is general consensus is to do whatever it takes to protect the wealth of the financial elite, beginning with the provision of a limitless supply of cash to the financial markets via the central banks.

Over the weekend, former US Treasury Secretary Lawrence Summers called for the Federal Reserve to abandon its plans to raise the federal funds rate for the first time in nearly nine years and instead extend its current policy of zero interest rates into the indefinite future.

Summers went further on Tuesday, tweeting that the Federal Reserve should consider further monetary expansion in response to the selloff. As the *Financial Times* put it, Summers "suggested… that the Fed should even consider another [quantitative easing] bond-buying programme."

This sentiment was echoed in even more explicit terms by Ray Dalio, head of Bridgewater Associates, the world's largest hedge fund, who predicted in a research note quoted by the *Financial Times* that the "next big Fed move will be to ease (via QE) rather than to tighten."

The solution offered by Summers, Dalio and El-Erian, three wise men of contemporary capitalism with a net worth of nearly $18 billion between them, is an expansion of money-printing operations by the world's central banks, with the hope that the decrepit Chinese Stalinist regime can keep a lid on popular opposition to its brutal economic policies long enough to somehow restabilize its economy.

The effect of such policies will be a further expansion of the wealth of the financial elite, to be paid for with intensified attacks on the living standards of the working class, which will once again be made to bear the burden of a new eruption of the crisis of world capitalism.