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The Crash of the Millennium

An Interview with Dr. Ravi Batra

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Thanks to an introduction via the internet with a friend of economist and famed best selling author Dr. Ravi Batra, we have for you the transcript of an interview that took place between your editor and Dr. Batra. He has graciously agreed for me to interview him and permitted me to publish a transcript of our 1-1/2 hour discussion mostly about his views and forecast for the American and global economies. What I have discovered since meeting Dr. Batra is that his views on the global economy are very close to my own as first discussed in January 1998 at a Cambridge House Conference in Vancouver. At that conference I warned investors that the global economy was awash in far too much supply and not enough aggregate demand and as a result, we are likely to sink into a depression in the not too distant future. I am flattered to know that a man of Dr. Batra's stature generally agrees with my position. But as a professor, scholar, economist, he explains in great detail and in a logical manner, much better than I, why we our stock market and the American economy are inevitably headed for the abyss. His new book, ***"The Crash of the Millennium"*** ties together the thoughts of his previous books, many of which have been international best sellers. Dr. Batra thinks the greatest bull market in stocks the world has ever seen is likely to end before 1999 draws to a close or at the very latest by the first month or two of 2000.

What does he suggest you do to prepare for the carnage that lies ahead? Dr. Batra is by no means a gold bug, but he told your editor that the only long-term investment he now recommends is gold and gold shares. Why? Because Dr. Batra believes that what lies ahead for the U.S. is not only a depression, but also considerable amount of inflation. Some of the thinking that underlies Dr. Batra's predictions is presented in the following discussion, but I urge you to purchase his book to gain an appreciation for the soundness of logic that goes into his forecasts. I am predicting Dr. Batra's latest work will be his 9th best seller. Previous works by Dr. Batra that made the best seller lists include: *The Downfall of Capitalism and Communism, The Great Depression of 1990, The Myth of Free Trade, Ravi Batra's Forecasts, The Stock Market Crashes of 1997 and 1998: The Asian Crisis and Your Future and Surviving the Great Depression of 1990.* As our discussion took place on July 29, 1999, Wall Street analysts and CNBC talking heads were obviously confused about why interest rates were heading higher (in the absence of inflation) and why the stock markets were beginning to look a bit strained. The recent market action was no mystery to Batra. The U.S. has lived beyond its means for a long time by taking on huge amounts of foreign debt which can be expected to lead to much higher interest rates and most likely very soon, the implosion of our financial system.

TAYLOR: In your soon-to-be published book titled, *"The Crash of the Millennium,"* you reviewed your enormously positive track record in predicting major events and social trends. Between the years 1978 through 1992 you made some huge predictions, like the collapse of the Soviet but not Chinese communism. You predicted George Bush would not be re-elected and that a third party would arise in 1996. And you made a host of predictions related to various markets and the decline of morality in western society. By my count, some of your predictions may not have yet come true, but appear to be very much possible. I believe there are only 2 out of 33 predictions that you made that have not come true or that have only partly come true. Perhaps the biggest prediction that did not pan out was the prediction that we would suffer a global economic depression beginning in 1990. Japan entered a devastating depression about then, but the U.S. escaped it. Despite the fact that the U.S. federal debt grew exponentially during the 1980’s and into the 1990’s and despite a huge trade deficit the U.S. managed not only to escape an economic calamity, but to experience economic growth that continues even now. How do you account for the fact that the U.S. has been able to escape the depression you also predicted back in 1989 when you suggested that “share prices will crash all over the world, leading to a seven-year-long depression”?

BATRA: What happened was that I had assumed that once the stock markets began to crash, the Japanese money would stay home because they had already lost billions of dollars in the U.S. markets. They lost almost 12 TRILLION dollars in the U.S. market. So, if they lost so much money, why would they touch that market again? But, I turned out to be wrong.

I think what the Japanese did was irrational but here is what happened. When their stock market began to crash in early 1990, their banks were also under great pressure. So to help their banks, the government of Japan simply pushed their interest rates close to zero. With such low returns available at home, a lot of Japanese money went abroad to the Asian Tigers and to America. At that moment in 1990, the U.S. was in a recession and had a budget deficit of almost $300 billion, which was driving up the rate of interest. If interest rates had continued to rise, that recession could have possibly turned into a depression. But the Japanese money saved the day by pouring into the U.S., so interest rates. fell in spite of the huge budget deficit. The result was that our economy began to revive.

