Behind the Panic: Financial Warfare and the Future of Global Bank Power

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What's clear from the behavior of European financial markets over the past two weeks is that the dramatic stories of financial meltdown and panic are deliberately being used by certain influential factions in and outside the EU to shape the future face of global banking in the wake of the US sub-prime and Asset-Backed Security (ABS) debacle. The most interesting development in recent days has been the unified and strong position of the German Chancellor, Finance Minister, Bundesbank and coalition Government, all opposing an American-style EU Superfund bank bailout. Meanwhile Treasury Secretary Henry Paulson pursues his Crony Capitalism to the detriment of the nation and benefit of his cronies in the financial world. It's an explosive cocktail that need not have been.

Stock market falls of 7 to 10% a day make for dramatic news headlines and serve to foster a broad sense of unease bordering on panic among ordinary citizens. The events of the last two weeks among EU banks since the dramatic state rescues of Hypo Real Estate, Dexia and Fortis banks, and the announcement by UK Chancellor of the Exchequer, Alistair Darling of a radical shift in policy in dealing with troubled UK banks, have begun to reveal the outline of a distinctly different European response to what in effect is a crisis 'Made in USA.'

There is serious ground to believe that US Goldman Sachs ex CEO Henry Paulson, as Treasury Secretary, is not stupid. There is also serious ground to believe that he is actually moving according to a well-thought-out long-term strategy. Events as they are now unfolding in the EU tend to confirm that. As one senior European banker put it to me in private discussion, 'There is an all-out war going on between the United States and the EU to define the future face of European banking.'

In this banker's view, the ongoing attempt of Italian Prime Minister Silvio Berlusconi and France's Nicholas Sarkozy to get an EU common 'fund', with perhaps upwards of $300 billion to rescue troubled banks, would de facto play directly into Paulson and the US establishment's long-term strategy, by in effect weakening the banks and repaying US-originated Asset Backed Securities held by EU banks.

Using panic to centralize power

As I document in my forthcoming book, ***Power of Money: The Rise and Decline of the American Century,*** **in every major US financial panic since at least the Panic of 1835, the titans of Wall Street—most especially until 1929, the House of JP Morgan—have deliberately triggered bank panics behind the scenes in order to consolidate their grip on US banking. The private banks used the panics to control**

Washington policy including the exact definition of the private ownership of the new Federal Reserve in 1913, and to consolidate their control over industry such as US Steel, Caterpillar, Westinghouse and the like. They are, in short, old hands at such financial warfare to increase their power.

Now they must do something similar on a global scale to be able to continue to dominate global finance, the heart of the power of the American Century.

That process of using panics to centralize their private power created an extremely powerful, concentration of financial and economic power in a few private hands, the same hands which created the influential US foreign policy think-tank, the New York Council on Foreign Relations in 1919 to guide the ascent of the American Century, as Time founder Henry Luce called it in a pivotal 1941 essay.

It's becoming increasingly obvious that people like Henry Paulson, who by the way was one of the most aggressive practitioners of the ABS revolution on Wall Street before becoming Treasury Secretary, are operating on motives beyond their over-proportional sense of greed. Paulson's own background is interesting in that context. Back in the early 1970's Paulson started his career working for a rather notorious man named John Erlichman, Nixon's ruthless adviser who created the Plumbers' Unit during the Watergate era to silence opponents of the President, and was left by Nixon to 'twist in the wind' for it in prison.

Paulson seems to have learned from his White House mentor. As co-chairman of Goldman Sachs according to a New York Times account, in 1998 he forced out his co-chairman, Jon Corzine 'in what amounted to a coup' according to the Times.

Paulson, and his friends at Citigroup and JP Morgan Chase, had a strategy it is becoming clear, as did the Godfather of Asset Backed Securitization and deregulated banking, former Fed Chairman Alan Greenspan, as I have detailed in my earlier series here, Financial Tsunami, Parts I-V.

Knowing that at a certain juncture the pyramid of trillions of dollars of dubious sub-prime and other high risk home mortgage-based securities would come falling down, they apparently determined to spread the so-called 'toxic waste' ABS securities as globally as possible, in order to seduce the big global banks of the world, most especially of the EU, into their honey trap.

