Anatomy of the U.S. Stockmarket Collapse

NEW YORK, Sept. 7 (IPS) — The rank and file of the capitalist class, the stockbrokers and bank trust managers are voting for a depression with their feet.

Wall Street's war cry for the past two months has been, "The dam's bust! Head for high ground." Namely, get rid of every sort of asset, from "portfolios" of stocks to carloads of copper, and get into cash before everyone else does.

At current rates of inflation, topping 12 per cent by "official" estimate, and current rates of interest, which effectively run from 14 to 18 per cent in the United States, capitalist assets cannot spin off enough earnings to pay costs. Factories and freight cars, raw materials and machine tools — or the paper titles of ownership on them — are an embarrassment to the capitalist system.

So it's sky-diving time on Wall Street again. At today's stock market close, the total value of all equity (part ownership) shares on the U.S. exchanges was less than their value in 1935, adjusted for inflation. At around 670, the Dow-Jones average of 30 leading industrial shares represents a 40-year loss. The most-repeated joke on the Street, sources say, is "When's it gonna go down to 400, haw, haw, haw."

Brokers leaving the market are like rats leaving a ship — their departure is a good indication of what is happening, but doesn't pinpoint the trouble areas. David Rockefeller's decision to give the world economy a swift kick to hell is the motive reason for the market panic.

Insurance companies, banking trust departments, and pension funds control about 75 per cent of all U.S. equity. Alone, the six top New York banks, the cornerstones of the Rockefeller empire, control 10 per cent of the market. Contrary to the buncombe in the financial press, "investors' worries about inflation" or the latest news over the ticker do not cause major shifts in the $500 billion equity market. Capitalists' need for cash in a period of liquidity crisis compels them to dump titles to income in favor of hard cash — bank checking accounts or short-term U.S. government securities.

A Scramble for Cash

As *New Solidarity* reported last week, short-term interest rates have shot upward during the past two weeks, with three-month Treasury bills, considered the safest of all investments, rising from less than 8 per cent to almost 10 per cent in 10 business days.

There are two reasons for the fabulous rise in the short-term rates. First, the U.S. Treasury demanded about $4 billion from the market, draining available free cash and making credit more expensive.

Second, corporations began gearing up for the September refinancing deadline, when upwards of $5-10 billion of short-term debt will have to be paid back, "rolled over," or defaulted on. New York banking sources told IPS last week that even if the Federal Reserve, the nation's central monetary authority, throws a couple of billion dollars into the banking system here or there, this will be only a "drop in the bucket" compared to overall credit demand.

Skyrocketing short-term interest rates increase the immediate cash needs of companies — especially life insurance, banking, and other corporations which take their profits from a huge cash turnover. This forces them to raise cash by dumping on the market whatever is handy — stocks, bonds, office furniture, or grandmothers.

First among banks' and insurance companies' assets to be axed are equities, or shares to the proceeds of production. When the broker starts filling a bushel basket with yellow-edged stock certificates, he thinks:

(1) The rate of inflation is over 12 per cent, while the dividends paid out on stock average only 11 per cent.

(2) When the depression hits full force, no one will be able to sell anything, wiping out even these earnings.

(3) Almost all profits of corporations during the first half of 1974 were based on inventory price rises. That is, if I buy a ton of copper for $1600, sit on it, and three months later it goes up to $2200, I have $600 of "profit" to pay off the stockholders with.

A Means of Selling Out

The great dumping on the market is being done by the "institutional investors," increasingly in blocks of 10,000 shares. Previously, block trading was a means of buying enough shares to control a company. Now, it is a means of selling out as fast as possible.

During the summer, the daily average of block trades remained under 60, or about 4 per cent of all shares traded. But by the last week in August, block trades began "perking" near the 100 mark, the weekly *Money Manager* reports. And the main attack came against "upper tier stocks," the "glamor issues" of the stock exchange — Xerox, Avon, Johnson and Johnson, Texas Instruments. This indicates that the top banks and life insurance companies were willing to take massive "book" losses by liquidating devalued securities to obtain cash. Estimates are that these companies are