According to official figures, the recession was over by mid 1991 but according to many other people, the lingering effects of that serious recession went on until 1995. Even then it was very serious, but the Japanese money made such a huge difference. Then after 1996, more Japanese money came into the U.S. In fact the U.S. trade deficit was rising and a lot of foreign money began to come into the U.S. bond and stock markets because of that trade deficit. Even now the American economy is very strong mostly because all that trade deficit which puts dollars in foreign hands.

This benefits the American economy because all those dollars are coming back home. So what we in America have had is prosperity based on borrowed money. Therefore it cannot last forever.

TAYLOR: In Chapter 8 of your book, you said, “No question about it. We are trapped in the bubble of the millennium”. When Alan Greenspan was recently asked in Congressional hearings whether or not we are in a bubble economy, or whether the stock market was in a bubble, he said something to the effect that it is very difficult to know you are in a bubble until after you are out of it. In essence, Mr. Greenspan was saying he didn’t know if we are in a bubble or not.

Playing the Devil's advocate here, what makes you so sure the United States Economy is in a bubble if the most worshiped Lord of Finance — perhaps in history of the world — says it is impossible to know if we are in a bubble? Do you think Mr. Greenspan in fact knows we are in a bubble but he is afraid to say so, lest we blame him for a crash? Or is it possible he really believes that as the Lord of the Financial Universe he can continue to navigate the U.S. economy successfully through the troubled waters that face our economy?

BATRA: Well, I think Greenspan believes that we are in a bubble because people from Wall Street and possibly Mr. Greenspan himself criticized the Japanese stock market in the 1980's. They kept saying that Japan was courting a disaster because their stock prices were very high.

TAYLOR: The U.S. market may now be more overvalued that the Japanese markets in 1989, right?

BATRA: That's right, we are now more overvalued than Japan was in 1990. So certainly most American financiers know we are in a bubble economy but they hate to admit it because they think that they are one way or another responsible for it.

TAYLOR: And to admit it, may not be good for business sometimes?

BATRA: Right, in fact Greenspan has changed his position many times. I think in 1996 he said stocks were overpriced. But then he was criticized for that so he changed his position to "not overpriced." So either he himself is confused I think that is true because he used to believe Japan was a bubble economy now he is saying the U.S. is not, so he is showing confusion on his part. I can understand that because he has to please the financiers in order to be worshiped and get their adulation.

TAYLOR: People pay so much attention to what he says that if what he says shakes confidence, then he could be blamed for part of the problem as he was in 1996 when he talked about "irrational exuberance".

BATRA: That's right. Well in fact, I think he should be blamed for the problem of the bubble. He doesn't want to rock the boat now I think.

TAYLOR: Assuming you are right and our stock market and our economy is in a bubble, what makes you think the current bubble is bigger than the 1929 bubble? After all, from its peak to bottom, the DJIA lost almost 90% of its value. If the current stock market were to fall by the same percentage, we would be back to about 1100 on the Dow Jones Industrial Average! Do you really think we could be in for a decline of this magnitude? Would not this be devastating for America? Might it not cause a civil war or lead to a dictatorship?

BATRA: I didn't realize the decline (1929) was that large. Whether it is an 80% or 90% decline I don't have a clue about that, but we are going to have tremendous financial losses in the stock market and they will be far more widespread this time because a huge percentage of the public is involved now than in 1929. With financial losses much worse, the resulting misery and depression could also be much worse. That could lead to a political revolution, but I do not believe it will lead to a dictatorship. I think we will see the rule of money end and that we (the majority of Americans and citizens around the world) will benefit by a tremendous revolution.

TAYLOR: I will get to that issue a little later toward the end of our conversation. There are some very encouraging aspects to your message which I want to be sure our subscribers understand when we get to that point. What I want to ask you now is how did we get into this mess we are now in?

BATRA: The main reason is that we don't have a free enterprise economy. It is touted as a free enterprise economy but we really don't have that. In fact, what we have are regional monopolies or a monopolized economy. Some people call it "Crony Capitalism." The main feature of a monopolized economy is that the fruit of rising productivity goes to owners of capital, not to the employees. So there occurs a rising gap between productivity and wages. Wages are the main source of demand and productivity is the main source of supply so with the rising gap between wages and productivity there is a potential for a gap between demand and supply. And that has been occurring in the U.S. for many years now. So the question is how have we stayed afloat for so long with supply rising faster than demand? The answer is demand has remained artificially high through the creation of debt, either from government, consumers, corporations and foreigners. All this debt has combined to lift up demand to the level of supply. But debt created prosperity cannot last forever. So we have gotten into this mess by: First, allowing wages to lag behind productivity and secondly by artificially bolstering demand by creating a tremendous amount of debt. All we have done is simply postponed the problem. And, since this postponement has been going on for many years, the mess is potentially catastrophic.

