

earnings ratio on the stock markets today have “exceeded the levels seen before the stock market break of October 1987.” The BIS report notes: “The historically high valuations of major stock markets clearly pose risks of a sharp market-wide correction. The high-technology sector would appear to be particularly vulnerable. Yet the non-technology sector also displays valuations that are high by historical standards. While for most of the first quarter of 2000 investors alternately favored one sector over the other, a shift in sentiment that favored high-technology stocks could well have repercussions for non-technology stocks as well. Such a shift in investor sentiment often requires very little to precipitate it. Large sell orders can come without warning and cause further selling as other investors infer adverse information, whether or not the initial trades were actually informative. Historically this has often led to a general loss of confidence as prices fell unexpectedly.”

And once the downward trend starts, then, thanks to the changes in the world financial system in the past decades, we have considerably worse cards than before. As the BIS emphasizes, not only is a worldwide rise in “rapid credit expansion” and a “growing willingness on the part of creditors to take risks” observable, but also the degree of concentration in the financial markets has increased. That means “not only that the global economy may have become more exposed to macroeconomic shocks, but also that the dynamic response of markets to such shocks may be harder to predict than in the more regulated past.” More pointedly put, “A combination of continuing deregulation, heightened competition, technological change and increased concern for shareholder value may have encouraged behavior and cross-sector relationships which will prove to have been imprudent only when the next downturn comes.” And if the leaders of financial institutions do not lay greater weight on limiting the risks of their trading departments, “the relentless pursuit of shareholder value, without this crucial adjustment, could prove a very dangerous strategy.”

No Solution

The Basel bankers’ sober assessments are a welcome contrast to the manic-euphoric mood spread by most of the financial media. It is remarkable that the most recent BIS warnings have been mentioned only in the European press, while so far most of the U.S. media have ignored them completely. Yet, the BIS’s analyses and warnings contain nothing which has not been addressed by Lyndon LaRouche, and covered by media sympathetic to him, in past years. More importantly, the BIS presents no solution. The BIS bankers who are gathered for the last party on board the *Titanic*, refuse to drink alcohol, and instead speak about the approaching icebergs, but they seem little worried about the fact that hardly anyone pays attention to them. The inevitable question is: Where is the captain who can swing the rudder in the other direction?

BIS Alarm Bells: Big News in Europe, Blackout in U.S.

This year’s annual report of the Bank for International Settlements was released on June 5, and its 200 pages were made available in full on the Internet. On the day of release, international wire services — Associated Press, Bloomberg, Reuters, and others — duly carried notices and accounts of the content. In Europe, the significant warnings by the BIS of prospects for a financial crash, were covered prominently and widely within 24 hours, followed in succeeding days by commentary and analysis. In the United States, next to nothing appeared.

The major U.S. press did not even send their European financial correspondents to the June 5 BIS press conference in Basel. The wire stories were killed or buried alive. This degree of coordinated suppression reveals intervention by Wall Street and the White House both. The reasons are covered in the accompanying articles.

The BIS itself confirmed that its report was blacked out in the United States. A spokesman for the Bank told *EIR* that to their knowledge, no news outlets in the United States had covered the story. Curiously, the BIS spokesman, Margaret Critchlow, noted to *EIR*, that the *international edition* of the *Wall Street Journal* covered the BIS report in two separate articles, but the *Journal* did not cover it in its U.S. edition. Also, the *International Herald Tribune*, run by the *Washington Post* and the *New York Times*, covered the story, but the *Times* and the *Post* blacked it out at home! An attendee at the BIS press conference told *EIR* that it was “surprising and puzzling” not to see the *Washington Post* reporter at the June 5 Basel press conference, given that the reporter had previously attended such releases.

Among the very few sightings of coverage in the U.S. media, was CBS Market Watch, and an item in the June 7 *Seattle Times*. The *Times* Business Section, page 1, the third topic in the “Newsletter” column covering world trade and Pacific news, ran the BIS story. The buried item gave a short, accurate rendering — imagine the impact of it as front-page news across the United States. Columnist Stephen Dunphy wrote, “The Bank for International Settlements in Manila [sic] has released its annual report on the world economy, and it is a sober one.

“The bank, the international organization of central banks, warned that a hard landing of the global economy is possible, given growth rates in the U.S. and Europe, the level of the dollar, inflation, and the high value of stock markets.

