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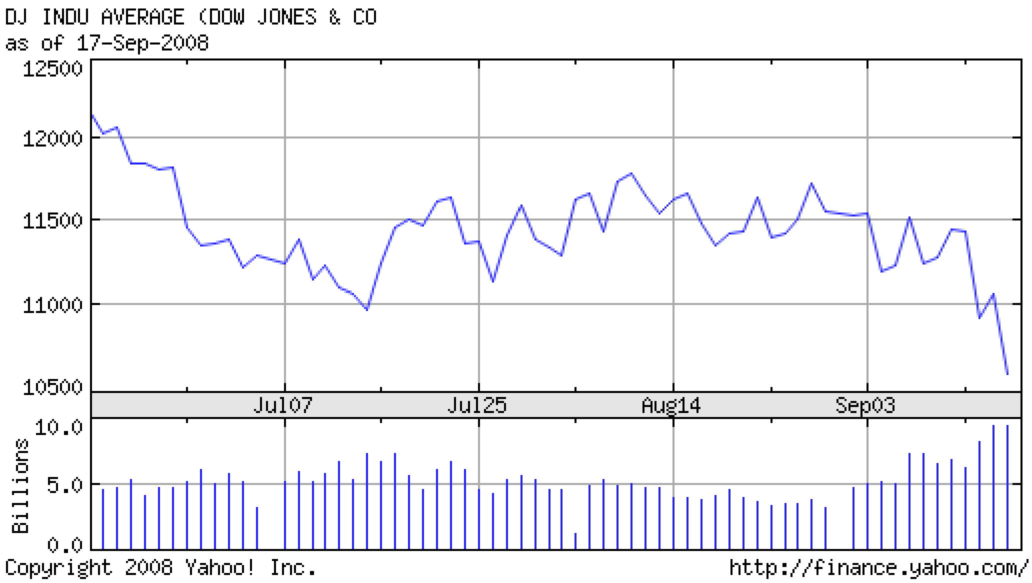
Global Financial Meltdown

Bloody Monday September 15, 2008

Bloody Monday, September 15, 2008. The Dow Jones industrial average (DJIA) declined by 504 points (4.4%), its largest drop since Sept. 17, 2001, when trading resumed after the 9/11 attacks.

The financial slide proceeded unabated, leading to an 800 point decline of the Dow Jones in less than a week. The World's stock markets are interconnected "around the clock" through instant computer link-up. Volatile trading on Wall Street immediately "spills over" into the European and Asian stock markets thereby rapidly permeating the entire financial system.



The Most Serious Financial Crisis since the 1929 Wall Street Crash

When viewed in a global context, taking into account the instability generated by speculative trade, the implications of this crisis are far-reaching.

The crisis, however, has by no means reached its climax. It could potentially disrupt the very foundations of the international monetary system. The repercussions on people's lives in America and around the world are dramatic.

The crisis is not limited to the meltdown of financial markets, the real economy at the national and international levels, its institutions, its productive structures are also in jeopardy.

As stock values collapse, lifelong household savings are eroded, not to mention pension funds.

The financial meltdown inevitably backlashes on consumer markets, the housing market, and more broadly on the process of investment in the production of goods and services.

War and the Economic Crisis

What is of utmost significance is that this plunge in stock market values occurs at the crossroads of a major military adventure. The global financial crisis is intimately related to the war.

A spiraling defense budget backlashes on the civilian sectors of economic activity. The war economy has a direct bearing on fiscal and monetary policy. Defense expenditure is in excess of $500 billion. A separate $70 billion is earmarked "to cover war costs into the early months of a new administration. Those amounts combined would represent the highest level of military spending since the end of World War II (adjusted for inflation)." (Csmonitor.com February 06, 2008).