TAYLOR: In your book, you suggest that we have been boosting demand via debt in the U.S. since the early 1970's. Is that right?

BATRA: That's right but at that time the wage gap was mostly due to the rise in the price of oil. Productivity did not fall, but wages did so the gap grew. But since 1980 productivity has risen significantly faster than have wages. So a potentially more serious problem has developed since then because rising productivity means rising profits and rising supply and that means rising stock markets, which suck more and more people into that trap. So the wage gap arising since the early 1980's is potentially much more serious than the wage gap that arose in the early 70's.

TAYLOR: We saw a lot of policy changes with the Reagan administration in the early 80's. We saw the tax load switch income from the poor and middle class to the wealthy. And as you pointed out in your book we have had perennial trade deficits. NAFTA has become a significant problem along with the globalization of the world economy. Your ideal model of capitalism is one of a large number of competing producers, along the lines idealized by Adam Smith. You have been critical of the Clinton Administration for refusing to be more aggressive in using anti-trust law to boost competition. And, you point to Crony Capitalism as a reason for government not playing a role to enhance competition. You believe (as I do) that the large owners of capital have the ability to buy votes by financing elections. Thus they have positioned themselves to shape laws and regulations to their own advantage (as they see it) so that wages continue to fall behind productivity and hence their own stock market profits continue to rise. Right?

BATRA: Yes and that is exactly the way it is all over the world. It takes different forms and shapes in different countries, but in the end it is the power of money over politics that is creating problems. That power has increased sharply from the early 80's as a result of tax cuts fueling the wealthy with extra cash, and then a rising wage gap created even more billionaires. These rich people in turn have had an increased ability to buy off elections. So their power has risen very sharply in the U.S. and also in the rest of the world. So Crony

Capitalism, is ruling the world. One result of that we have already seen and that is the Asian turmoil. And it is now stirring up in Latin America as well. I think it is finally going to come to the United States.

TAYLOR: I have had a view that the Reagan supply side economic policy was desirable in light of the inflationary environment of the 1970's. And I believed that Paul Volcker's monetary policy of targeting the supply of money rather than interest rates was desirable in directing resources from the demand side to the supply side of the economy. I thought the Reagan program of redistributing wealth from the poor and middle classes, while not politically popular, was necessary to reduce the demand side of the economic equation while strengthening the supply side of the economy.

So I thought the "Reagan revolution" was positive until the Asian crisis broke out. At that time, I began to think that supply side economics had perhaps gone too far. However, based on what I read in your book, I gather that you would not agree with me that, at least for a while, Reagan's supply side economic policies were desirable?

BATRA: No, I do not agree that the Reagan supply side economic policies were desirable because "supply side" was just a euphemism for Keynesian economics. Keynes talked about cutting taxes that would spur demand which in turn will attract production and investment. But both of Reagan's policies of cutting taxes (mostly for the rich) and raising social security taxes, which hit the poor and middle classes the hardest, did not increase demand and hence give a reason to invest. Without consumer demand why would anyone put any money in their business? So when Reagan cut income taxes and raised social security taxes he was in fact hurting business.

The Reagan economic policy was also Keynesian in the sense that the end result was a huge federal budget deficit. That is the main idea behind the Keynesian demand side policy. So in the end, during the 1980's the budget deficit rose sharply and they simply called it supply side to try to distinguish it from Keynesian economics. In reality, it was the same Keynesian policy. But it had a negative bite to it as well. It was a budget deficit on the back of the poor. Demand did not rise fast enough therefore investment did not grow fast. So GDP growth during the 1980's was in fact slower than in the 1970's and certainly the 1960's. Money went into the stock market, but that has not resulted in economic growth.

TAYLOR: But my belief has been that we had the inflationary 70's partly from too much stimulation on the demand side of the equation. I also believed that was a carryover from the "New Deal" policies of the 1930's that effectively redistributed income from the wealthy to the poor and middle classes. So I believed that the Reagan policies which reversed income back to the wealthy was needed to balance the supply/demand equation.

BATRA: Well, what Reagan was saying is true in a third world country. In those places they do not have capital and technology so that there is not enough supply at all and there is plenty of demand because of population. But in the United States, technology and capital are plentiful. The main limitation here is weak demand. What is important to understand is that supply growth will only be enough to match demand growth. Whenever demand does not grow fast, supply will not grow no matter how many tax cuts you want to give.