“The bank said the ‘current rate of expansion of domestic demand in the U.S. is unsustainable and potentially inflationary.’ The biggest policy challenge may be coping with a sudden reversal in the fortunes of the dollar, the bank said.”

WIRTSCHAFT

Bank für internationalen Zahlungsausgleich

Notenbanken warnen vor Sorglosigkeit
Außenwirtschaftliche Ungleichgewichte und hohe Aktienkurse bergen Gefahren

Warning of global hard landing
By Alan Beattie in Basel

Auffällige Parallelen
Wirtschaftsdaten USA (seit 1990) und Japan (1985 bis 1995) im Vergleich

Wachstum in den USA
Wachstumsraten des BIP in %

US-Produktivitätsindex
Veränderungsrate in %

Wachstum Japan in %

Produktivität Japan in %

Warning of global hard landing
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European newspapers cover the BIS report which was almost completely blacked out of the U.S. press.

The following are two items typical of the widespread coverage in Europe of the BIS report.

The German business daily Handelsblatt, June 6.

“Dangerous Dynamic on Financial Markets,” was the headline of the lead commentary, the day after the release of the BIS report. International correspondent Klaus Engelen made the point that the BIS warnings of the past were ignored, but this time they must be heeded. He wrote that the International Monetary Fund, the World Bank, and the Organization for Economic Cooperation and Development all have a proven record of never recognizing a large financial crisis in advance. However, he pointed out, the Basel economists of the BIS are a different case. They predicted the outbreak of the financial disasters in Mexico and Asia, pointing to the instability of “emerging markets” due to underdeveloped banking systems and the deregulation and globalization of financial markets. But “all such earlier warnings from Basel had been ignored by euphoric markets.” And still, not much attention is being given by market participants to the ever more “emphatic warnings of the BIS concerning ever higher financial asset prices and the unsustainable foreign trade imbalances, in particular the U.S. current account deficit which is running out of control.”

But the “alarm bells” of the BIS were never ringing as loudly as today, says Engelen. BIS chief Urban Bäckström is urging the public to finally take notice of the fact “that the world financial system—due to deregulation, globalization, and technological revolutions—has become much more susceptible to new shocks. The dynamic of deregulated markets, which are directing huge private capital flows over the border of nations, have become completely incalculable.” Therefore, it’s no longer the question of how big are the chances of a “soft landing,” but whether governments and central bankers “have any chance to prevent a hard landing.”

Financial Times of London, June 6.

“Warning of Global Hard Landing” is the title of a front-page article, by Alan Beattie in Basel. “The global economy faces the risk of a hard landing with U.S. stock markets and the dollar dropping sharply in tandem, the Bank for International

Settlements warned yesterday,” he writes. “Recent volatility in currencies and equities, and the lack of liquidity in some financial markets, meant the market reaction to such a downturn posed a further risk, the BIS said in its annual report.

“Emphasizing the uncertainties of the current global situation, the BIS . . . said the imbalance between rapid growth in the U.S. and slower growth elsewhere would have to be corrected, and that large movements in exchange rates were likely to follow,” says the *Financial Times*, continuing that, “the BIS compared the U.S. to Japan in the late 1980s, when a combination of high-productivity growth, low inflation, and soaring asset markets ended in a collapse in asset markets and a prolonged recession. Present stock market valuations were unlikely to be sustainable in the long term, it said.”

Later, the *Financial Times* reports, the BIS “warned that, if the inflationary threat in the U.S. remained, the Federal Reserve should keep raising interest rates even if stock markets slumped—so avoiding any suspicion that it was bailing out investors who had caught out.” The BIS report is quoted, saying, “‘Were monetary policy to back off at the first signs of declining equity prices, the risks of moral hazard would be great.’”

Andrew Crockett, BIS general manager, is quoted saying that the volatility is likely to continue.

In its Lex column, the *Financial Times* refers to the BIS as a kind of Cassandra, and says, it’s no wonder, therefore, that it should issue a gloomy report. It adds, “But the BIS’s attempt to stiffen the spine of the U.S. Federal Reserve is striking in its tone: It explicitly urges the Fed not to back away from the necessary monetary tightening just because equity prices start to weaken.” The *Financial Times* notes that asset prices have come down somewhat since the March period, on which the BIS based its report, “but it should make those investors who believe interest rates are nearing the top of the cycle think again. If there is one thing central bankers hate as much as rising inflation, it is the perception that they are bound to rig up a safety net if the markets look like crashing—but they will have to inflict considerably more pain before that message gets through.”