Stock-market slide: a warning?

That precipitous one-day drop in world stock prices may be a harbinger of worse blackmail.

While the dramatic drop and recovery of the world's stock markets Sept 28-29 seems to be over for now, international bank regulators and other major market players believe it could be a danger signal.

Starting in the early morning hours of Monday, Sept. 28, world markets began an oddly uniform slide, when the Tokyo Stock Exchange Nikkei index collapsed 4 percent by more than 300 points to 7037. The Hong Kong and Singapore markets followed suit, and the Melbourne Exchange dropped 4 percent in value as well.

The panic, which really began in Hong Kong and then escalated in Tokyo, was attributed to a general run against stock markets in the British Commonwealth, which were anticipating a major crash of the London stock market later in the day. This materialized right on cue, with the London Financial Times Index dropping 23.6 points to 451.1, a fall of $6.73 billion in value equivalent to a 40-point collapse of the Dow Jones index.

The British Broadcasting Company and financial services tried to lay all this at the feet of John Granville, the eccentric American investment adviser, whose precipitous "sell" order earlier this year caused a one-day panic on the U.S. stock markets. Granville had predicted in a London radio interview Friday Sept. 25 that the British markets would "crash" the following Monday. Granville noted, accurately enough, that the British economy is collapsing and that the British stock market ought to be sold.

In the event, the world "panic" lasted only a day, with most markets recovering to levels above their Sept. 28 lows on Sept. 29. What, precisely, is afoot here?

Knowledgeable market participants are well aware of the fact that while certain "little guys" in the market may take Mr. Granville seriously, he is viewed by major institutional investors at insurance, banking and brokerage firms as a kook, to be polite. Not one of them would move a nickel to sell on a Granville word, in Asia, London, or New York. In fact, during the "great Granville panic" earlier this year, the big institutional investors had the time of their lives buying blithly into the entire stock market at bargains.

More to the point is that the Bank of England, only days before, had jacked up the Bank's Minimum Lending Rate two full percentage points, in the full knowledge that this would probably trigger a stock selloff, as the London *Financial Times* had been warning editorially for days. The excuse at the Bank was that President Reagan's high interest rates are forcing Britain to tighten to defend the value of the pound sterling, but no one in London in fact seriously believes that the Bank is worried about the pound's rate.

Then, at the IMF annual meeting in Washington the next day, British Chancellor Sir Geoffrey Howe and French Finance Minister Jacques Delors both took the occasion to loudly denounce President Reagan's high interest-rate policy. America is "completely indifferent to the real problems of Europe," Delors stated. He warned that unless America submitted to more *"international cooperation"* on its domestic economics, Reagan might suffer the international strategic defeat of a refusal by Europe to station U.S. missiles, thus threatening to collapse NATO.

Someone in London and Paris is using the stock market threat as a "warning" to President Reagan, high-level Federal Reserve officials told *EIR* this week. "It's a chicken game."

First off, President Reagan is being totally discredited and the U.S. standing in world affairs is being emasculated by what is perceived as a world crisis of confidence in his economic policy. The market crash comes on top of a debacle on U.S. bond and Treasury bill markets as Wall Street rejects the President's program.

More dangerous, said the official, the British, French, and the Basel-based Bank for International Settlements are saying "I told you so," about Reagan's policy, and are demanding "more multinational coordination of U.S. macroeconomic policy." The Fed source said the BIS wants the U.S. to make an international agreement for more budget cuts and less military spending to bring down inflation. America, he said, should submit to monthly BIS and OECD "surveillance" of its budget and other policy. That is the message sent by way of the stock market.