"War is Good for Business": The powerful financial groups which routinely manipulate stock markets, currency and commodity markets, are also promoting the continuation and escalation of the Middle East war. The financial crisis is related to the structure of US public investment in the war economy versus the funding, through tax dollars, of civilian social programs. "More broadly, this also raises the issue of the role of the US Treasury and the US monetary system, in relentlessly financing the military industrial complex and the Middle East war at the expense of most sectors of civilian economic activity." (See Michel Chossudovsky, The Democrats endorse the "Global War on Terrorism": Obama "goes after" Osama, Global Research, August 29, 2008)

The war is profit driven, financed through the massive Worldwide expansion of dollar denominated debt. War and Globalization go hand in hand. Wall Street, the oil companies and the defense contractors have concurrent and overlapping interests. The oil companies are behind the speculative surge in crude oil prices on the London energy market.

In turn, resulting from the military agenda, the US civilian economy is in crisis as the nation's resources including tax dollars are diverted into funding a multibillion Middle East war.

The Speculative Onslaught

The Worldwide scramble to appropriate wealth through "financial manipulation" is the driving force behind this crisis. It is the source of economic turmoil and social devastation.

What are the underlying causes? What prevails is a totally deregulated financial environment characterized by extensive speculative trade.

The history of deregulation goes back to the beginnings of the Reagan administration.

In the wake of the 1987 stock market meltdown, the US Treasury was advised by Wall Street not to meddle in financial markets. Free of government encroachment, the New York and Chicago exchanges were invited to establish their own regulatory procedures.

The authority to regulate the market no longer rests with the State but with stock market officials who directly serve the interests of the institutional speculators.

The crisis on Wall Street is part of a process of **financial warfare**.

Since the 1987 crisis, a new era of intense financial rivalry has unfolded.

Financial deregulation in the US has created an environment which favors an unprecedented concentration of global financial power.

What we are dealing with is a major clash between competing financial conglomerates.

The financial meltdown is intimately related to the unregulated growth of highly leveraged speculative operations.

The Hedge Funds

The hedge funds play a key role in this process of restructuring. These speculative transactions (the panoply of derivatives, options, futures, index funds, etc) often transacted through hedge funds overshadow the workings of stock market transactions, and their relationship to real economic activity.

The hedge funds are private investment funds, which manage the pooled funds of wealthy investors. While they are often linked to major financial institutions, they are totally unregulated. They operate with a large pool of money capital, which is used to undertake highly leveraged speculative transactions. The latter have the characteristic that profits can be reaped when the market goes up, but also when the market goes down.

Short Selling

A stock market meltdown can be highly profitable operation. With foreknowledge and inside information, a collapse in market values constitutes (through short-selling) a lucrative and money-spinning opportunity, for a select category of powerful speculators who have the ability to manipulate the market in the appropriate direction at the appropriate time.

There are indications of a carefully engineered conspiracy to trigger the collapse of several major financial institutions through outright manipulation.

"Short selling" as well as the spreading of false rumors were used as a strategy to trigger the collapse of selected stocks on Wall Street including Lehman, Morgan Stanley and Goldman Sachs.

"Short sellers aim to profit from share declines, usually by borrowing a stock, selling it and buying it back after its price has decreased. In abusive "naked" short selling, the seller does not borrow the stock and fails to deliver it to the buyer.

Some market participants say abusive short sellers have contributed to the fall of companies such as Lehman Brothers by forcing down share prices

John Mack, chief executive of Morgan Stanley, told employees in an internal memo Wednesday: "What's happening out there? It's very clear to me – we're in the midst of a market controlled by fear and rumours, and short sellers are driving our stock down."'

(Financial Times, September 17, 2008)

Regulators have acknowledged that the collapse of Bear Stearns last March was attributable to short selling. "Regulators have been looking into a combination of short-sales and false rumors are part of the problem." (Wall Street Journal, September 18, 2008)

Merrill Lynch is bought, Lehman Brothers is pushed into bankruptcy. These are not haphazard occurrences. They are the result of manipulation by powerful rival financial institutions, using highly leveraged speculative operations to achieve their objective, which consists in either displacing or acquiring control over a rival financial institution.

