

# Fed Panics, with U.S. Economy in the Abyss

by Lothar Komp

A traumatic year for stockholders has come to an end. And the new year seems to want to prove in its first days that it can be even more dramatic. But no one can doubt any longer the dynamic underlying all of the singularities that are popping up on the financial markets: The biggest credit and speculative bubble in history, one that is based on the myth of the “American economic boom” and the “New Economy,” can no longer be held together by desperate attempts at repair. Alan Greenspan, the chairman of the Federal Reserve, who has been feeding the bubble with plenty of liquidity, is at the end of his game. The bubble is exploding, and is threatening to pull the whole world economy into a new depression.

Beginning in March and April 2000, the value of technology stocks went into a worldwide plunge. The printing presses for the dollar, the yen, and the euro were set to working overtime. But, thanks to the many delusions caused by innumerable money magazines, small investors let hundreds of millions of dollars be pulled out of their pockets. In the process, millions of stockholders lost their last bit of sanity, and were led to believe that the current problem was only short term—the weak euro, the high price of oil, the current account balance for the third quarter is just a little off, the crisis in the Middle East, the mess-up in the U.S. elections, the increase in stocks sold at the end of the year because of tax breaks, and so on—and when all these small problems have been solved, everything will be back to normal. But, instead of the “Summer rally” and the “Fall rally,” we had a new crash in September. October was supposed to bring the turnaround, but everything just got worse. Everyone looked with hope to the U.S. election. But Nov. 7 only brought a further downturn on the markets. When the U.S. Supreme Court then made the final decision as to who would be the next U.S. President, there was no stopping the descent of the technology-heavy markets. The Nasdaq posted a 39% decline in the year 2000. The Nemax-50 Index, the “New Market” in Germany, fell from 9,600 in March to 2,800 at the end of the year!

## Greenspan Panics

After the first day of trading in the new year brought another massacre on the markets—the Nasdaq lost 7% and the Nemax-50 lost 12%, the most it has ever lost in one day—Greenspan went into a total panic. Pressured by the fact that the official economic data are showing signs of a dramatic downturn—for example, corporate profit margins—the mar-

ket started screaming for more liquidity. The markets warned that otherwise the fictitious financial obligations would collapse. And the head of the Federal Reserve saw only one way out. He went to the poison cabinet and gave the dying patient exactly what he was asking for: an overdose of what caused the sickness.

On Jan. 3, for the first time in the 12 years he has held his post, Greenspan called together an emergency telephone conference of the Fed governors. There it was decided to immediately lower the short-term interest rate by 0.5%. The last time the interest rates were lowered outside of the scheduled meetings of the Federal Reserve—the next meeting is scheduled for Jan. 30—was in the fall of 1998, when the Long Term Capital Management hedge fund blew up and nearly took the whole system down with it. But even then, the interest rate was lowered only by the usual 0.25%. This time, Greenspan gave the markets a double dose. And to make things worse, he indicated that, if necessary, he would give more of the same medicine.

This panic reaction was particularly dramatic for those who heard Lyndon LaRouche address a Washington seminar on Jan. 3. This talk was watched live via video by journalists and representatives of political institutions in Washington, and was broadcast simultaneously on the Internet. LaRouche emphasized that the global breakdown crisis of the financial and economic system is happening at the same time that a completely unprepared government is coming into office, and that this is the biggest crisis in the history of the American Presidency. Wall Street and its good friend Greenspan bear a lot of responsibility for this crisis, which is worse than a depression. For example, they ran the scam of the so-called Y2K computer bug, in order to inject huge amounts of money into the information sector of the economy. At the same time, the myth of the “New Economy” was spread, and a bubble was created, one that is now collapsing. Now, we are in an impossible situation.

Despite a short rally on the markets on Jan. 3, there will be no long-term improvement. Because, as fast as Greenspan can pump money into one end of the bubble, the money will escape out of the other side. And this is certainly not saving the American markets. Recent statistics prove that spending by both companies and private households has decreased dramatically in the last months of 2000. After the bankruptcy wave of Internet companies in the Spring, now large companies, especially in the automobile sector, are starting massive layoffs. Just around Christmas and New Year the following happened:

## Layoffs Mount

- On Jan. 3, the National Association of Purchase Managers stated that its most respected index for the industrial activity of the American economy fell in December 2000 to the lowest rate since April 1991. In November, the rate was 47.7; in December, it fell to 43.7. A rate under 50 means that a

contraction is under way. The special index for contract goods of the U.S. economy went down from 48.4 to 42.0.

