
International Commentaries

Europeans warn dumb Americans of coming crash

These are some of the most recent dire warnings from Europe, on the imminence of a financial explosion—all of them blacked out of the U.S. news and entertainment media.

EuroBusiness, March 2000:

“... In short, the lunatics have taken over the asylum. And the asylum is Wall Street. Stocks have been driven to such unrealistic levels that the correction, when it comes, could be as much as 70%, i.e., some stocks could drop as much as two-thirds. Others could even go further. Some of the big dot.coms have no chance at all. ... And it is not a case of *if* this happens, it is *when*—and, like 1929, there will be little warning. This time even less. ...

“Wall Street has become a giant pyramid scheme with prices being shored up, not by value, but by weight of buying. ... On Civvy Street, pyramid selling is illegal. In America they call it a Ponzi scheme, and it is most definitely illegal. Yet Wall Street has become a giant Ponzi scheme where buyers set prices—not the profits and prospects of business. Exactly what happened in 1929.”

London Guardian Economics Editor Larry Elliott, interviewed by EIR on March 2:

“The longer we go on without a crash, the worse the crash will be when it happens. We can’t do without purging the financial system, as soon as possible. ... Look at the American economy: It’s wildly unbalanced. First, you have a classical bubble. Second, there is the negative savings rate. Third, the growing external deficit. A combination like that is simply unsustainable. In late 1998, to save the system, [Fed Chairman Alan] Greenspan inflated again, and this only prolonged the agony.” Elliott’s own expectation, is that we will soon see a general deflationary trend, with collapse of prices worldwide. However, he does not exclude a generalized inflation, the results of which would be “even more terrible, like Germany in the early 1920s.”

Greenspan and others will “try to stave off the crash, until after the American elections. But can they do this? Is it controllable? The Fed obviously wants to avoid triggering it, but can they stop it? To me, the timing is not predictable, but it’s obvious, there *will* be a crash, at any given point within the next couple of years. People think I’m a Cassandra, but I know I’m right strategically; it’s just a question, that the timing cannot be defined with certainty. ... All I

can say with certainty, is that if this bubble expands, the crash, when it comes, will only be bigger.”

Anatole Kaletsky, city editor of the London Times, “Economic View” column, March 7:

“TMT is becoming as explosive and dangerous to the world economy as TNT, its near namesake.” Referring to the explosive growth of stock prices for so-called TMT—technology, media, and telecommunications stocks—he adds that the “truly insidious aspect of the TMT craze, [is] that it sucks capital out of the ‘old economy’ ... forcing many sound and progressive companies with good profits and excellent technology to cut back their investments, succumb to unwelcome takeovers, or turn their back on stock market investors by going private. ... TMT markets are growing very rapidly but their growth is also extremely unstable and unpredictable. ... Cisco, the biggest supplier of Internet routers, may well overtake Microsoft as the world’s most valuable company. I have no idea when the technology bubble will burst, but I am prepared to make one firm prediction: The world’s most valuable company a decade from now, will not be making Internet routers.”

Le Figaro, Paris, March 9:

From Edgar Van Tuyl, head of the Swiss bank Pictet: “The incredibly high valuation of the Internet stocks relies on magic, since it cannot be explained either by expected benefits, or by a lowering of interest rates.” It is reminiscent of the similar rise of biotechnology stocks five years ago, and the rise of real estate stocks in Japan in the 1980s. “Those sectors had one trait in common: a strong link to excess liquidity ... i.e., a situation where the growth of credit is more rapid than that of the real economy. When credit increases, titles go up in a vertiginous way. But what happens when liquidity is inadequate? It’s simple: They collapse.”

Roland Gagnon, strategist at CDC Bourse, characterizes it as “a Casino Royale. ... The values of the traditional economy are showing spectacular counter-performance, and there is, already, a latent crash of the market in Paris.”

London Guardian, lead editorial, “Bubbles Always Burst,” March 11:

Focussing on the amazing rise of the Internet sales company lastminute.com, the *Guardian* writes that it has gained an “iconic status” for all the rest of the Internet stocks, and “its success on the stock market will be watched very closely by analysts waiting for the dot.com bubble to burst. And burst it will.”

The reality is that nearly all of these Internet companies are selling nothing but “the products of the old economy (books, cars, hotel rooms, and so forth) in a novel way. ... The arrival of Internet commerce has created a deflationary environment, in which it is difficult to make serious profits

in the marketplace (as opposed to the market in stocks). It is small wonder that hardly any dot.com companies selling to the consumer are making money, either here or in the U.S. . . . A meltdown is inevitable.”