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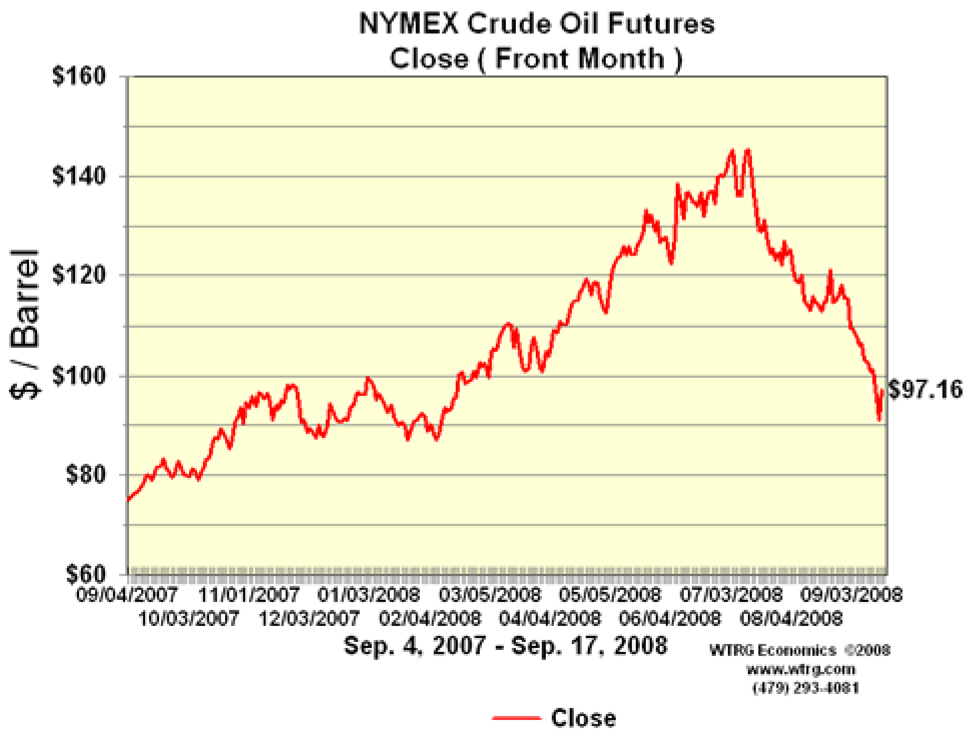
The current financial meltdown has nothing to do with market forces: it is characterized by financial warfare between competing institutional speculators.

The Market for Crude Oil

Leveraged speculative trade has pushed the price of crude oil to exceedingly high levels, reaching a peak in July 2008. A turning point was reached and the direction of speculative trade was rapidly reversed, leading to a dramatic plunge in prices of crude oil (See Chart below)

Those financial institutions and/or investors who have the ability to manipulate the movement of crude oil prices, and had prior knowledge and the ability to determine the timeline of the speculative surge and subsequent collapse, were able to reap large money profits both during the upward and downward movement of the price of crude oil.

"*The movement in global prices on the New York and Chicago mercantile exchanges bears no relationship to the costs of producing oil. The spiraling price of crude oil is not the result of a shortage of oil. It is estimated that the cost of a barrel of oil in the Middle East does not exceed 15 dollars. The costs of a barrel of oil extracted from the tar sands of Alberta, Canada, is of the order of $30."* (For further details see, Michel Chossudovsky, The Global Crisis: Food, Water and Fuel. Three Fundamental Necessities of Life in Jeopardy, Global Research, July 2008)



Global Economic Restructuring

This economic crisis is the outcome of a process of macroeconomic and financial restructuring initiated in the early 1980s. It is the result of a policy framework: trade and financial sector reforms under WTO auspices not to mention the imposition of the IMF deadly macroeconomic reforms, commonly referred to as the structural adjustment program. It is accompanied by the concurrent impoverishment of large sectors of the world population.

