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Are Hi Tech FANGS Losing Their Bite?

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THE Brits have been so self-absorbed with Brexit over the last week that they haven't noticed what's happening beyond the media fog in the Channel. For the world in general, the ongoing wobble in US high tech stocks may yet prove more dangerous than anything that happens to the UK economy.

US tech shares have begun to wobble a lot like they did on the eve of the great Dot.Com Crash of 2000. From a peak in the NASDAQ share index in March 2000 to the low in December, the sector lost half its value. Do that again and we will be in global recession territory.

To get what's happening, you need to understand the notion of leveraged stocks, which are very common in high tech investment. These are shares that pay no dividend because the firm is new, possibly loss-making, but is investing in exotic technology that one day might make a fortune. If the technology ultimately proves a winner, the company will enjoy a global monopoly – and the monopoly profits that go with it. So investors pile in now, sending stock prices soaring. The capital gain compensates for the lack of immediate profit dividends.

Spoiler alert! The problem with leveraged stocks is that they can crash overnight, destroying investments. That's what happened in the Dot.Com Crash of 2000. It could be about to happen again. There are obvious warning signs. For instance, the share price to earnings ratio (PE) in the high tech sector is soaring.

For the top 500 US tech and direct marketing companies (i.e. the Amazons of this world) the PE is a staggering 45. In other words, you pay $45 to get $1 of dividend. That only makes sense as an investment if share prices go on rising. When they stall, it becomes obvious overnight that the capitalist emperor has no clothes.

And stalling they are. Fears about rising interest rates and slowing world growth (as a result of Trump's trade wars) have sparked a sell-off of tech shares, led by the so-called FANG companies – Facebook, Amazon, Netflix and Google. Result: lazy investment funds that park savers' cash in these star stocks have taken a major hit. A Goldman Sachs basket of popular tech stocks held by hedge funds has dropped nearly 10 per cent in only six months.

Of course, the biggest tech companies are still making piles of cash. But a serious correction in share prices will impact directly on hedge and investment funds, triggering a collapse in confidence in a global financial system premised on gambling in stocks rather than satisfying social needs. And you thought Brexit was bad.

World Trade (Dis)Organisation

You may not have heard of the Cato Institute. It's a key US think tank on the libertarian right, funded originally by super-billionaire Charles Koch. Mr Koch is not your usual right-wing nut, but a follower of the more intellectual Austrian school of pro-capitalist apologists such as von Mises and Hayek. Koch and the Cato Institute are at the cerebral end of justifying US imperialism and global hegemony, with Trump at the clownish, nativist pole.

The latest Cato Institute campaign is to "reform" the World Trade Organisation (WTO). In this plan, it has been joined by another US rightist think tank, the Heritage Foundation, and by the UK-based Adam Smith Institute. For "reform" read either re-impose US domination of the WTO or, failing that, replace the organisation with something more willing to do America's bidding. The subtext being that the WTO is no longer reliable when it comes to checking the economic advance of America's chief economic competitor, China.

China joined the WTO in 2001. Or rather, the US let China in as a bribe, to facilitate the latter's integration into a new, neoliberal trading order in which the big US tech companies off-shored production using cheap, Chinese labour. But the savvy, entrepreneurial Chinese turned the tables on America and used WTO membership to launch their own global export offensive.

Stung, the Americans are now accusing China of cheating, especially by stealing US technology. America has tried to get the WTO court to come down in its favour, but to no avail. Result: Trump has blocked appointments of judges to the WTO court. And now the Cato Institute is proposing a new "capitalist" trade body free of Chinese interference.

The importance of all this to the UK is simple: our extreme Brexiteers – Rees-Mogg, Boris and co. – are convinced Britain should quit the EU entirely and operate under so-called WTO trade rules. Unfortunately, the Yanks are busily trying to demolish the WTO and shred those very trade rules. Which tells you a lot about how clued-up the Brexiteers really are.

But worst of all, with no WTO rules to protect it, where would that leave the UK after a Hard Brexit – other than capitulating to the US in any bi-lateral trade deal. Which is exactly what Donald Trump wants. Enjoy your chlorinated chicken.