They had help. In recent testimony under oath by Mr Lynn Turner, Chief Accountant of the Securities & Exchange Commission (SEC) testified that the SEC Office of Risk Management which had oversight responsibility for the Credit Default Swap market, an exotic market worth nominally some $62 trillions, was cut in Administration 'budget cuts' from a staff of one hundred down to one person. Yes, that was not a typo. That's one as in 'Uno.'

Vermont Democratic Congressman Peter Welsh queried Turner, '… was there a systematic depopulating of the regulatory force so that it was impossible actually for regulation to occur if you have one person in that office? …and then I understand that 146 people were cut from the enforcement division of the SEC, is that what you also testified to?' Mr. Turner, in Congressional testimony replied, 'Yes…I think there has been a systematic gutting, or whatever you want to call it, of the agency and it's capability through cutting back of staff.'

Was that just ideological budget cutting fervor, or was it deliberate? Was former Goldman

Sachs man, the man who convinced the President to hire Paulson, Bush's former Director of the Office of Management and Budget (OMB), Joshua Bolten, now the President's Chief of Staff, responsible for insuring there was no effective government oversight on the exploding securitization of mortgage assets?

These are perhaps some questions which the good Congressmen in both parties ought to be asking people like Henry Paulson and Josh Bolten, and not such red herring questions as how large Richard Fuld's bonus pay at Lehman was. Are Mr Bolten's fingerprints on the corpse here? And why is no one questioning the role of Paulson as CEO of Goldman Sachs, then the most aggressive promoter of exotic and other Asset Backed Securitization products on Wall Street?

Why did Henry Paulson single out one Wall Street firm, a bitter rival of his when he was CEO of Goldman Sachs according to market reports, and let it, as his mentor Erlichman was fond of saying, 'to twist in the wind.' It is the Lehman Bros. unwinding and its huge portfolio of Credit Default Swaps which is reportedly leading hedge funds and banks around the globe into panic selloffs.

It now would appear that the Paulson strategy was to use a crisis—a crisis that was pre-programmed and predictable as far back as 2003 when Josh Bolten became head of OMB—when it exploded, to panic the more conservative European Union governments into rushing to the rescue of US toxic waste assets.

Were that to have happened, it would in the process destroy what was left of sound EU banking and financial institutions, bringing the world one step closer to a global money market controlled by Paulson's cronies—US-style Crony Capitalism. Crony Capitalism is certainly appropriate here. Paulson's predecessor at both Goldman Sachs and at Treasury, Robert Rubin, liked to accuse the Asian bankers of Thailand, Indonesia and other lands hit with the speculative attacks of US-financed hedge funds in 1997 of 'crony capitalism,' leaving the impression the crisis was home grown in Asia and not the result of a deliberate executed attack by US-financed financial institutions to eliminate the Asia Tiger model among other goals, and turn Asia into the funder of US debt.

Interesting to note is that Rubin is now a Director of Citigroup, obviously one of Paulson's crony bank 'survivors,' and the bank which to date has had to write off the largest sum in toxic waste securitized assets.

If the allegation of pre-planned panic, a la the Panic of 1907 is accurate, and it is a big if, then the plan worked…up to a point. That point came over the weekend of October 3, coincidentally the national unification holiday of Germany.

Germany breaks with US model

In closed door talks well into the evening of Sunday October 5, Alex Weber the hard-nosed head of the Bundesbank, BaFin head Jochen Sanio and representatives of the Berlin coalition Government of Chancellor Merkel came up with a rescue package for Hypo Real Estate of a nominal €50 billion. However, behind the dramatic headline number, as Weber pointed out in a September 29 letter to Finance Minister Peer Steinbrück that has been made public, not only did the private German banks have to come up with 60% of that figure, the state with

40%. But also, given the careful manner in which the Government in cooperation with the Bundesbank and BaFin, structured the rescue credit agreement, the maximum possible loss, in a worst case scenario, to the state would be limited to €5.7 billion, not €30 billion as many believed. It's still real money but not the blank check for $700 billion that a US Congress under duress and a few days of falling stock market prices agreed to give Paulson.

The swift action by Finance Minister Steinbrück to fire the head of HRE, in stark contrast to Wall Street where the same criminal fraudsters remain at their desks reaping huge bonuses, indicates as well a different approach. But that does not cut to the heart of the issue. The situation of HRE arose as noted previously, from excesses in a wholly-owned daughter bank of HRE subsidiary DEPFA in Ireland, an EU country known for its liberal loose regulation and low tax regime.