In the 1950's our tax rates were much higher than in the 1980's. For example, they were as high as 90% in the 1950's. But with the Reagan tax cuts, the top marginal tax rate in the

1980’s was cut to somewhere between 28% and 31%.

Yet, during the 1950’s, GDP grew at a rate of 4% per year, while in the 1980’s it grew at a rate of less than 3% per year in spite of all those tax changes. So the Reagan tax cuts actually were associated with a lot lower economic growth rate than during the 1950’s when top rates were very much higher. The reason was that demand did not grow fast in the 1980’s. The Reagan tax cuts not only slowed consumption, but investment fell as well. People say “well, they will have more money to invest,” but why would they put more money into business if there is not enough demand?

TAYLOR: But we have had the greatest stock market ever!

BATRA: That is the main point. A booming stock market comes from a rising wage gap and rising wealth concentration. But that has nothing to do with productive investments.

TAYLOR: So investors put their money into this casino called the stock market and that does not necessarily result in direct investment in new plant and equipment.

BATRA: That’s right. They put their money into paper assets but not in real assets. Productive investments or investments that boost economic growth result when money goes into real assets.

TAYLOR: Do you then believe that we could have fixed the inflationary problem of the 1970’s simply with a tight monetary policy and that we did not need all this supply side stuff from Reagan?

BATRA: That’s right. We could have fixed the inflation problem simply with monetary policy. One thing that Reagan did that was good was to push for de-regulation and that helped reduce inflation too. Wherever regulation inhibits competition, it adds to inflation. So de-regulating airlines, trucking, and communications was good. But de-regulating the financial industry is something else. Actually most of the deregulation started under Jimmy Carter. Regan will be remembered mostly for his huge budget deficits.

TAYLOR: Fortunately for Mr. Reagan he does not remember much of anything given his illness. But getting back to the future, you are anticipating a stock market crash to take place this year or at the very latest during the first couple of months of 2000, is that correct?

BATRA: That’s right.

TAYLOR: Can you tell our readers why you think it is likely that the greatest bull market in history will come to an abrupt end before 1999 draws to a close?

BATRA: Well, I have observed a curious pattern since 1929 and that is that in the final year of each decade, there has been a nightmare somewhere on earth that had consequences for the entire next decade. The 1929 Stock market crash had economic repercussions that lasted for the next decade. Then in 1939 WW II started. That affected almost the entire decade. And in 1949 the Chinese revolution started a nightmare in China that dragged the U.S. into a cold war and into many regional conflicts like the Korean War. In 1959 the Cuban revolution took place. That was a very small country, but remember the U.S. and Soviet Union almost had a nuclear war over Cuba. With the Cuban revolution, the U.S. became determined to stop the spread of Communism which was part of the reason for getting involved in Vietnam. And by 1969 the rate of inflation really began to accelerate, such that it reached double digits in the 1970's. In 1979 we had the Iranian revolution, the Soviet invasion of Afganistan and a major sea change in U.S. monetary and economic policy. Then in 1989 we had the fall of the Berlin Wall, which signified the global demise of communism. And now, in 1999, another nightmare is about to occur.

TAYLOR: And I would observe that our stock markets are priced for a perfect world under the assumption that everything will continue to go right for America, even though as you point out, there are some enormous fundamental problems in the global economy and in the U.S. economy.

BATRA: That's right. The market is not priced for any kind of nightmare. So that's why I think the nightmare will hit the U.S. this year rather than the next year or thereafter. And I think it is the U.S. that will get caught now because the downturn has happened almost everywhere else already.

TAYLOR: Following the impending stock market crash, you have also suggested that the U.S. Economy will enter into a Depression, perhaps of a magnitude similar to that of the 1930's. However, you believe this time, we will also suffer from the ravages of an inflation. Can you tell our readers why you think the U.S. will suffer from inflation rather than deflation? Shouldn't plunging economic activity result in a sharp decline in prices as demand declines? Why in such an environment do you expect prices to rise?

BATRA: Normally we should have a deflationary depression. In fact in all of U.S. history, we have never had an inflationary depression. But I think the future one will be an exception and there are two or three reasons why I think so. First of all let's look at all the economies that have borrowed heavily from abroad and are now in turmoil, like the Asian Tigers and Brazil or Russia. When the trouble started, their currencies collapsed, and not only their stock prices fell, but their product prices and unemployment both went up. So they have an inflationary recession right now. The reason they have not had a depression is because the U.S. economy has remained strong, so they have been able to export and keep their economies going. But it is inflationary in nature, which is the exception to what used to happen in the past. The reason why it is inflationary is that their currencies have collapsed. And that is what I fear for the U.S. dollar as well. I fear the U.S. dollar will fall very sharply once the nightmare hits the U.S.

