A WEEKLY COMMENTARY

ON TARGET

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The price of Freedom is eternal vigilance –

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THOUGHT FOR THE WEEK: *"The World Trade Organisation is another bureaucracy whose functionaries will be largely autonomous. They report to 120 nations, and therefore, in practice, to nobody . . . America and every European nation will be handing over ultimate control of its economy to an unelected, uncontrolled group of international bureaucrats."* – Sir James Goldsmith, ***"The Trap"***

THE DEEPER IMPLICATIONS OF THE STOCK MARKET BOOM by Eric D. Butler:

The general initial reaction among the certified economists, now presented as a type of guru on the subject of black magic known as orthodox economics, was that it appeared the "good times" were set to roll on indefinitely. Now there appears to be a note of caution; while the stock market form will continue in the short term some "corrections" will have to be made eventually. In the language of the economic witchdoctors, there will have to be a "cooling" of the economy. There is a hint of higher interest rates and higher taxes.

Every recorded share market boom in history has been related to an expansion in the money supply. The Australia land boom of the 1890s was fuelled by the trading banks of the period, numbers of these eventually having to close their doors.

The bankruptcies of the banks was the result of an excessive expansion of credit not backed by gold, this generally accepted at the time as the "standard" backing for all money, including the notes which the banks of the period were also issuing.

Students of economic history will recall that back in the period leading up to the Great Depression, the term known as "margin lending" to stock and share investors became a major feature of the American scene. Coinciding with the start of the current share market boom, the Commonwealth Bank has been offering "lower entry margin loans".

In essence the Commonwealth Bank is attempting to get more business for the smaller investors by reducing the interest rate it is prepared to charge on "margin" lending. The Commonwealth Bank suggests to investors if they are prepared to gamble, or risk losing a big percentage of the shares they want to buy, the Commonwealth Bank was offering a loan at 7.65%. The investor has to borrow at least $2,000 and take out a $20,000 line of credit. With the prospect of ever-increasing prices for shares, it is not surprising that large numbers see the whole process as something equivalent to something for nothing. The Government encourages this view by allowing the investing of what are little better than fictitious credits to charge up their interest payment as business expenses. Early this year, the Perth, W.A., manager of the stockbroking firm of J.B. Were attempted to warn of dangers ahead concerning a process based upon increasing debt. Well known financial writer Terry McCrann is one of the first to warn that the huge jump in stockmarket prices is based on debt expansion. There is certainly short term "boost" to the economy, which the Federal Government welcomes as further evidence that its policies are successful.

One of the most disturbing features of what is happening is that large numbers are being "sucked in" by what is happening. It is only a few short years ago that tens of thousands were "sucked in" by the Poseidon share boom. Shares which originally could be obtained for a few cents, soared upwards. Even the financial advisers to the Queen joined the lemming-like rush. It is my view that it is not a question of **if** the present share boom will end in more disaster, but **when**.

WHICH IS RIGHT? by Jeremy Lee:

Once again Australia has been confronted by the Federal Treasurer, Peter Costello, who has that priceless art of appearing infallible which is the most prized attribute of the consummate politician. He does it very well. One can imagine him striding the devastated plains of Megiddo during the Apocalypse proclaiming that the "fundamentals" are sound!

Australia has just recorded its biggest Current Account Deficit in history. The December quarter showed a deficit of just under $8 billion – about $3.5 million **an hour** over the period. This means that, between the date the Coalition was elected on October 2nd and the end of 1998, the Foreign Debt increased by $440 per head of population, or by $1,760 for the average mum, dad and two kids.

What's more, it is the period ahead in which the impact of the Asian "meltdown" is likely to hit Australia hardest. So the ever-escalating Current Account Deficit is not going to go away, taking our Foreign Debt to dizzying heights.

Despite all this, the Treasurer has a hard time containing himself when he claims Australia is the fastest growing economy in the world.

Just what does that mean? Simply, that Australians continue to borrow themselves into a black hole tomorrow in order to buy today.

Thank goodness, more and more are questioning this insane state of affairs. Michael Duffey (*Courier-Mail*, Qld., 6/3/99) wrote:

"The economy is the principle concern of Australian governments these days. Governments take credit when the business cycle is up, and are blamed when it is down.

"Using economists, they claim to understand and, to some extent, to control the economy, and intervene with policies to stimulate growth and attack high inflation and unemployment, aiming to level out booms and busts.

"But what if all this is wrong? . . . Many economists today, for example, view economic forecasting as a disgrace to their profession . . ."