A British policy shift

In the UK, after the costly and foolish bailout of Northern Rock earlier in the year, the Government of Prime Minister Gordon Brown has just announced a dramatic change in policy in the direction of Germany's position. Britain's banks will get an unprecedented 50 billion-pound (€64 billion) government lifeline and emergency loans from the Bank of England.

The government will buy preference shares from Royal Bank of Scotland Group Plc, Barclays Plc and at least six other banks, and provide about 250 billion pounds of loan guarantees to refinance debt, the Treasury said. The Bank of England will make at least 200 billion pounds available. The plan doesn't specify how much each bank will get.

That means the UK Government will at least partially nationalize its most important international banks, rather than buy their bad loans as under the unworkable Paulson plan. Under such an approach, costs to UK taxpayers once the crisis abates and business returns to more normal conditions, the Government can sell the state shares back to a healthy bank at perhaps a nice profit to the Treasury. The Brown Government has apparently realized that the blanket guarantees it gave to Northern Rock and Bradford & Bingley merely opened the floodgates of government costs without changing the problem.

The new nationalization policy is a dramatic contrast to the Paulson ideological 'free market' approach of buying the worthless bonds held by the select banks Paulson chooses to save, rather than recapitalize those banks to allow them to continue to function.

The battle lines drawn

What has emerged are the outlines of two opposite approaches to the unfolding crisis. The Paulson plan is now clearly part of a project to create three colossal global financial giants—Citigroup, JP MorganChase and, of course, Paulson's own Goldman Sachs, now conveniently enough a bank. Having successfully used fear and panic to wrestle a $700 billion bailout from the US taxpayers, now the big three will try to use their unprecedented muscle to ravage European banks in the years ahead. So long as the world's largest financial credit rating agencies—Moody's and Standard & Poors—are untouched by the scandals and Congressional hearings, the reorganized US financial power of Goldman Sachs, Citigroup and JP Morgan Chase could potentially regroup and advance their global agenda over the coming several years, walking over the ashes of a bankrupt American economy made bankrupt by their follies.

By agreeing on a strategy of nationalizing what EU finance ministers deem are 'EU banks too systemically strategic to fail,' while guaranteeing bank deposits, the largest EU governments, Germany and the UK, in contrast to the US, have opted for what will in the longer run allow European banking giants to withstand the anticipated financial attacks from the likes of Goldman or Citigroup.

The dramatic selloff of stocks across European bourses and across Asia is in reality a secondary and far less critical issue. According to market reports, the selloff is being driven mainly by US hedge funds desperate to raise cash as they realize the US economy is going into economic depression, that they are exposed and that the Paulson Plan does nothing to address that.

A functioning solvent banking and interbank system is far the more strategic issue. The ABS debacle was 'Made in New York.' Nonetheless, its effects have to be isolated and viable EU banks defended in the public interest, not just the interest of Paulson's banking cronies as in the US. Unregulated offshore vehicles such as hedge funds, unregulated banking, unregulated insurance all went into building the $80 trillion ABS Tsunami as I have called it. Certain more conservative EU hands are not about to buy the remedy being offered by Washington.

The coordinated interest rate cut by the ECB and other European central banks while grabbing headlines, in effect do little to address the real problem: banks fear to lend to each other until their solvency is assured.

By initiating state partial nationalizations across the EU, and rejecting the Berlusconi/Sarkozy bailout scheme, the governments of the EU, interestingly enough this time led by the German, are laying a more sound foundation to emerge from the crisis.

Stay tuned, it's far from over. This is a fight for the survival of the American Century which has been bvuilt since 1939 on the twin pillars of American financial dominance and American military dominance—Full Spectrum, Dominance.

Asian banks, badly burned by Wall Street's manipulated 1997-98 Asia Crisis, are apparently very little exposed to the US problem. European banks are exposed in different ways, but none so serious as in the US banking world.

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What is so frightening about Engdahl's vision of the world is that it is so real. Although our civilization has been built on humanistic ideals, in this new age of "free markets", everything– science, commerce, agriculture and even seeds– have become weapons in the hands of a few global corporation barons and their political fellow travelers. To achieve world domination, they no longer rely on bayonet-wielding soldiers. All they need is to control food production. (Dr. Arpad Pusztai, biochemist, formerly of the Rowett Research Institute Institute, Scotland)

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