TAYLOR. That leads me to ask you where would people put their money if they sold the U.S. Dollar?

BATRA: It could go into a variety of assets. It could go into the Euro, the Swiss Frank and quite likely gold because when there is inflation, gold becomes king. Even in a depression, gold will attract money if there is inflation at the same time. It most likely won't go into the Yen, even though the Yen will likely appreciate sharply.

TAYLOR: One other thing I wondered about with respect to inflation in an economic downturn. Is it possible that the existence of a larger number of regional monopolies lead to higher prices than during previous recessions/depressions?

BATRA: It is the monopolistic nature of capitalism that is the ultimate source of the problem. It leads to the rising wage gap and rising wealth disparity and potentially rising demand gap and rising stock prices that cannot be sustained by real demand growth. So that is the ultimate problem around the world and that is also the case in the U.S.

TAYLOR: And you mention that it takes quite a cataclysmic event for a country to make the changes that does away with the rising wage gap. In your book, you noted that for Japan to get rid of its regional monopolies, it had to lose the war to the U.S. General MacAurthur forced Japan to break up its monopolies because he believed they were the root of Japan's military aggression. Whatever actually prompted Japan's military moves, breaking up these monopolies may have been one of the best things that happened for the Japanese economy. So do you believe some sort of cataclysmic event will be required in the U.S. before changes take place in the U.S. that will eliminate or reduce the wage gap?

BATRA: Yes, that is precisely my thinking. I think the pubic will be decimated by the stock market crash and they will demand accountability and scalps of those in charge and true economic, social and political reforms will be demanded by the people. Most likely, I believe the rule of money in politics will find as people begin to understand what led to the bubble and then the demise of the stock market.

TAYLOR: You talked a bit about the 30-year cycle, which is really intriguing to me. You noted that the creation of money results in inflation. You have some charts in your book that illustrate quite surprisingly to me, that every 30 years we hit a peak in the growth of money and consequently in the growth of the rate of inflation. This 30-year pattern with a high degree of predictability goes all the way back to 1770. The only time the 30-year pattern was broken was around the time of the Civil War. But following that conflict, it has resumed and has remained in tract even now. With the current inflation trend down very significantly from its highs in the 1970's, history suggests we are due for another rise in inflation. Is this another reason why you think the depression we face will be inflationary?

BATRA: Yes that's right. As you said, the last peak of inflation was in the 1970's and now we are moving into the 2000's. So, yes, this is another reason I think we will head into an inflationary depression.

TAYLOR: So somewhere beginning any time now or perhaps into the next decade say two or three years from now, we can expect a real spike up in inflation again?

BATRA: Yes. I think the market crash itself will spark a round of inflation and then once that round is over there will be some other sources of inflation.

TAYLOR: Is it possible money will come out of paper (i.e., stocks & bonds) and back into tangible assets like real estate, gold & silver?

BATRA: Well, first there will be a lot of destruction of money.

TAYLOR: You mean it will go to Money Heaven, right? Because it is a bubble caused by the fractional reserve system which creates money out of thin air, without any substance underneath it, right?

BATRA: It's a bubble. A dead bubble. And as debt mounts, money will just disappear. But as the dollar falls, the foreign goods will become very expensive and therefore the U.S. will suffer high rates of inflation. All foreign economies by the way, will suffer inflation too, except the countries with trade surpluses, which are likely to suffer deflation.

TAYLOR: You also point out, that while most economists worship the Fed as the most powerful institution regulating the U.S. and even the world economy, the creation of the Fed in 1913, has made absolutely no difference in altering the rhythm of money growth and hence inflation. Based on the charts in your book this would certainly seem to be true and that is an amazing fact to me.

Do you have any ideas why this pattern of money growth and inflation has been so regular and why the Fed may not be the almighty god it is cracked up to be by Congressmen and Senators who worship at the altar of Alan Greenspan?

BATRA: We are in the age of money and the age of acquisitors. It is not the Fed that is controlling society, but rather a certain mentality. So no matter what the Fed does, the acquisitive mentality has apparently created a three decade long cycle of money growth. Various institutions could not alter that cycle because we are still in the age of acquisitive mentality. In fact the creation of the Fed is consistent with that acquisitive rule. Rather than fight the rule of acquisitive mentality, it actually enhances the rhythm of monetary growth.