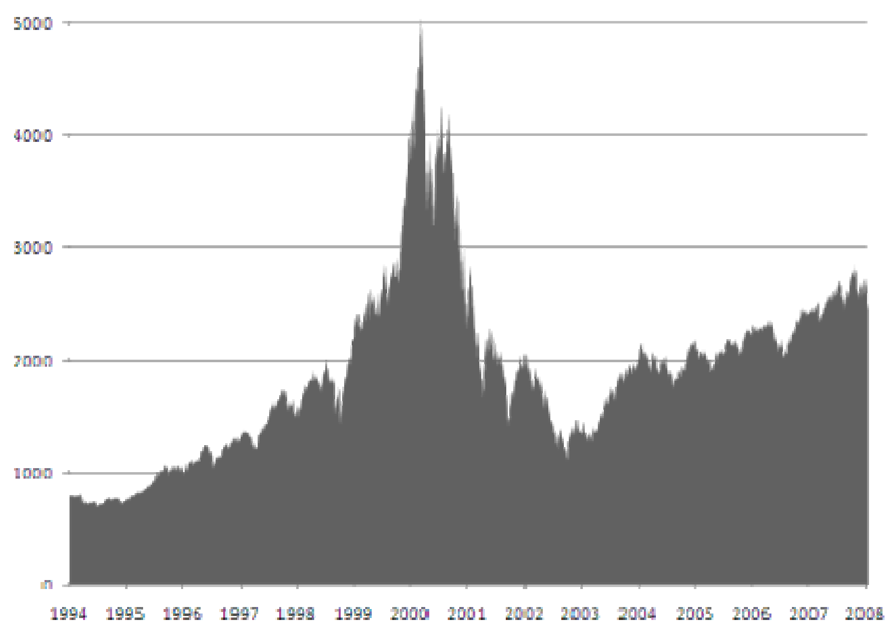
The debt crisis of the early 1980s unleashed a wave of corporate mergers, buy-outs and bankruptcies. These changes in turn paved the way for the consolidation of a new generation of financiers clustered around the large merchant banks, the institutional investors, stock brokerage firms, large insurance companies, etc. In this process, commercial banking functions have coalesced with those of the investment banks and stock brokers leading to the consolidation of a handful of global financial conglomerates.

The unregulated use of complex speculative instruments has provided Wall Street with the means to extend its global financial empire. The main thrust of this process does not consist in overseeing the stock market per se. Rather it resides in controlling the lucrative markets for speculative instruments --derivatives, options, futures, hedges, etc.-- where the scope for manipulation and insider trade is far greater.

Wall Street's financial dominance was to be achieved through its institutional control over the channels of speculative trade. This control also provided, as in the case of the

Asian crisis, the basis for weakening the role of central banks, taking control over the reigns of monetary policy, stock markets and currency markets. In the 1997 Asian crisis alone, more than 100 billion dollars were confiscated in a matter of months from the vaults of Asia's central banks; similar speculative assaults were carried out in Russia in 1998 and in Brazil in 1999.

These events were followed by the dramatic bubble and bust of the dot.com stocks, when the NASDAQ Composite index peaked at more than 5,000 in March 2000 and subsequently collapsed, triggering a chain of panic selling. (see below)



NASDAQ (1994-2008). Dot.com peak in March 2000

The 1999 Financial Services Modernization Act. [1]

In 1999, The Financial Services Modernization Act (Gramm-Leach Bliley Act), was adopted by the US Congress. In the wake of lengthy negotiations, all regulatory restraints on Wall Street's powerful banking conglomerates were revoked "with a stroke of the pen".

Under the new rules ratified by the US Senate and approved by President Clinton, commercial banks, brokerage firms, institutional investors and insurance companies could freely invest in each others businesses as well as fully integrate their financial operations. The legislation repealed the Glass-Steagall Act of 1933, a pillar of President Roosevelt's "New Deal" which was put in place in response to the climate of corruption, financial manipulation and "insider trading" which resulted in more than 5,000 bank failures in the years following the 1929 Wall Street crash. (See Martin McLaughlin, Clinton Republicans agree to deregulation of US banking system, World Socialist Website, 1 November 1999).

The Merger Frenzy

Several mammoth bank mergers (including NationalBank Corp with Bank America and Citibank with Travelers Group) were carried out and approved by the Federal Reserve Board (in blatant violation of the existing legislation) prior to the passage of the 1999 Financial Modernization Act..

In the years prior to the inauguration of the Bush administration, a process of intense financial rivalry had unfolded. The New World Order largely under the dominion of American finance capital was intent on dwarfing rival banking conglomerates in Western Europe and Japan as well as sealing strategic alliances with a "select club" of German and British banking giants.

