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 Grand Madam of Babylon was drunk and in maudlin mood. She sat on her throne beside the meeting-place of the abundant waters from many rivers. All peoples, all nations of every language congregated here in submissive obeisance to her. All the kings and rulers of the world had come to her and committed fornication with her... Clad in purple and scarlet and glittering with every kind of fine jewelry and precious ornament she ventured forth, holding up a wine cup filled to the brim with the filth of her abominations and her harlotry's ministrations...*

"Why were her dreams now plagued with visions of impending doom, of disease and death, of sadness and mourning, of famine and fire? ... Had not every king and ruler of the earth sought her dalliance and enjoyed the favours of her prostitution? Were not all the merchants in the world's marketplaces delighted with their riches obtained through her debaucheries? ... in her nightmare, she was being doubly repaid in her own coin for all that she had exacted unjustly from others... She was being made to drink a double dose of her own poisonous mixture."

– From The Book of Revelation, paraphrased by Peter Lock in ***"The Great Harlot"***, 2002

STARING INTO THE ABYSS by Jeremy Lee:

Events in the financial world over the last two or three weeks have grabbed governments and industries by the throat, shaken them, and gradually increased pressure on the economic windpipe.

Robert Gottliebsen (***The Weekend Australian***, 20,21/7/02) started his article:

"The American market has fallen too far to be going through a normal correction. What we have seen is the bursting of the biggest stock market bubble the world has ever seen. The repercussions are already beginning to vibrate round the globe and they will influence international economies for a long time ...."

Describing the Federal Reserve's Alan Greenspan's address to Congress, Peter Hartcher pointed to the crucial areas excluded:

"....Greenspan made his appearance amid a disastrous performance by Wall Street. While the chairman of the Federal Reserve was trying to assure everyone that all was well, the stock market was sending precisely the opposite signal.

"By the end of trading on Wednesday (17/7 – Ed.) *the Standard & Poor's index of 500 firms' share prices was down by 21 percent so far this year. The Nasdaq was down 28 percent.*

"If falling stock prices destroy enough wealth, they start to affect the performance of the economy. Since the start of this year the total wealth destroyed by lost share values is $US2.1 trillion ($A3.8 trillion) ...."

Pardon me? Two million US workers have been laid off in less than two years, and more are losing their jobs every day.

The stock market crash has swept past America into Europe, and is starting to crunch Asian economies. And Australia, which saw $15 billion wiped off savings in 24 hours.

All sorts of 'bogeymen' are being blamed – accountants, pessimists, over-investment during the nineties, etc. We haven't yet got to the excuse offered by one economist during the Great Depression, who believed that sun-spots had something to do with it! David Wessel (***Australian Financial Review***, 19/7/02) suggested we had yet to find out:

"With extraordinary speed, the US has gone from a macro-economic miracle to an economy enveloped by doubt about American-style government-supervised corporate capitalism ....A reminder that the lessons learned in mastering the economic rapids of the last few decades didn't teach us all we need to know to steer through the whitewater ahead ..."

Rushing back home from – of all places – Kyrgyzstan on July 24th, the US Secretary to the Treasury, Mr. Paul O' Neill, immediately went into a huddle with a number of bankers, including Abbey Cohen of Goldman Sachs, John Lipsky of Morgan Stanley, Bruce Steinberg of Merrill Lynch, and William McDonough of the New York Federal Reserve. He refused to comment on emerging, except to say they'd had a good lunch. One former economic official, Harald Malmgren, commented: "The Administration has no strategy to deal with this. They're improvising." While they were meeting it was revealed that another two trillion dollars had been wiped from values.

IT'S THE DEBT-SYSTEM, STUPID: Those now panicking under the financial meltdown are looking everywhere for the cause other than the right direction. Greed, corruption and gambling are symptoms of a deeper cause, and however great the surveillance and regulation, dealing with symptoms can provide no solution.

The cause lies in the way the nations of the world are financed – solely through the extension of interest-bearing debt. Borrowing our way into the future may stimulate growth, efficiency and all the other buzz-words. The moment of crisis can be put off by getting leaner and meaner and undercutting markets to extend sales. The marvels of technology, which mean more production for less effort can prolong the agony for a considerable period. The casualties thrown out by the system burgeon. But sooner or later reality must catch up.

The latest figures show that the world is groaning under a total debt-burden of $400 trillion, while the combined GDP of all nations is one-tenth of that figure – some $40 trillion. How to make the 40 catch up with the 400? Under existing arrangements by borrowing more; and debt is expanding faster than the means to repay. Such a cut-throat system means that only the most vicious and corrupt can survive. The vicious and corrupt are themselves now toppling over.

The 'gurus' who provide the theology for this madness can only manoevre the world between the extremes of boom-and-bust. When things are steaming they restrict borrowing. When things are stagnant they entice and beseech us to borrow more. But what do they do when interest rates and other restrictions are at historic lows and people are still too scared to borrow? Or have alreadyborrowed so much they can go no further? They have no other answers. US interest rates have been below 2% for four years. They can try zero interest rates as Japan did. But what if that doesn't work?