TAYLOR: Of course, when the Fed was forced on the American people it was never sold as an instrument to enhance cycles.

BATRA: No! No!

TAYLOR: One of the main concepts, if not the main idea that I received from reading your book has to do with the notion of a wage gap. You go through the mechanics of this calculation in your book, but essentially this statistic measures to what extent wages keep up with productivity gains in an economy. Is that right?

BATRA: That’s right.

TAYLOR: You point out how several economies that were decimated by World War II and the Korean War, namely Japan, Germany and Korea, achieved nothing short of an economic miracle when wages in those countries increased at the same pace as productivity gains. But around the mid 1970’s, these countries began to institute economic policies that resulted in larger and larger wage gaps. As wages fell behind productivity gains, these economies began to slow down and to demonstrate imbalances. If I understand you correctly, you believe the economic problems these countries now face can be blamed at least to a considerable degree by their increasing wage gap, right?

BATRA: That’s correct. Rising wage gaps have created problems all over the world since the 1970s’. The economies that have demonstrated the greatest rates of economic growth all had one thing in common and that is that wages kept up with productivity!

TAYLOR: You talked about other nations too that have a chronic problem of abusing the working class and how, as a result they have had continuous economic problems. There is an astronomical wage gap in Mexico and apparently in India. The biggest wage gaps found anywhere in the world seem to be in Brazil. In general, how great is the U.S. wage gap compared to the wage gap in these other countries?

BATRA: The U.S. wage gap is small compared to those of the Third World, but it is quite large compared to Europe and Japan. But the reason the U.S. is doing very well is because it is at the center of its own global empire. In any empire the center is the last to fall while the first to fall are the countries in outlying areas. And that is what has been occurring. We have seen the countries on the peripheries suffer enormous economic disruptions. (Asia, Latin America, even Europe – Eastern Europe etc.) The U.S. is a shining tower of economic strength because being at the center of its empire it is the last to fall. But when it starts falling it will be catastrophic because its wage gap is much larger than in Europe and Japan.

TAYLOR: You have an excellent illustration in your book that explains why the trend toward higher wage gaps, if not abated, will inevitably result in an economic depression. I hope all our readers buy your book so that they can gain a thorough understanding of the soundness of the logic behind your argument. They need to know NOW that there will be no escape and that eventually, even the U.S. will enter into a depression, if our President & Congress turn a blind eye to our increasing wage gap.

But if I understand this idea correctly, the reason the trend of a rising wage gap is absolutely deadly to an economy and a society is because it starves the economy of sufficient amounts of fuel to drive economic activity, such activity being what Keynes described as “effective aggregate demand”. Essentially the people who spend most of their income to simply buy necessary products, do not have sufficient income to do so. Yet, the supply of goods and services continue to abound because a disproportionate amount of wealth accumulates in the hands of the owners of capital who simply build more factories. Or, when there is no longer a decent return to be gained from building factories, (like now) they speculate in such things as real estate or internet stocks. But without sufficient income in the hands of common folks, who have a high propensity to consume and hence clear the market of excess supplies, economic growth is doomed to decline. Is this a proper characterization of the problem?

BATRA: Well, there are two main economic schools of thought that have evolved over the past 40 or 50 years. One is Keynesian and the other is Classical. Neither of them are complete theories. Classical talks about supply side and Keynes talks about demand side. But an economy has to have a balance between supply and demand just as an airplane has to have two wings and both have to be proportionate for the plane to fly. If one wing goes faster than the other, we all know what will happen. And that has been what has been happening in the U.S. economy. Wages have been lagging behind productivity so demand has been lagging behind supply and the difference has been made up by growing debt. So we are going to have a major plane accident/economic and market crash that will kill the economies around the world.

TAYLOR: I believe you said that Crony Capitalism is an underlying cause of the rising wage gap. You also noted that Crony Capitalism is a huge problem in the U.S. just as it is in lesser developed nations. You mentioned the Long Term Capital Management debacle that took place last year and pointed out how the ruling elite in the United States, who ran that hedge fund for the benefit of themselves and other very rich investors, were essentially bailed out by the Fed. I am in complete agreement that Crony Capitalism (which I view as the policies of economic fascism) is alive and well today. In fact, it is my belief that since the 1987 crash, our government and/or central bank may in fact be manipulating our stock market by “going long” in the S&P Futures markets, at key times like today when the market is getting hit very hard. By so doing, they may be manipulating the thought process and investment behavior of the American people.

