

# Europe nervous over Wall Street crash

by William Engdahl

"We have revised our estimates of the U.S.A. economy based on my recent trip to the States. We are now pessimistic," one senior spokesman for a large London brokerage told *EIR*. "There is a state of deep recession in most states of the U.S., I can't say what the exact number is. I can say that large areas are very depressed." The only bright spot, consumer spending, "is being propped up by this monstrous cycle of ever greater interest rate incentives to buy new cars. And if this consumer spending begins to stall, you will really see a recession," he added.

This view is typical of most comments being heard in Western European financial capitals these days. The leading European bankers' daily, London's *Financial Times*, editorialized on Sept. 13, "The real question about the New York and Tokyo stock markets is not why they have fallen so sharply in the last couple of days, but why they rose so far before they fell. The contrast between a dazzling market performance and a lacklustre, problem-ridden real economy had become familiar but was still illogical."

The same paper, in a feature analysis by Anatole Kaletsky, emphasized that Wall Street "may be telling the world something. . . . The upward swing of the U.S. and world economic cycle may come to an end. . . . The next recession could be much more serious than currently expected. . . ."

Such frankness in European financial circles has until now been reserved for private comments. The nervousness in Western European financial markets heightened to near hysteria on Sept. 16 when the Tokyo stock index plunged 637 points to 17,463, bringing the one week drop since Sept. 11 to some 1,600 points. "I think what we are seeing," a stock broker with James Capel in London noted, "is the first example of the effects of the globalization of our international financial markets. Last week, talk in the City of London was dominated by discussion of U.S. retail sales figures, U.S. bond prices. The big question now is where can the money go? Bank deposits? Gold?"

## The 'Big Bang'

The issue of "globalization" is the controversial process of internationalization of the world's major speculative capital markets which has been under way since Donald Regan,

when he headed Merrill Lynch, triggered a major "financial revolution" in Wall Street markets in the late 1970s. On Oct. 26, London will become fully liberalized in a process referred to as the "Big Bang." As one leading financial insider there noted, "Big Bang will mean that the customer who buys stocks must place exceptional trust in his broker." Stock brokers and banks, under the rules of London's "Big Bang," will be allowed to become fully merged in the same companies. Further, firms like Merrill Lynch have set up major brokerage operations in recent months in London, linked by computer with their New York and Tokyo affiliates. Such operations allow them to play tiny shifts in world markets on a 24-hour global basis.

The implications of the recent simultaneous fall in London and Tokyo—London's Stock Exchange has dropped \$8.4 billion in share values since the start of the New York collapse on Sept. 11—have been felt in top European banking circles. The governor of the Bank of England, Robin Leigh-Pemberton, told a private group of the leading bankers and financiers of the Group of 30, at a Sept. 16 London gathering, that the "globalization of international securities markets has heightened the risk that the failure of one single large securities house could endanger the health of the world financial system as a whole," according to Peter Montagnon of the *Financial Times*. Leigh-Pemberton expressed alarm over the fact that globalization will permit "capital adequacy rules in one country to be avoided by undercapitalizing in another." What New York or London forbids, may be allowed in Tokyo or Milan. The result is a linking of the speculative exposure of the world's most inflated paper debt mountain, the U.S. securities markets, to the rest of the Western industrial economies.

One leading London financial insider expressed just such concern to *EIR* when he noted, "U.K. banks tend to have the same lending exposures as the major U.S. banks—Third World loans, agriculture debt, and an alarming rise in lending to inflated real estate especially in the southeast of the country, where prices are rising at a 30% annual rate." The same source noted the heightened concern on Sept. 16, when European and U.S. financial markets were filled with rumors that the large Bank of America had been forced to seek emergency help from the Federal Reserve Bank. Softening of international oil prices this week in North Sea Brent and other grades, could signal an abrupt end of the six-week respite in oil prices which have kept scores of major and regional U.S. banks from going under. Prices for West Texas Intermediate crude dropped \$2/barrel delivery, to \$13.80. Brent fell 50¢ to \$13.45.

The situation of growing despair was summed up by a dealer with a major London currency and capital brokerage, who told *EIR*, "If there is no U.S. recovery, the Western world has big problems. The West cannot allow a recession. The U.K. faces elections; the U.S. faces elections. Germany faces elections. They simply cannot allow it."