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Per cent

13.0

12.0

11.0

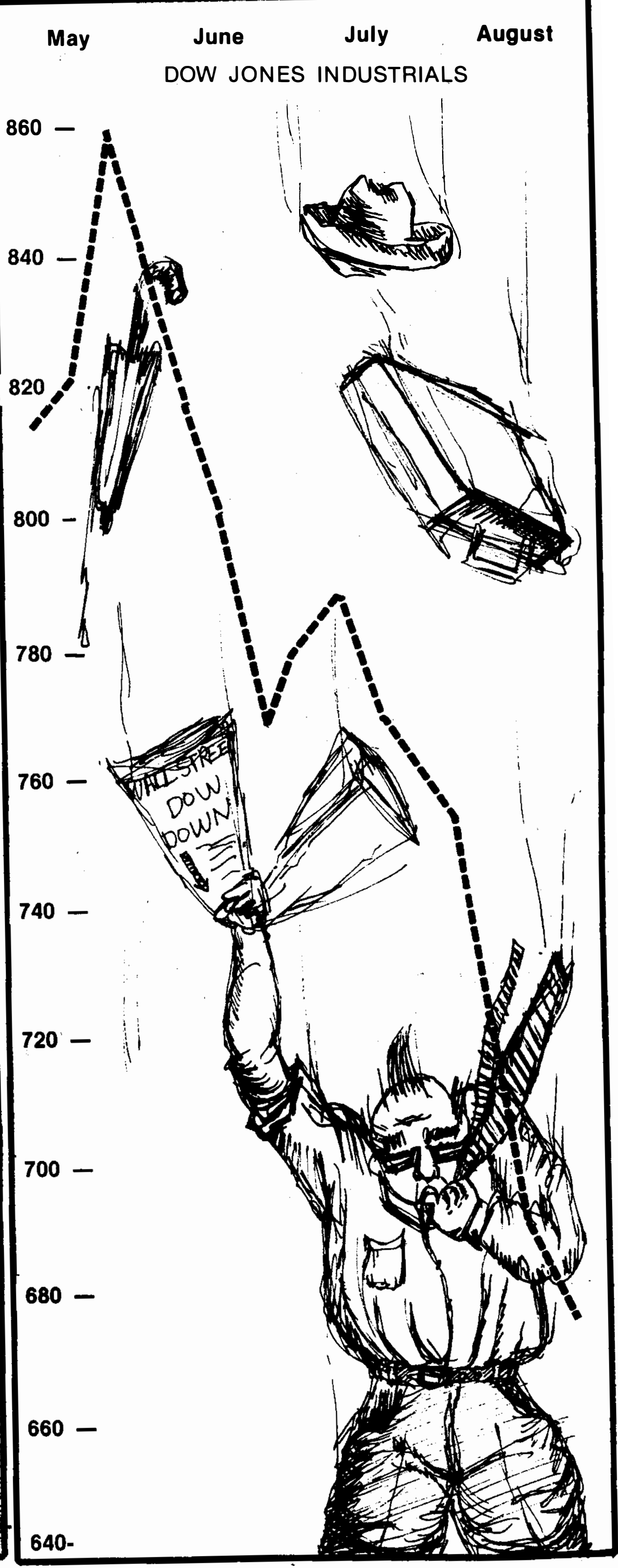
10.0

Federal Funds Rate

Stock prices drop and yields rise when short-term interest rates climb. Short-term interest rates indicate credit squeeze, forcing banks and insurance companies to dump stocks on the market. [Stock yields are earnings divided by prices; yields rise as prices fall].

Common Stock Yields

Jan. Feb. Mar. Apr. May Jun. Jul. Aug.



worth 30 per cent less in market terms than they are on paper.

There were two motives behind this. First, the lesser tier of financial institutions had to come up with cash — quickly. Second, the Rockefeller bastions dumped now — in order to re-purchase shares to companies at half and quarter price a couple of months hence.

One Week of Slaughter

During the last week of August, the stock market lost approximately 70 points, or 10 per cent of the total value of shares listed. Using statistics of the Federal Reserve, we can break this collapse down precisely and track the plunge into cash.

During the statement week ended August 28, New York banks increased their checking accounts from $40.818 billion to $44.157 billion — an astonishing one-week rise of more than $3 billion, or more than 7 per cent of the total. Of this deluge, $1.7 billion came from corporations and private individuals, about $1 billion from commercial banks, and the small remainder from savings and loan institutions.

Most of this increase spilled directly out of the collapsing stock market. During that week, interest rates rose to all-time highs in the short-term credit market. Graph II shows how closely stock yields — earnings divided by price — move according to short-term interest rates. Stock yields rise when the dollar value of shares falls, since the same amount of earnings is available at a smaller price. In addition, a certain portion of the checking account rise represented "compensating balances" placed with the Rockefeller banks by corporate borrowers. For example, the retail chain Montgomery Ward had to re-deposit 30 per cent of its recent New York loan, raising the actual cost of the money it was permitted to use to the range of 17-18 per cent.

While the New York banks took in over $3 billion last week, their total loans and investments rose by $1.8 billion. A bare $110 million of this fell into the category of "Commercial and Industrial Loans," or 6 per cent of the total increase. That is, the total rise in loans to commerce and industry barely accounted for that week's rise in prices.

Almost all the increase in bank lending went to brokerage houses — the paper-peddling arms of the Rockefeller empire — for "purchasing or carrying U.S. Treasury securities." Brokers' outstanding loans for stocking up on Simon's IOU's — considered to be safe as death and taxes — rose from $567 million the previous week to a full $2.016 billion, almost quadrupling. The banks' loans enabled brokers to make treasury securities available to the corporations and life insurance companies who were getting out of the market to the extent of half a billion dollars per day.

A Conscious Squeeze

On its own account, the New York Federal Reserve Bank sold $4 billion worth of treasury securities to brokers and others. By draining cash out of the system — cash that might have gone to industries to maintain production — the Fed consciously put the squeeze on the economy.

All of this is paper chasing paper — clerks in one office typing up stock certificates and redeeming them for cash; other clerks taking the cash to brokerage houses and buying treasury bills which are duly typed up by other clerks — without one thing of value changing hands. Before pink slips appear in pay envelopes, capitalists dump the titles to real production in favor of cash.

What is strangling U.S. production? Two trillion dollars of outstanding debt, the commanding heights of which are controlled by the Rockefeller interests.

In a depression, this paper seems to disappear by witchcraft. During 1929-32, the U.S. money supply decreased by 30 per cent. Warlock Milton Friedman, the Chicago professor who is pushing fascist "indexing," claims that if the money supply is kept at a certain level, the economy is depression-proof!

In real life, capitalist paper is a political right to a certain portion of society's income, just as cash is a political right to a certain number of goods. A depression is a capitalist house-cleaning, in which masses of paper which have no real backing in production are "written off," bringing the total capitalist demands for income into correspondence with real income available. Better-heeled capitalists, centering around David Rockefeller, buy up the bankrupt assets of illiquid capitalists.

All the stock market collapse represents is the Rockefeller interests seizing the political rights — the equity — to obtain income.