Financial collapse is near, observers say

Danish daily *Politiken,* Jan. 12, article in Business Section by Steen Valgreen-Voigt.

The article is entitled "U.S.A.'s Economy on Financial 'Doping,' " with a kicker reading, "On credit. The American upswing is driven by consumer spending financed by loans, based on low-interest and explosively growing stock market prices. But the popular spreading of stocks makes the society's economy more vulnerable, if the stock market bubble bursts." It states that the world's economists are looking with more skepticism and concern at the "economic miracle" in the United States. Fewer now believe the theory that globalization and information technology can create inflation-free growth.

"The question is no longer whether the growth can continue. The question now is, what will happen when the bubble bursts, or, in the best case, the world can hope for a 'soft landing.' " Two Danish banks, Unibank and BG Bank, have recently made detailed analyses and come to the same conclusion. There is a link between the rising stock values and the consumer boom. Consumer spending has risen more than income.

Although the 1987 crash didn't affect the real economy, now up to 50% of American families own stocks directly, or through mutual funds. Also, there is an increase in stock options as salary—now 10% of the American stock markets. Hence, a big decrease in stock prices will have a much greater effect than in the past.

There have also been warnings that the American stock market is overvalued and that what is developing is a bubble like that in Japan in the 1980s, which burst in 1990.

"It can continue awhile, but it is not sustainable in the long run. Our point is, that the economic development in the U.S., is, to a certain degree, based on financial 'doping.' It can take one to two years before the symptoms are seen, but that will only make the downturn harder," says Carsten Valgreen of BG Bank.

"One never knows which straw will break the camel's back, but break it will. When that happens, it will most probably have global consequences. It is seldom that the U.S. has a recession, without affecting the rest of the world," he said.

In an accompanying article on Alan Greenspan, the same reporter writes that although Greenspan may be the most powerful banker on earth, the blind trust in him can boomerang. Because he intervened after the crises in 1987 and 1998, it is expected that next time, too, he will act as the man on the white horse. People active in the financial markets have taken more risks. Greenspan himself is worried that investor psychosis will topple the world economy, and that even the Fed has limited powers to bring an overvalued market back on the right track.

Danish daily *Jyllands-Posten,* Jan. 12, by Kristoffer Brahm.

"The Trade of Hot Air" is the headline on an article on IT-stocks and the Internet stock market boom. "The expectations of the Internet companies' future have been set at a level experts think is hysterical. More and more people say, it is not a question *whether* the bubble will burst, but *when*. On the stock exchange in the first four days of the year . . . the Nasdaq fell almost 10%."

The article gives an example from a Danish Internet company, i-data, which has had only losses so far, and couldn't get its credit extended by the bank, but still could sell stocks for a half-billion crowns. The newspaper asked an investment adviser company, Linde Partners, to analyze the Internet stocks. They calculated the stock value and the earnings for nine big companies such as AOL, Yahoo, Internet Capital, and Amazon.com. The conclusion was that they had a stock value of $453 billion and a profit of $583 million in 1998. That's a price/earnings ratio of 779.

Linde Partners compared this to nine traditional companies with an equal stock value, companies like AT&T, Coca Cola, Disney, and Boeing. Here the p/e ratio was 30. Jorn Linde Andersen concluded: "These Internet companies are pure fantasy monsters. In my opinion it makes the U.S.A. of 1929 and the Japan of '89 pale in comparison." The article quoted Fed Chairman Alan Greenspan and others to warn people that, in their quest for quick riches, a few might make it, but the overwhelming majority will go broke.

Konrad Seitz, former head of the German Foreign Ministry's policy planning department, and until last year, Germany's Ambassador to China, commentary in the German weekly *Die Zeit,* Jan. 4.

"Explosive debt growth and social disparity could lead to the sudden end" of the U.S. boom, states Seitz, who compares the present situation in the United States with Japan exactly 10 years ago. At that time, Tokyo was celebrating another all-time high of the Nikkei index, and Nomura, the world's largest securities house, was predicting a further doubling of the Nikkei by 1995. Japan had become the biggest industrial producer in the world, as well as the biggest financial power, and a shining model of how to run an economy.

Ten years later, similar enthusiasm is being expressed in respect to the U.S. economy. However, while Wall Street is dreaming of a never-ending stock market boom, an "explosive growth of disparity" is building up which "could bring the whole system down." In the 1980s and in the first half of the 1990s, all income gains were restricted to the upper 20% of the U.S. population. The recent turmoil at the World Trade Organization conference in Seattle could already be "the harbinger of a coming storm against the global capitalism of American style."

