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piece, titled "Global Risks in Banking." It states that steps must be taken immediately to handle burgeoning risks in the international banking system, and that if governments delay needed action, "taxpayers of the world are heavily at risk."

The U.S. stock market bubble

The senior European banker cited above, reported that a big problem is that the Japanese and other central banks are lending money at cheap interest rates—the Japanese discount rate for lending to its commercial banks is 0.75%. A sizable chunk of that money is being invested in stock markets around the world, and is one of the forces pushing them upward. However, he reported, were the U.S. Federal Reserve Board or the Bank of Japan to raise interest rates soon, and other central banks to follow, that game would be finished.

A major intersection point of the crisis is the U.S. stock market. The capitalization of the stocks traded on all U.S. stock exchanges (that is, the New York Stock Exchange, the American Stock Exchange, the NASDAQ, and so on) now exceeds $10 trillion—almost half the capitalization of all stocks in the world, and greater than the nominal U.S. Gross Domestic Product of nearly $8 trillion (capitalization is equal to the price of a share of the company's stock times the number of all shares outstanding, in this case for all stocks) (see **Figure 2**).

The price-to-earnings ratio of all U.S. stock averages almost 20:1, and for some stocks it is 30:1 to 40:1. But where are the earnings to sustain the stock price? They don't exist. Since 1970, the U.S. physical economy has been contracting at the rate of approximately 2% per year. The stock market's capitalization has grown nearly fivefold since 1985, but is based on a physical economy that has contracted.

What has sustained stock prices up to now are international hot-money flows; huge pools of mutual fund money gathered from suckers—the total valuation of all "mutual fund equity funds" surpassed $2 trillion in June of this year; and derivatives. In 1996, more than 1 billion stock-market-related derivatives contracts traded, each contract worth several thousands, up to several million dollars each, consisting of forwards, futures, options, etc., on both stocks and stock indices. These contracts have leverage of up to 50:1, each pyramided one upon another. Thus, at a point of crisis, this stock market, based on hot air and leverage, will be the victim of reverse leverage, and disintegrate literally overnight.

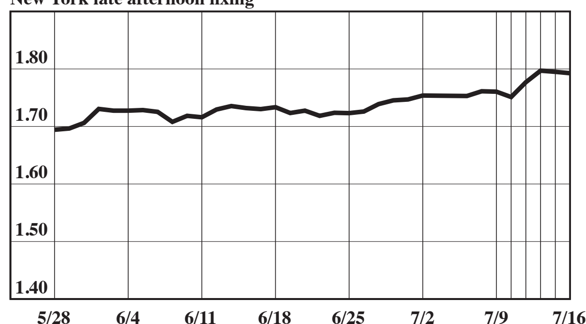
It will be a toss-up as to whether the stock market or the derivatives-soaked banking system goes first.

The British oligarchy has readied its deflationary gold standard for the blowout. The 1875-79 Specie Resumption Act, which ravaged production, is a model. This should prompt the uninformed man in the street to evaluate what is going on, and ask himself: Why is it that he flees gold and hard commodities, going into bloated stocks, while the oligarchy, with cool deliberation, moves in the opposite direction?

Currency Rates

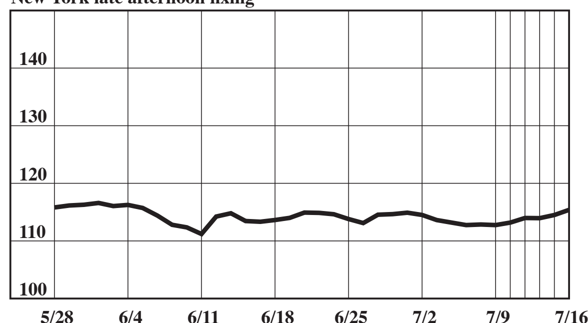
The dollar in deutschemarks

New York late afternoon fixing



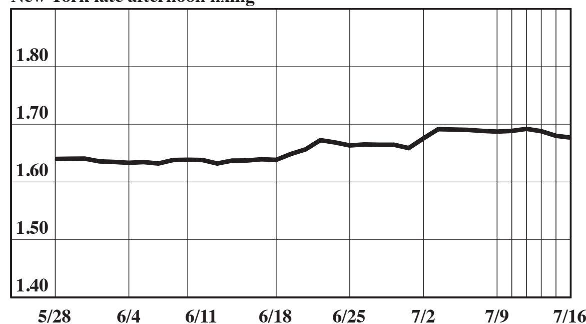
The dollar in yen

New York late afternoon fixing



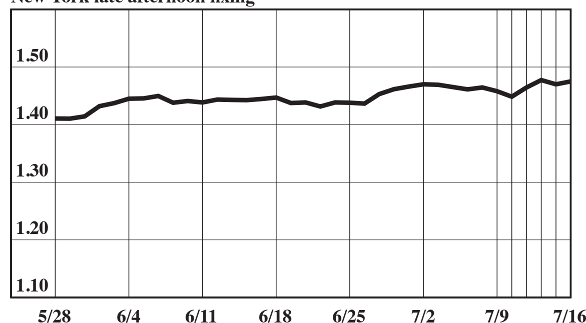
The British pound in dollars

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing



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