

Wall Street plunges as global recession looms

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Yesterday's large-scale sell-off on Wall Street, in which shares of major retail companies experienced their biggest decline since the October 1987 Black Monday stock market crash, was in response to clear indications the US and global economy are moving rapidly into recession.

Wall Street has been falling since it reached record highs at the start of the year as increasing interest rates hit high-tech companies whose rise has been fuelled by the pouring in of virtually free money by the US Federal Reserve. But this supply is now being cut off as the Fed lifts interest rates in response to the highest inflation in 40 years to clamp down on workers' wage demands.

As a consequence, the tech-heavy NASDAQ index has fallen by more than 25 percent this year amid signs the speculative bubble is being deflated, increasing the risks of a major crisis in the financial system.

But yesterday's sell-off, in which the Dow lost more than 1,100 points in its worst day in almost two years, the S&P dropped by 4 percent and the NASDAQ was down by 4.7 percent, marked a qualitative new turn as growing fears of recession took hold.

The shares of Target, one of the biggest US retailers, plunged by 25 percent after the company reported its costs had risen by \$1 billion due to higher gas prices and transportation costs.

At the same time, it was hit by falls in discretionary spending as working-class families have had to divert growing portions of their declining real wages to spending on essential items, such as food and gas, in the face of an inflationary spiral which has seen the price of these items rise faster than the official inflation rate of 8.5 percent.

The Target crash was mirrored by Walmart whose shares fell 6.8 percent after dropping by 11 percent the previous day.

Numerous statements by Federal Reserve chair

Jerome Powell and other officials have made clear that, if necessary, the Fed will induce a recession on a scale equal to, or even greater than, that instigated by its chair Paul Volcker in the 1980s which created massive social and economic devastation.

Speaking at a conference on Tuesday, Powell made it clear the central bank would push ahead with its lifting of interest rates to suppress growing wage demands.

"Restoring price stability is a non-negotiable need. It is something we have to do. There could be some pain involved," he said.

Powell's remarks underscore the essential class and social dynamic which has shaped and determined Fed policy over decades.

When the financial system imploded in 2008 because of the rampant speculation over the previous two decades, fueled by its determination to sustain the stock market after the crash of October 1987, the Fed instituted the regime of quantitative easing, pouring trillions into the financial system.

This brought about a massive redistribution of wealth to the upper echelons of society with stock portfolios rising to record highs as workers were hit with major job destruction as real wage reductions were enforced by the trade unions.

When the COVID-19 pandemic erupted in 2020 and the financial markets froze out of fear that necessary public health measures would impact Wall Street, the Fed shoveled over \$4 trillion more into the financial system. The government bailed out the corporations and a return-to-work drive was initiated, in defiance of all science, to ensure the profit flow was not interrupted.

The refusal of governments around the world, following the lead of the US, to institute meaningful measures on an international scale to eliminate COVID-19, led to a supply chain crisis resulting in the escalation of inflation, fueled by the endless supply of

money to the Wall Street speculators.

But the class struggle, suppressed for decades by the trade unions, is now re-emerging in the waves of strikes and social protests in the US and around the world.

The same class dynamic which created the crisis is at work, albeit in a different form, as the US Fed and other central banks move to impose a recession to crush this movement.

In the UK, where inflation has hit 9 percent, the highest rate for any of the major economies, the Bank of England governor Andrew Bailey, while warning of an “apocalyptic” increase in food prices, has insisted that interest rate rises will continue whatever the cost. “We have to get [inflation] back to target. And that is clear,” he told the UK parliament this week.

The Fed’s tightening of monetary policy is already impacting on the global economy. Rising interest rates bring economic stagnation while the fall in domestic currencies vis-à-vis the dollar increases debt burdens and lifts inflation, especially in food.

This week the Institute of International Finance, a worldwide grouping of 450 financial companies, warned that the world economy would at best flatline this year with the recession risk “elevated” with a “disorderly tightening of financial conditions” underway.

Less-developed countries, struggling with the effects of COVID-19 and now the escalation of food prices because of the US-NATO proxy war against Russia in Ukraine are already being hit, leading to massive social protests and strikes spearheaded by the eruption against the Rajapakse government in Sri Lanka.

The social eruptions in that country are the outcome of global processes at work in every country and which will intensify in the next stage of the class war being waged by the ruling elites as they seek to make the working class pay for the crisis they have created.

There is no economic upturn in prospect. The trends are the same everywhere. The European economy is stagnant and on the brink of recession. The Japanese economy, the world’s third largest, contracted at an annualised rate of 1 percent in the first quarter. The US economy shrank at an annual rate of 1.4 percent in the same period.

The history of the economic events of the past decades and the past two years, in particular, is a searing indictment of the profit system.

Refusal to act on COVID has led to millions of unnecessary deaths and created an out-of-control upsurge in inflation.

The US-NATO proxy war against Russia has resulted in the food crisis that is imposing starvation on hundreds of millions of people worldwide.

The pumping out of trillions of dollars by the world’s central banks has fueled the inflation fire, while creating a mass speculative bubble that threatens to implode at any time.

And on top of this, finance capital is moving relentlessly to make the working class pay through ever lower wages and cuts to social services by inducing a recession with untold social and economic consequences.

The necessity for the international socialist reorganisation of society by the global working class is not some abstract conception or mere theoretical postulate. It is staring at mankind out of the chaos and devastation generated by the capitalist profit system.



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