An even bigger threat to the new paradigm is the "gigantic financial disparities" in the United States. The "Greenspan boom" looks very similar to the Japanese "Heisei boom" of 1986-90. "In both cases, the economic boom was driven by a stock market boom going beyond all limits," says Seitz. "In relation to every traditional measure, the U.S. stock market today is overvalued by at least 50%." Following the bursting of the stock market bubble, the U.S. economy would sink into deflation and recession. Viewed from the outside, the unsustainability of the U.S. boom is obvious. The U.S. current account deficit in 1998 crossed the $200 billion level. In 1999 it reached $300 billion, and in 2000 it could go beyond the $400 billion mark. After 1990, the "Japanese century" proved to be nothing but a shortlived "Fata Morgana." The same might happen to the illusion of an "American 21st century." Instead, the 21st century could start off as a "European century," headed by Germany, France, and Italy, and be transformed later into a "Chinese century."

Robert Samuelson, *Washington Post,* Jan. 12, article entitled "The Nasdaq Casino: Place Your Bets."

Samuelson warns that that Nasdaq stock index is vastly overvalued. Nasdaq's surge was an increase in 1998 of 86%, following increases in the past three years: 1996, 23%; 1997, 22%; and 1998, 40%. He jokes that this must represent the fact that America has entered "an economic wonderland, where old investment rules have been rewritten or repealed." Were this not to have happened, "the Nasdaq explosion would be a speculative bubble, which will ultimately burst or deflate. Heresy. Perish the thought."

Kenichi Ohmae, Japanese economist, former head of McKinsey Asia, interview with the German weekly *Der Spiegel,* Jan. 3.

"The worst is yet to come" for the Japanese economic/financial system, Ohmae states. He rejects the assertion by *Spiegel,* that after the government has bailed out the banks and thereby "countered the danger of a worldwide financial crash," Japan's economy would now be improving. "Indeed, the government has spent 60 trillion yen [$600 billion] of taxpayers' money to rescue rotten banks, which better should have gone bankrupt. And it has pumped far more than 100 trillion yen into the economy—if indirect measures are taken account, even double that amount."

However, problems have only been postponed. The government debt is getting out of control. And the recent rise of the Tokyo stock exchange is fully dependent on developments on Wall Street. "Once there is a crash on Wall Street, there will be also a crash in Tokyo." If there is a political vacuum in the United States after the elections in November 2000, Japan could push up its interest rates and this "could trigger a crash."

Blair-Thatcher austerity is killing British population

by Mark Burdman

In a speech at year's end, made with the usual strange glint in his eye, British Prime Minister Tony Blair proclaimed that Britain would emerge in the 21st century as a "beacon" for the rest of the world. This boast, noted the British press, was central to a recently developed Blair political concept that he has dubbed "beaconology." Around the same time as this address was made, Blair and his hyperactive propaganda apparatus were proclaiming that the "Millennium Dome" in Greenwich, England, a garish extravaganza filled with ghoulish exhibits that cost more than $1 billion to build, would be perceived throughout the world, in the days following its opening on Jan. 1, 2000, as a prime example of "British creativity."

But no sooner had the new millennium begun, than Blair's bubble quickly began to burst. The press was filled with articles and editorials giving thumbs down to the Millennium Dome, in words echoing the way one London source characterized it to *EIR:* "The greatest waste of money ever." One of the more incisive comments was that of senior commentator Simon Sebag-Montefiore, in the Jan. 8 London *Times*. He said that the "Blair Dome" was a cruder "illusory facade" than the notorious "Potemkin Village," created by the Russian Count Potemkin to impress the Empress Catherine the Great in the 18th century. At least Potemkin showed "imagination and finesse" in what he did, Sebag-Montefiore stressed, whereas Blair's Dome is a "drab, lifeless North Korean project." *EIR* has learned that traditionalists in the British Labour Party opposed to Blair's "New Labour" policies, have begun to call him "Kim Il-Tony," in reference to the late North Korean dictator.

National Health Service dismantled

Developments in Britain in the new millennium have also brutally revealed that Britain, under Blair's guidance, is hardly a "beacon" for anybody or anything, but is rather a disgrace to the civilized world. The country's National Health Service (NHS), ripped to pieces by more than two decades of austerity imposed by Prime Ministers Margaret Thatcher and John Major, and most recently by Blair, has shown itself completely unable to cope with a flu epidemic that has gripped the country.

The resulting massive health crisis augurs badly for