Treasurer Costello, in his Yogi Bear (or is it Goofy?) view of economics, is drastically at odds with Dr. David Korten, who gave the E.F. Schumacher ("Small Is Beautiful") Address at Bristol, UK, on October 17th last year. Korten has a few credentials – an MA in international business, a Ph.D from the Stanford Business School, a stint of teaching at Harvard, and 15 years in the aid field with the Ford Foundation and USAID. He is totally disillusioned with what he saw. His Address included the following:

"For those of us who grew up believing capitalism is the foundation of democracy, market freedom, and the good life it has been a rude awakening to realise that under capitalism, democracy is now for sale to the highest bidder. The market is centrally planned by global mega-corporations larger than most countries. Denying one's brothers and sisters a source of livelihood is now rewarded as an economic virtue, and the destruction of nature and life to make money for the already rich is treated as progress.

"The world is now ruled by a global financial casino staffed by faceless bankers and hedge fund speculators who operate with a herd mentality in the shadowy world of global finance. Each day they move more than two trillion dollars around the world in search of quick profits and safe havens sending exchange rates and stock markets into wild gyrations wholly unrelated to any underlying economic reality.

"With abandon they make and break national economies, buy and sell corporations, and hold the most powerful politicians hostage to their interests. When their bets pay off they claim the winnings as their own. When they lose, they run to governments and public institutions to protect them against loss with pronouncements about how the poor must tighten their belts and become more fiscally prudent.

"In the United States, the media keep the public preoccupied with the details of the President's sex life and calls for his impeachment for lying about an inconsequential affair. Meanwhile, Congress and the President are working out of view to push through funding increases for the IMF to bail out the banks who put the entire global financial system at risk with reckless lending.

"They are advancing financial deregulation to encourage even more reckless financial speculation. And they are negotiating international agreements such as the Multilateral Agreement on investment intended to make the world safe for financial speculators by preventing governments from intervening to regulate their activities . . ."

An example of this manipulation to *"bail out the banks"* was given in ***On Target*** last week, with Max Walsh's article on the Federal Reserve's "rescue" of LTCM.

But all this is water off Yogi's back. The "fundamentals" are sound!

Dr. Korten's prescriptions for reform are refreshing – abolish the World Trade Organisation and the World Bank. He adds:

". . . the challenge is to replace the global capitalist economy with a properly regulated and locally rooted market economy that invests in the regeneration of living capital, increases net beneficial economic output, distributes the output justly and equitably to meet the basic

needs of everyone, strengthens the institutions of democracy and the market, and returns money to its proper role as the servant of productive activity.

"It should favour smaller local enterprise over global corporations, encourage local owner-ship, penalise financial speculation, and give priority to meeting the basic needs of the many over providing luxuries and diversions for the wealthy few. In most aspects it should do exactly the opposite of what the global capitalist economy is doing. Most of the respons-ibility and initiative must come from local and national levels . . ."

(Dr. Korten is author of *"When Corporations Rule The World"*, Barrett-Koehler Publishers.)

FARMERS BATTERED WORLDWIDE: In mid-November last year ***On Target*** reported on the collapse of farm prices in Britain and Europe, coinciding with the economic downturn and the break-down in the Russian economy.

This year we have reported on the climbing farm debt in Australia and the continuing loss of farmers.

On February 22nd, 1999, Queensland's *Rural Weekly*, under the heading RURAL US IS FACING SOCIAL CATASTROPHE, reported:

"Rural America could face a 'social catastrophe' this year as thousands of farmers are forced out of business, US Agriculture Secretary Dan Glickman said this week.

"'We're going to have a social catastrophe in some parts of rural America', unless federal crop insurance and other safety nets for farmers are strengthened, Glickman told more than 1,000 farmers, economists and agricultural experts at the US Department of Agriculture's annual outlook conference.

"Projected farm exports in 1999 will slump to the lowest levels in four years, in sharp contrast to the otherwise booming US economy.

"Weak world demand and overflowing supplies of grain and livestock will cut exports of agricultural products to $US49 billion ($A76 billion) in fiscal 1999, down from the department's earlier prediction of $US50.5 billion (A79 billion).

"Glickman said the weakness in the farm economy showed no signs of turning around soon, and he said thousands of US producers could tumble into bankruptcy this year.

"We cannot allow a system of agricultural Darwinism to prevail, with the survival of the fittest becoming the survival of the largest."

Mr. Glickman should ask the Wall Street banks to create more money and lend it to the world's starving, so that they can buy American wheat! When the starving cannot repay the debts, the banks can collect from American taxpayers! The taxpayers can pass the cost on to the farmers – if they haven't already been forced off the land!

Meanwhile, Australia's Trade Minister Tim Fischer could always strengthen his demand that the US remove further protection from farmers – although we won't be holding our breath for his success!

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