More recently, an organization named the Gold Anti-Trust Action committee (GATA), has been using its web site www.lemetrolecafe.com to expose fairly significant circumstantial evidence that the Fed and various gold bullion trading entities, most notably Goldman

Sachs, have been manipulating the price of gold to lower and lower levels. Indeed some recent comments by Alan Greenspan in connection with the Long Term Capital Management debacle, appear to support this possibility.

GATA says that the Fed (and perhaps other central banks) have been leasing gold at say 1% to a bullion trading firm like say a Goldman Sachs, who then sells the gold for dollars. The dollar proceeds are then reinvested in say U.S. Treasuries at 4% or 5%, thus earning a 3% or 4% spread. To ensure these favored companies reap a windfall profits from this activity, GATA believes central banks are doing all they can to push the market price of gold down. In that way, when it is time for Goldman Sachs to repay gold to the central bank, it will earn a still larger profit because now it can purchase the gold at a prce that is lower than what it received when it sold it for dollars. Of course, this activity, if is taking place, hurts some of the poorest countries around the world, such as those that depend greatly on income derived from gold mining. If the Fed were involved in this activity, would it surprise you? Isn't this Crony Capitalism?

BATRA: Yes, definitely if the Fed were involved or if other central banks were involved in this type of operation, that certainly would be another example of Crony Capitalism.

Essentially it is the rich stealing from the poor countries again, and I would not be surprised if it is happening.

TAYLOR: There have been some indication that the British decision to sell 1/2 of their gold was timed to ensure that the gold price would keep falling so that Goldman could continue to buy gold at lower and lower prices. There are rumors of an enormous gold short position in the markets amounting to three or four year's worth of production. If firms like Goldman were forced to cover their positions at higher prices, they could lose enormous amounts of money. But this is getting off the topic a bit.

What do you think is likely to cause the U.S. Bubble to burst? A hedge fund like Long Term Capital Management or what?

BATRA: It could be anything. The bubble itself is a product of all kinds of things going right. So any little thing that goes wrong could pop the bubble. It could be some excessive speculation causing some financial company to go bankrupt. Or it could be the weather that creates a water shortage and then rising prices. It could be anything. Look at it this way. If there were warnings of a draught, just the very warning of a draught would drive up the price of various grains, and food items. And that rising price would set off inflation fears, leading to partial rise in interest rates which could prick the bubble. The point is that because the bubble is so huge and because it is based on so much debt, a very slight incident could set off a chain reaction leading to a market crash. It does not need to be a major change that triggers the market crash.

TAYLOR: Right. We saw recently what happened when the CPI gained 0.7% of 1% in one month. The equity markets were hit real hard that day. In any event, given the twin dangers of inflation and depression, how do you advise our subscribers to best protect their financial well being?

BATRA: I have a number of investment ideas in my book, but what I am saying is to stay away from any long term investment except gold.

TAYLOR: Might short term T-Bills be ok?

BATRA: But you see, this is a very dangerous situation because we are talking about an inflationary depression. So even bonds that do well in a deflationary period will get hit hard in an inflationary period. I have about 30 pages of business and investment advice in my book in which I provide a great deal of detailed advice on all sorts of possible investments.

TAYLOR: Well, from the viewpoint of most of my subscribers, they will not be unhappy with the advice to buy gold since they have a vested interest in gold mining companies.

BATRA: Like I say, gold is about the only thing I recommend that you purchase as a long term investment at this time. Everything else appears very risky to me. Furthermore, gold appears very well priced right now.

TAYLOR: Oh Yes! And perhaps artificially low. In addition to gold stocks, our newsletter also recommended proprietary environmental stocks.

BATRA: Excuse me, but gold stocks are something else. You could also trade into gold stocks, but I would be a little cautious about that because I don't know how gold shares will react when most other stocks are falling. There is this law of substitution that may apply. It says that if one stock falls, then normally other stocks behave in the same way.

TAYLOR: Well, I have had some experience in analyzing gold shares in all sorts of markets. Homestake Mining shared with me their daily share prices dating all the way back to 1888 through 1998. During the depression, Homestake Shares appreciated very greatly despite the fact that we experienced deflation rather than inflation.

BATRA: Did the price of Homestake rise right from the beginning or…

TAYLOR: No, actually Homestake's share price initially fell too from $83.50 just before the crash to $65 about two weeks after the crash. So perhaps the law of substitution did initially apply. But from November 15th and thereafter, Homestake's shares rose dramatically, to a high of over $500 by 1936. And during 1932, when the DJIA had lost 90%, Homestake's shares had reached $162. So investors who diversified their portfolios with a little Homestake were able to travel through the Great Depression relatively unscathed, while those who owned only the Dow Jones Industrials, were devastated.

