The Twilight of The Dot.Bombs

by Richard Freeman

This is the Twilight of the dot.bombs. But no Valkyrie is hovering over the field, waiting to escort the bested dot.bomb company to a dead hero’s welcome in Valhalla. Rather, in a much more mundane manner, a “Dispossessed” notice will inform the company to leave the premises and turn out the lights; a legal order will escort it into bankruptcy court.

The Internet collapse is accelerating. On Nov. 16, the online research firm WebMergers.com reported that thus far this year, 130 dot.com companies in the United States have shut down. During October, 22 Internet companies closed their doors, a record. In November, through just the 16th, some 21 Internet companies closed down; the full month’s toll will surpass the October record. Already, this is proceeding at a rate faster than one failure per day. Most recently, Pets.com, Furniture.com, Garden.com, and Beautyjungle.com have shut down. Of the 130 dot.coms that have closed down this year, 60% have been e-commerce companies.

However, the real carnage is greater. According to WebMergers President Tim Miller, many companies that did not make the casualty list, have been absorbed through mergers, often at bargain prices, in deals where most or all of the employees were let go. Miller said that more than 1.000 Internet companies have been acquired since 1998, and at least 700 have been acquired this year. “Clearly, some of these were sold at distress prices,” he said.

Consider the contrast. In March of this year, champagne corks were popping, as dot.coms and “high-tech” company stocks shot up in value, sometimes by $10 to $15 billion per week, while the employees, who eagerly counted millions of dollars worth of stock options, debated whether to buy a $2 million mansion equipped with two carports.

But eight months later, many of the stock options are worthless; chairmen of two of the largest Internet companies are receiving the equivalent of margin calls; people inhabiting $2 million homes are wondering how they are going to make mortgage payments of $5,000 per month, while eating on-sale hot dogs for dinner; and $2.3 trillion worth of market valuation of stocks traded on the Nasdaq has evaporated.

No one should be surprised. In the mid-1960s, the British financier oligarchy imposed a post-industrial policy upon the United States. This policy withered manufacturing, agriculture, and infrastructure production, while building up information services and a speculative bubble. The Information Age/Internet “high-tech” operation was created deliberately as an extension of this policy. It does not represent real economic wealth, but for the most part, non-productive overhead. It was inevitable that the Internet, and its trillions of dollars of bloated stock paper, would collapse.

Fictitious Value

In the period from March 10 through March 27, many Internet- and high-tech-related companies’ stocks reached their high points. We compare, for six big Internet-related companies, their high points in stock market capitalization in March, to the level they had dropped to on Nov. 8. The stock market capitalization of Microsoft went from $582.3 billion to $367.1 billion, a fall of 37.0%; Intel, from $476.7 billion to $286.6 billion, a fall of 40%; Dell Computer, from $148.8 billion to $79.3 billion, a fall of 47.4%; Amazon.com, from $24.9 billion to $12.1 billion, a fall of 51.4%; eBay, from $31.5 billion to $13.9 billion, a fall of 55.9%; and Yahoo, from $105.3 billion to $35.7 billion, a fall of 66.1%.

The collapse is not only wiping out the valuations of dot.bomb companies, but is blowing gaping holes in the fortunes of the so-called “Internet Titans.” Consider two cases, both top executives of companies headquartered in Loudoun County, Virginia—“Silicon Valley East.”

On Sept. 28, Bernie Ebbers, the president and CEO of WorldCom, Inc.—the second largest long-distance phone carrier in the United States and owner of UUNET, the leading Internet access provider—announced that he would sell 3 million shares of his WorldCom stock for $79 million to meet a “margin call.” Four years ago, Ebbers bought an important bloc of WorldCom stock through a “margin loan.” As the value of WorldCom stock plummeted, the bank made a margin call on Ebbers, because the stock had fallen below the permissible level.

During the week of Nov. 13, William Schrader, chairman of PSINet, one of the very large “super-carriers” of the Internet, was forced to sell all of his 11 million shares in his company, because he was in default on a $25 million personal loan he had taken out from Bank of America. He had pledged the 11 million shares as collateral for the loan. PSINet is collapsing: Its share price has fallen from $60 down to $2, and it is reported to be seeking a takeover to avoid bankruptcy.

In their salad days, both WorldCom’s Ebbers and PSINet’s Schrader were lauded as “visionary geniuses,” as “pioneers.” Now they are undergoing the same vicissitudes as any common sucker who invested heavily in Internet stock.

The Internet business is highly interconnected; everyone takes in everyone else’s laundry. Makers of computer chips make sales because somebody is buying a computer. Often, people buy computers to get onto the Internet. Internet access and hardware providers sell their services to the Internet. As crucial elements go under, this implodes the whole interconnected process. In fact, the self-feeding dot.bomb collapse can trigger the overleveraged U.S. financial bubble to explode.

The false golden days are past; twilight is spreading.