The Shape of Things to Come

The bank mergers (carried out prior to the 1999 legislation in violation of the Glass Steagall Act) were but "the tip of the iceberg", the shape of things to come. The repeal of the Glass-Steagall Act had created an environment which favored an unprecedented concentration of global financial power.

Effective control over the entire US financial services industry had been transferred to a handful of financial conglomerates.

What prevails today is a *de facto* system of private regulation. The evolving "global financial supermarket" is to be overseen by the Wall Street giants. State level banks across America were displaced or swallowed up by the financial giants, leading to a deadly string of bank failures.

In turn, the supervisory powers of the Federal Reserve Board, increasingly under the direct dominion of Wall Street, were significantly weakened. The financial giants have the ability to strangle local level businesses in the US and overshadow the real economy. In fact, due to the lack of competition, the 1999 legislation, which was an initiative of Senator Phil Gramm, also entitled the financial services giants (bypassing the Federal Reserve Board and acting in tacit collusion with one another) to set the structure of interest rates as they please:

"Despite impending danger signals, the 1999 legislation seems to totally disregard the history of stock market failures since the onset of the "Asian crisis" in mid-1997. The economic and social repercussions in an integrated Worldwide financial system, --not to mention the risks of a global financial meltdown resulting from the absence of financial regulation-- are far more serious today [1999] than during the years following the 1929

Wall Street crash. (Michel Chossudovsky, unpublished notes on the 1999 Financial Services Modernization Act, Legislation, November 1999).

Global Financial Architecture

The Financial Services Modernization Act should not be viewed in isolation as a domestic procedure, limited to the US financial landscape.

The impacts of the legislation extended well beyond the borders of the US financial system. The institutional changes which it brought about, including the concentration and centralization of power in the hands of a small number of financial giants, largely contributed to Wall Street's unswerving quest for global financial domination.

The Worldwide scramble to appropriate wealth through "financial manipulation" was the driving force behind this restructuring of the global financial architecture of which the 1999 US legislation was an integral part, setting the pattern of financial reform in different parts of the World.

While the 1999 Legislation does not in itself break down the barriers to capital movements, in practice it empowers Wall Street's key players to enter the financial services markets of developing countries and consolidate a hegemonic position in global banking, overshadowing and ultimately destabilizing financial systems in Asia, Latin America and Eastern Europe...

The International Monetary Fund (IMF) and The World Trade Organization (WTO).

Financial deregulation in the US exerted a decisive influence in "setting the pace" of global financial reform under the auspices of the IMF and the World Trade Organization (WTO). The 1999 Legislation was part of a global financial agenda, consisting in deregulating capital movements, liberalizing domestic banking and capital markets Worldwide under WTO auspices and opening up national financial services markets to the global financial conglomerates

The legislation was implemented alongside the concurrent reshaping of the global trade and financial architecture under the WTO agenda. Under the GATS, developing countries have committed themselves to full liberalization of financial services. In other words, national governments, which are already controlled by their external creditors, would be unable to deflect the Wall Street giants from entering and swallowing up national banks and financial institutions. .

In conjunction with the provisions of the Financial Services Agreement and the GATS, the 1999 banking legislation adopted in the US empowered a handful of banking conglomerates with the ability of destabilizing the domestic financial landscape of developing countries.

The sweeping deregulation of US banking imparted unprecedented powers to Wall Street's financial conglomerates to acquire and take over banking institutions all over the World.

The tendency was towards a Worldwide financial supermarket controlled by a handful of global financial institutions which penetrate and permeate the fabric of national economies.

Two major agreements (negotiated under the WTO) contributed to "entrenching the rights" of the global banks" in international law, tantamount (according to critics) to granting "fundamental rights" to the banks which override those contained in national constitutions. The provisions of both the General Agreement on Trade in Services (GATS) and the Financial Services Agreement (FTA) formally break down remaining impediments to the movement of capital meaning that Bank of America or Citigroup can go wherever they please, triggering the bankruptcy of national banks and financial institutions.