THE REAL PICTURE IN THE US: The June Aida Parker Newsletter gives this stark oversight:

"... With zero savings, householders hold $7.6 trillion in debt. Such debt is at its highest level in US history, with consumers holding $1 trillion more in debt than they earn in disposable income. All told, householders hold $5.3 trillion in mortgage debt, with $1 trillion in new home mortgages acquired in the last year. Personal bankruptcies last year were more than double those in 1990/91. 2002 will be even worse.....

"Morgan Stanley projects that the US trade deficit could reach 6% by next year, which means a deficit of $2 billion a day. Net real investment in the US is now nil....

"Much of corporate America is in deep trouble. There have been five consecutive quarters of declining corporate profit. US companies now owe a record $4.7 trillion to banks, venture capitalists, bondholders, money funds and other institutions. The Fed says the debt is growing almost three times faster than GDP.....

"In 2001, more than 40,000 businesses filed for bankruptcy. Estimates are that 652 big companies will have a tough time surviving another year. Xerox has $162 billion in debt, exponentially more than it has in assets. Nextel has $16.7 billion of debt, only $4.2 billion in cash reserves. Both could fall into bankruptcy. Del Monte, General Mills, Trump Hotels and Casinos, Ford, Kellogg, Campbell Soup, 7-Eleven, all are in trouble.....

"As hundreds of thousands of home owners are laid off, so the recent real estate bubble bursts. Sales of existing homes dropped 8.3% in March, and continued down in April and May. There's over-capacity and dwindling demand for new office space and shopping malls ....

"On top of all else, it is a banking catastrophe. A reported 4,913 banks suffered an increase in bad loans in the first nine months of 2001 ....

"The final nail in the banks' coffin is derivatives: high-risk bets on stocks, bonds and foreign currencies that now stand at truly staggering levels. In 1998 US banks held about $27 trillion in derivative contracts. Today, according to the US General Accounting Office (GAO), US banks are exposed to more than $40.5 trillion in derivatives ....

"Prospects are that the position will continue to get worse, not better. In the face of worldwide economic recession, escalating geopolitical tensions, with Israel on the boil and Mr. Bush threatening war against Iraq's Saddam Hussein and the US market now in its 35th month of bear market decline, US recovery prospects appear nil ....

"To quote Bill Buckley of The Privateer *newsletter: 'America has imposed a draconian clampdown on the freedom and liberties of its own citizens. It has dived headlong into deficits. It has lost control of government spending. It has antagonized its friends and allies with import tariffs, demands for military alliances and ultimatums that you are with us or against us. No neutrality is allowed. For any historian, all that is necessary is to substitute Greece, Rome, France, Spain, Germany, Britain or indeed USSR for the US in the above paragraph. All these events have been duplicated by EVERY empire in the process of its dissolution ....'"*

Yes, there will be the odd spike, accompanied by frenzied claims that "the market has bottomed"; "the corner has been turned"; and that "there's a light at the end of the tunnel". We can expect more genial smiles from our beloved Treasurer as the cracks deepen. But the future is bleak indeed.

THE FUTURE OF TELSTRA: As predicted, the Nationals have caved in over the sale of Telstra. The government is obviously desperate for a $30 billion or so 'kitty' to cover the reality of Australia's own debt crisis.

The Australian Financial Review (19/7/02), under the heading EU WANTS LIMITS ON TELSTRA LIFTED, reported:

"... As the debate over privatization of Telstra continues, EU Trade Commissioner Pascal Lamy said that if Australia wanted Europe to make cuts to trade barriers in agriculture, it would have to make concessions in areas including foreign investment in Telstra. In an interview earlier this week, Mr. Lamy said the EU did not have a position on whether Telstra should be in public or private ownership but it wanted foreign companies to be able to own more than 49 percent of the company ...."

Under the GATS treaty coming up for ratification in November, the foreign ownership of Telstra will be a fait accomplish – unless enough Australians can say no loud enough to shake our politicians.

THE GLOBALISATION OF STRESS: Occasionally, Phillip Adams can be perceptive. Writing in *The Weekend Australian* (20-21/7/02) he said:

"Every few days I climb on a plane and head off to address a conference of school principals, accountants, Family Court lawyers, architects, librarians, psychiatrists, historians, scientists, politicians, information technology workers, film-makers, public servants, nurses, vets, people with disabilities, groups involved in reconciliation or the refugee issue, Friends of the ABC, voluntary euthanasia advocates, environmentalists, Humanists or, cross my heart, a couple of hundred Pentecostal pastors.

"And with the exception of Pentecostal pastors – who view Armageddon with enthusiasm – almost every audience is full of people who see their cause as hopeless or their profession as doomed ...."

How can that be? Prime Minister John Howard has been telling the rest of the world that the Australian economy is better than at any time he can remember! And he couldn't be wrong, surely?

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