- LTV Corp., in Cleveland Ohio, the fourth-largest producer of steel in the United States (with 18,000 employees), declared bankruptcy. After the financial crises in Russia, Asia, and Ibero-America, and the collapse of these countries' currencies, their imports of U.S. steel hit a record 20-year low. At the same time, because of rising energy prices, the cost of production is skyrocketing. In November, the amount of steel produced went down by 12.4%. LTV sold 40% less steel in the last month!

- Starting in October, sales in the automobile industry went down. This process accelerated in November and December. In November, Chrysler's sales fell 5%, Ford's 7%, and General Motors' 8%. In December, Ford's sales went down by 14.6%, Chrysler's 14.8%, and General Motors' 18.1%. General Motors wants to fire 15,000 people. Both Ford and DaimlerChrysler announced before Christmas that they would slow down production and at least temporarily close some factories. Also, foreign firms announced a fall in sales: Volvo 24.9%, Land Rover 16.1%, and even sales of Jaguars fell 11%. Overall, sales fell below the rates of November 1998.

- After 128 years, the department store Montgomery Ward closed its doors. About 32,000 employees will lose their jobs and 258 stores will close down. The department store chain Bradlees has also filed for bankruptcy. Its Christmas sales were lower than expected. Whirlpool will lay off 6,000 people, and American Standard (which also produces electronics) will fire 1,200 people. Gillette will fire 2,700, cellular phone-maker Motorola 2,900, health insurance company Aetna 5,000, and the chemical company Solutia 800. Union Pacific, the largest U.S. railroad company, cut 2,000 jobs. Lucent Technologies, formerly the Bell Laboratories division of AT&T, will probably lay off 10,000. And Outboard Marine Corp., the boat-maker that George Soros bought up three years ago, has gone belly up and will lay off 4,000 employees.

- The number of layoffs in the Internet section of the U.S. economy has increased 600% compared to the first half of the year, and that number is rising. In December, the layoffs increased 19% compared to November. For the entire year, 210 Internet companies went bankrupt, with 15,000 losing their jobs!

- The financial sector is also going to lay off a lot of people. The obvious reason being that, because the stock market is crashing, new emissions of credit are slowing and the takeovers of companies is going sour. Prudential Securities wants to separate itself from 175 investment banks. Bear Stearns wants to thin out its IT section. Chase Manhattan and J.P. Morgan are going to lay off 5,000 people when the two banks merge.

The only companies that have good prospects for the times ahead are those law firms specializing in bankruptcy.

## U.S. Collapse Threatens Asian Economies

by Mary Burdman

The cracks in the U.S.-centered world economic bubble are extending into Asian economies, shaking down what had been so laboriously built up in the past three years. The devastating 1997-99 crash in Asia left enormous bad debt and took down productive industry; in the Wall Street-dominated globalized "new economy," South Korea, Taiwan, China, and even industrial giant Japan, had to turn to exporting "information technology" to the U.S. market—the current version of Britain at the height of its Empire—in an attempt to avoid total collapse.

Now, the U.S. market is evaporating. There could be no clearer example of the urgent need to create a new world financial system, to reconstruct real industrial economies, than the renewed Asian crisis. The efforts of China, Japan, South Korea, and the nations of Southeast Asia, to form an "Asian Monetary Fund," must rapidly go beyond current efforts at cooperation. The whole "Washington consensus" system of International Monetary Fund (IMF) conditionalities has to go.

The alternative is already obvious in northeast Asia. South Korea's industrial capacity, of worldwide importance, is being shut down to maintain the pile of worthless debt left by the Asian debacle. Japan, whose public sector debt burden from the 1980s bubble is now 130% of its Gross Domestic Product, faces a similar crisis. China, despite the protection of its unconvertible currency and ongoing national construction, is endangering its national economic security with rapidly growing dependence upon the U.S. market.

The virus of the "New Economy" has pervaded not only Asian trade ties with the United States, but also Asian regional economic relations. Japan, China, Taiwan, and South Korea all export heavily to other Asian nations, but, more and more, this trade too has been shifted into the "information technology" sector, ultimately dependent upon the U.S. bubble.

Asia, the center of world population, urgently needs infrastructure, including transport, power, education, and health care. Most urgent, is the need to economically ensure the reunification of the Korean peninsula, with the construction of railroads and industry linking South and North, and the rest of Eurasia. Increasing economic cooperation would also ensure a peaceful reunification of China. The New Economy bubble is imploding; Asian nations must urgently rebuild their industrial capabilities, or implode with it.