Will Hutton, “From .com to .bomb,” *London Observer*, March 12:

“For the first time, our generation is witnessing a real, over-the-top, unstoppable speculative bubble that can and will end in tears.” We are in “the grip of a collective madness,” as the “lust for dot.com companies reached a new pitch.” You’ve heard of the tulip mania of the 1630s, of the South Sea Bubble. Well, “something just as silly is happening now. . . . The mismatch of prices between companies in the new and old economies . . . will have to be corrected.”

The domination of stock indices by these Internet stocks, is forcing the so-called “dinosaurs,” such as electric power companies, breweries, and water companies, off the index. This has three effects. It means that the big insurance companies and pension funds automatically sell their stocks, because the latter only buy stocks that are on the index. This forces these companies to rationalize, lay off workers, relocate, etc., in order to make quick profits. Third, it opens them up to hostile takeover, asset-stripping, etc.

The crash is “inevitable. . . . The gigantic correction, when it comes, will so puncture the financial system’s balance sheet that it will be unable for a period to finance even normal levels of business activity.

“And it is now clear what the source of the correction will be. The trebling of oil price represents a fourth postwar oil shock that will slow down the economy and lower profits worldwide. Professional investors will soon realize the music has stopped playing, and rush to occupy safe chairs by holding cash; the greater fool will be holding the overvalued shares.

“The way the system is structured, that fool will be the great pension funds and insurance companies—in other words you and me, over whose savings they act as custodian. It is people’s jobs and savings that are at risk in this game of investment musical chairs.”

London *Guardian*, “High Anxiety: Larry Elliott on the Coming Crash,” March 13:

Noting the frenzy to invest in stocks of some of the “dot.com” new issuances, Elliott comments that “the world is going share crazy.” All sorts of “experts” and “analysts” are denying that the signs of a crash, of a type that we’ve seen before, are now there, proclaiming, like a mantra: “This time it’s different.” But this time is *not* different from previous speculation manias, like the 17th-century “tulip mania.” There is now “wild speculation in companies unheard of six months ago,” all likely to “end in a spectacular crash. If—or rather when—it happens, it will happen suddenly. And the impact will be savage.”

What is Treasury’s Lawrence Summers?

by William Engdahl

Willy Sutton, the most notorious bank robber during the 1930s Great Depression in the United States, was asked by police, on being captured, “Willy, why do you keep robbing banks?” Sutton allegedly replied, “ ‘Cuz, that’s where they keep the money.”

In a similar way, we might ask, why does U.S. Treasury Secretary Lawrence H. Summers always take his policy cues from Wall Street and major international banks? This orientation describes, more accurately than any textbook economic theory, the policies of the man who, on July 2, 1999, replaced Robert Rubin, to become the Clinton administration’s Secretary of the Treasury, the second most powerful single position in the world of finance and monetary policy after Federal Reserve Board Chairman Alan Greenspan—or, according to some, the most powerful.

Investigation of Summers’s public career, his tenure since 1993 in the Clinton Treasury Department, and his own comments, confirms that it has been Summers, more than any other person within the Clinton administration, who has been responsible for the missed opportunity to realize President Clinton’s expressed will to create a New Bretton Woods structure in the wake of the 1997-99 collapse of Asian economies.

It has been Summers, together with his hand-picked man at the International Monetary Fund (IMF), Deputy Director, now Acting Director Stanley Fischer, who have enforced the present IMF policy of slash-and-burn conditionalities which has been responsible for turning an Asian currency crisis into an out-of-control social and economic collapse. The point of this report is to bring to light the policies and actions of one of the most opaque and secretive of Washington leading figures today.

Summers’s ‘march through the institutions’

Summers, a 44-year-old former Harvard Professor of Economics, was the youngest person in Harvard history, at 28 years of age, to become a full professor. Despite the fact that his two uncles, Paul Samuelson and Kenneth Arrow, are both Nobel Prize economists, that both parents were academic economists, and given his heavy academic credentials, Summers is surprisingly non-doctrinaire. In 1989, he authored a proposal for introduction of a tax on financial transactions, as a way to dampen financial speculation. Yet, since the onset of the Asia crisis in 1997, Summers has championed holding firm to IMF monetary orthodoxy, and rejected any calls for