Moreover, with the support of the IMF, the Wall Street conglomerates and their European and Japanese partners reinforced and consolidated their role as the World's major creditor institutions, routinely underwriting the public debt, overseeing the conduct of State budgetary policy, issuing syndicated loans to troubled industrial corporations, overseeing the privatization of State corporations which have been put on the auction block in the context of an IMF bailout agreement, etc.

Financial Warfare: The Powers of Deception

The weapons used on Wall Street are **prior knowledge** and **inside information**, the **ability to manipulate with the capacity to predict results, the spreading of misleading or false information on economic occurrences and market trends.** These various procedures are best described as the **"powers of deception"**, which financial institutions routinely use to mislead investors.

The art of deception is also directed against their banking competitors, who are betting in the derivatives and futures markets, in stocks, currencies and commodities.

Those who have access to privileged information (political, intelligence, military, scientific, etc.) will invariably have the upper hand in the conduct of these highly leveraged speculative transactions, which are the source of tremendous financial gains. The CIA has its own financial institutions on Wall Street.

In turn the corridors of private banking and offshore banking, enable financial institutions to transfer their profits at ease, from one location to another. This procedure is also used as a safety net which protects the interests of key financial actors including CEOs, major shareholders, etc of troubled financial institutions. Large amounts of money can be moved out at an opportune moment, prior to the company's demise on the stock market. (e.g. Lehman, Merrill Lynch and AIG).

The Federal Reserve Bank of New York and its powerful stakeholders have "inside information" on the conduct of US monetary policy. They are thereby in a position to predict outcomes and hedge their bets in highly leveraged operations on the futures and derivatives markets. They are in an obvious conflict of interest because their prior knowledge of particular decisions by the Federal Reserve Board enables them as private banking institutions to make multibillion dollar profits.

Links to US intelligence, to the CIA, Homeland Security, to the Pentagon are crucial in the conduct of speculative trade, since it allows the speculators to predict events, through prior knowledge of foreign policy and/or national security decisions which directly affect financial markets. An example: the put options on airline stocks in the days preceding the 9/11 attacks.

An internal war within the financial system is unfolding.

Lehman Bros goes bankrupt, Merrill Lynch is bought up...

Mortgage giants Fannie Mae and Freddie Mac are taken over by the government.

Bear Stearns collapses, America's largest insurance company AIG's share collapse from $22.19 on September 9, to less than $4.00 at the close of trading on September 16, a decline of more than 80 percent of its value.

Goldman Sachs together with JP Morgan Chase are negotiating with the Treasury to arrange for a $85 billion secured loan to AIG, which would be financed by the Federal Reserve Bank of New York.

Who picks up the pieces? What lies ahead?

The process of mergers and acquisitions is likely to proceed to new heights leading to an unprecedented centralization of financial power, with Bank of America, JP Morgan Chase and the Federal Reserve Bank of New York playing a dominant role.

The meltdown will be conducive to the demise of numerous banking and financial institutions, which will either be driven out of the financial landscape altogether or acquired by the financial giants.

Bank of America is slated to purchase Merrill Lynch, leading to the formation of the world's largest financial institution, clashing with Citigroup and JP Morgan Chase. It should be noted that while Citigroup and JP Morgan Chase are competing institutions, they are nonetheless entwined through intermarriage between the Rockefeller and Stillman families.

Bank of America in the last two decades has developed into a financial giant through a series of mergers and acquisitions. In 2004, Bank of America acquired FleetBoston Financial, in 2005 it purchases credit card giant MBNA and in 2007 it acquires LaSalle

Bank Corporation and Corporate Finance from the Dutch bank ABN AMRO. And on September 14, 2008, Bank of America announced its intention to acquire Merrill Lynch for $50 billion.

What we are dealing with is a clash between a handful of major financial institutions, which have developed through mergers and acquisitions into Worldwide financial giants.

The financial meltdown on Wall Street largely benefits **Bank of America** and **JP Morgan Chase**, which is part of the Rockefeller empire, at the expense of Lehman Brothers, Merrill Lynch, Goldman Sachs and Morgan Stanley. Lehman Brothers filed for Chapter 11 bankruptcy on Bloody Monday, September 15. Lehman's assets are of the order of $639 billion.

