Europeans hear ominous echoes of 1929 crash

by William Engdahl

October 1999 marked the 70th anniversary of the spectacular Oct. 29, 1929 Wall Street stock market crash, the worst market debacle to date in the history of the United States. Today, the United States again stands on the brink of a financial precipice, this one, however, orders of magnitude worse than that of 70 years ago. Several commentaries in the European press in late October underscored the current vulnerability of the United States, and, by extension, of the entire financial world, to the worst financial meltdown in world history.

Author Edward Chancellor reviews the circumstances of the 1929 crash and compares the situation to today, in a commentary in the Oct. 27 London *Daily Telegraph* entitled "When Wall Street Sneezes, the Whole World Catches a Cold": "In recent years the U.S. stock market has tripled, creating paper profits of approximately $10 trillion at the mid-year. . . . When the bubble bursts . . . it will spark a recession." But, this would be no ordinary recession. Chancellor says that "growth in the United States is dependent on an ever-rising level of debt. . . . It would take a miracle to save America from the depressive forces of a 'huge bursting bubble.' "

A similar warning of the dangers of an imminent U.S. crash comes from a Munich asset management firm, PSM Vermoegensberatung. It warns that the unsustainable $300 billion U.S. balance of payments deficit, and the negative personal savings rate of American households, combined with record levels of corporate and private household debt, have created a financial and monetary Molotov cocktail. "A dollar crash of up to 50% against the euro and the deutschemark draws ever closer," a recent PSM client report warns. PSM's analysts point out that for more than a decade, the United States has been the world's largest debtor nation, with net liabilities of $2 trillion to foreigners, including holders of U.S. bonds and other credit. Such a staggering debt has until now been financed only by flows of foreign investment into the United States. "A dollar crash is predetermined when Europeans decide to take their money out of the United States."

Debt expansion is today's form of inflation

The most ominous picture of the American financial and monetary Achilles' heel by far, however, comes from well-known German bank economist Dr. Kurt Richebächer, former chief economist of Dresdner Bank. In an Oct. 19 essay published in *Börsen Zeitung,* Richebächer throws cold water on the popular myth of an American "new economy paradigm," the so-called "Third Wave" illusion that technology and the Internet virtual economy have rendered recessions and crashes obsolete. Richebächer insists that the unprecedented American economic boom of the past several years, far from depending on some new paradigm, is directly a consequence of what the German economist calls "a credit expansion unequalled in all history. It overshadows all prior financial bubbles."

Richebächer focusses attention on the explosive expansion of financial sector credit. "In the last four and a half years," he says, "new indebtedness in the American economy increased by more than $7.2 trillion, or 40%, to $24.428 trillion. That represents 363% of the present GDP." He adds, "Looking at the figures, it is obvious that the American credit system between 1997 and 1998 has gone fully out of control. The new indebtedness of the private non-financial sector—private consumers and businesses, accelerated from one year to the next by 41%." He concludes, "To reiterate, America is the most extreme case of an 'asset bubble' and 'bubble economy' which has ever existed." In the last several years, it has not been new technologies and "shareholder value" priorities of corporations which have driven the U.S. economy, "rather it was a primitive recipe: unrestrained consumer debt."