BATRA: Ok, what I am saying is that timing is important. Gold stocks are also going to do very well. However, at this stage, my advice is to start preparing yourself by buying gold bullion. Then begin buying gold shares the moment there is a whiff of inflation or when the market begins to favor them.

TAYLOR: In addition to gold stocks, our newsletter also recommends certain environmental stocks that hold proprietary technologies used to produce commodities and in the process help solve an environmental problem. Our favorite stock in this category is Itronics, Inc. (BB:ITRO). This company removes 100% of the silver and other metals from photochemical waste, sells the silver and produces an environmentally friendly, superior fertilizer product, that actually helps enhance fruits and vegetables yields more than traditional fertilizers. Without knowing more than what I just told you, do you think a company like this could survive and even thrive in the kind of environment you are now predicting?

BATRA: What I believe is that during the next several years, many companies, especially small ones will not survive. But if this company does survive, it should do very well when things turn around.

TAYLOR: Although you do not paint a very bright future for America as we head into a new millennium, you do hold out great hope that once America suffers through a devastating economic and perhaps social decline, things will get better. In chapter nine you say the following. "Soon after the stock market crash, a democratic revolution at the ballot box will catapult the United States into a golden age that will eclipse the reign of wealth in politics, establish a truly free enterprise economy, end permissiveness, and bring now discarded spiritual values back into fashion. Then will dawn a brilliant day, quickly sweeping across the world, the beginning of a thousand years of righteousness, compassion, and innate goodness on earth. The darker moments in human history will finally succumb to the nobility inherent in each and every one of us. It could take another thirty-year cycle before the new age sprouts in its all-encompassing effulgence, but come it will."

As a Christian, I share your concern about the spiritual demise of America. I believe we have made Money our God. We have forsaken morals in quest of money and we have hurt other people in quest of our own selfish ends. Husbands and wives have even put their careers ahead of the needs of their own children. Last year, the American electorate effectively said they did not even care that President Clinton committed a crime under Federal law when he lied under oath, as long as stock prices continued to rise. What a shallow and meaningless life we Americans have come to seek and expect. But you are suggesting that all this will change, once we get through the tough period of the next couple of years. I certainly hope you are right about that. But isn't it possible that with the difficulties you believe we will face, civil unrest could become widespread and that as a result, we may face an even less democratic government than we now have? I know this is very complex subject and we don't have much time remaining, but in a few words, can you tell our readers why you think things will get better and not worse?

BATRA: What I said in Chapter 9 is based on the law of social cycles which states that over time social institutions evolve. We see, for example, numerous changes since early history and that each step along the way was better. Thus, for example, Feudalism was better than what preceded it. Capitalism was better than Feudalism. Crony Capitalism, bad as it is, is better in many ways than the earliest capitalism, say during the industrial revolution. Therefore I think the new system will be much better than the current Crony Capitalism. The new system I think will be one of economic democracy, and here again social evolution comes to play that over thousands of years of human evolution, we have discovered political democracy but we have yet to discover economic democracy. On that ladder of evolution, the next step is economic democracy. And once democracy is in the factories and the economic system, we will have a better political democracy as well.

TAYLOR: Well I certainly hope you are right about all that. I am 52 years old, so I hope I will live to see the utopian day you speak of.

BATRA: You will see that day within the next 10 years.

TAYLOR: Dr. Batra, I want to thank you so much for giving your time to our readers. They shall be eternally grateful to you, especially if your words help them cope with what may be one of the most difficult times ever for Americans. You can be sure that many of our readers will become Ravi Batra fans, especially if your forecasts turn out as you anticipate. Our readers will be among the select few who are prepared, having purchased gold and gold shares as part of our portfolio insurance policy.

Jay Taylor is editor of J Taylor's Gold Resource & Environmental Stocks newsletter, a publication Jay founded in 1981. This sixteen page monthly newsletter provides general commentary on major political and economic issues of the day, as well as a value orientated investment strategy enhanced by the use of modern portfolio theory in an attempt to optimize returns and minimize risk over the long term (risk being defined as variance of returns). Owing to its negative correlation to financial assets, gold and gold mining shares are a key asset group for inclusion in Jay's strategy. In addition to gold and gold mining shares, J Taylor's newsletter covers small cap high technology stocks, generally in the resource, environmental, pharmaceutical and bio-technology industries. The main focus however remains on the use of hard money assets to enhance long term returns.

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