Potential Losers

Citigroup Inc., declined 15 percent to $15.24 for the steepest drop since July 2002. [Sept 15]

American Express Co., the biggest U.S. credit card company by purchases, fell 8.9 percent to $35.48. [Sept 15]

Goldman Sachs fell 12 percent, the most since April 2000, to $135.50. The decline was the result of short selling.[Sept 15]

Morgan Stanley, the biggest U.S. securities firm other than Goldman Sachs, fell 14 percent to $32.19." The decline was the result of short selling. [Sept 15]

(See Bloomberg, Sept 16, 2008)

In 2000, J.P. Morgan merged with Chase Manhattan, leading to the integration of J.P. Morgan, Chase, Chemical and Manufacturers Hanover into a single financial entity. Bear Stearns was acquired in 2008 by JP Morgan Chase following its collapse. This banking empire controlled by the Rockefeller family has assets of more than 1.6 trillion dollars.

With assets of $1.7 trillion, Citigroup's future remains undecided. It is facing serious financial difficulties which could lead it into bankruptcy. Citigroup share prices have in recent months collapsed alongside those of Fannie Mae. The Lehman debacle has precipitated a further decline of Citigroup stock prices.

It is the trustee "for unsecured creditors who are owed some $155 billion by Lehman Brothers", but according to Citgroup statements they "have little or no exposure to the failed investment bank."

What this means is that the collapse of Lehman will lead to massive loan default in relation to the portfolios of Citigroup and NY Mellon clients, namely client banking institutions as well as individual investors.

Note.

1. This section relied on a series of unpublished notes, on the 1999 Financial Services Modernization Act, Legislation, which I wrote in November 1999.

United States' Largest Banks

(in millions of U.S. dollars)

Rank	Name (city, state)	Consolidated assets
1.	Citigroup (New York, N.Y.)	$2,199,848
2.	Bank of America Corp. (Charlotte, N.C.)	1,743,478
3.	J. P. Morgan Chase & Company (Columbus, Ohio)	1,642,862
4.	Wachovia Corp. (Charlotte, N.C.)	808,575
5.	Taunus Corp. (New York, N.Y.)	750,323
6.	Wells Fargo & Company (San Fransisco, Calif.)	595,221
7.	HSBC North America Inc. (Prospect Heights, Ill.)	493,010
8.	U.S. Bancorp (Minneapolis, Minn.)	241,781
9.	Bank of the New York Mellon Corp. (New York, N.Y.)	205,151
10.	Suntrust, Inc. (Atlanta, Ga.)	178,986
11.	Citizens Financial Group, Inc. (Providence, R.I.)	161,759
12.	National City Bank (Cleveland, Ohio)	155,046
13.	State Street Corp. (Boston, MA)	154,478
14.	Capital One Financial Corp. (McLean, Va.)	150,608
15.	Regions Financial Corp. (Birmingham, Ala.)	144,251
16.	PNC Financial Services Group, Inc. (Pittsburg, Pa.)	140,026
17.	BB&T Corp. (Winston-Salem, N.C.)	$136,417
18.	TD Bank North, INC. (Portland, Maine)	118,171
19.	Fifth Third Bankcorp (Cincinatti, Ohio)	111,396
20.	Keycorp (Cleveland, Ohio)	101,596
21.	Northern Trust Corp. (Chicago, Ill.)	77,480
22.	Bancwest Corp. (Honolulu, Hawaii)	74,808
23.	Harris Financial Corp. (Wilmington, Del.)	69,172
24.	Comerica Incorporated (Dallas, Tex.)	67,167
25.	M&T Bank Corp. (Buffalo, N.Y.)	66,085

26.	Marshall & Ilsley Corp. (Milwaukee, Wis.)	63,432
27.	BBVA USA Bancshares, Inc. (The Woodlands, Tex.)	59,953
28.	Unionbancal Corporation (San Fransisco, Calif.)	57,933
29.	Huntington Bancshares, Inc. (Columbus, Ohio)	55,985
30.	Zions Bancorporation (Salt Lake City, Utah)	53,597

NOTE: As of May 30, 2008.
Source: Federal Reserve System, National Information Center.