# Financial Meltdown on Wall Street

## Excerpt from Introduction to The Global Economic Crisis. The Great Depression of the XXI Century

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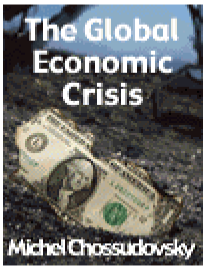
*The following text is a preview from Global Research Publishers' recent book on the Global Economic Crisis.*

Scroll down to read an excerpt from Michel Chossudovsky's Introduction, which focusses on the 2008 Financial Meltdown of Wall Street.

**The Global Economic Crisis**




Michel Chossudovsky
Andrew G. Marshall (editors)

**Financial Meltdown on Wall Street**
**by Michel Chossudovsky**

**Excerpt from Chapter 1**

*We are at the crossroads of the most serious economic crisis in world history.*

*The economic crisis has by no means reached its climax, as some economists have predicted.*

*The crisis is deepening, with the risk of seriously disrupting the structures of international trade and investment.*

The Nature of the Economic Crisis

In contrast to Roosevelt's New Deal, adopted at the height of the Great Depression, the macroeconomic policy agenda of the Obama administration does not constitute a solution to the crisis. In fact, quite the opposite: it directly contributes to the concentration and centralization of financial wealth, which in turn undermines the real economy.

The crisis did not commence with the 2008 meltdown of financial markets. It is deeply rooted in major transformations in the global economy and financial architecture which unfolded in several stages since the early 1980s. The September-October 2008 stock market crash was the outcome of a process of financial deregulation and macroeconomic reform.

We are dealing with a long-term process of economic and financial restructuring. In its earlier phase, starting in the 1980s during the Reagan-Thatcher era, local and regional level enterprises, family farms and small businesses were displaced and destroyed. In turn, the merger and acquisition boom of the 1990s led to the concurrent consolidation of large corporate entities both in the real economy as well as in banking and financial services.

International commodity trade has plummeted. Bankruptcies are occurring in all major sectors of activity: agriculture, manufacturing, telecoms, consumer retail outlets, shopping malls, airlines, hotels and tourism, not to mention real estate and the construction industry.

What is distinct in this particular phase of the crisis is the ability of the financial giants – through stock market manipulation as well as through their overriding control over credit – not only to create havoc in the production of goods and services, but also to undermine and destroy large and well established business corporations.

This crisis is far more serious than the Great Depression. All major sectors of the global economy are affected. Factories are closed down. Assembly lines are at a standstill. Unemployment is rampant. Wages have collapsed. Entire populations are precipitated into abysmal poverty. Livelihoods are destroyed. Public services are disrupted or privatized. The repercussions on people's lives in North America and around the world are dramatic.

**The Financial Meltdown**

The subprime residential mortgage crisis leading to millions of people losing their homes reached its climax in the last days of August 2008, when financial institutions reported billions of dollars in losses.

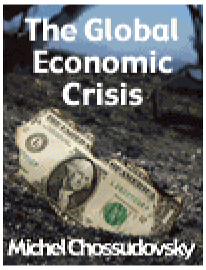
Friday, September 12, 2008, Lehman Brothers faced collapse in weekend negotiations behind closed doors on Wall Street. Black Monday descended on September 15, 2008. Following the filing for Chapter 11 Bankruptcy by Lehman on Monday morning, the Dow Jones industrial average declined by 504 points (4.4 percent), its largest drop since September 17, 2001, when trading resumed on Wall Street after the 9/11 attacks.

The following day, it was the turn of AIG, the insurance conglomerate. On the evening of September 16, the Bush administration "granted an $85 billion loan to AIG in exchange for a controlling 79.9% equity share of the company".[1]

The financial slide proceeded unabated throughout September. Barely two weeks later, on Monday, September 29, the Dow Jones plummeted by 778 points, its largest one-day drop in the history of the New York Stock Exchange. This followed the rejection by the U.S. House of Representatives of the Bush administration's 700 billion dollar bailout plan, which was slated to come to the rescue of the banks affected by the subprime mortgage crisis. In a single day, 1.2 trillion dollars had seemingly evaporated.

The world's stock markets are interconnected around the clock through instant computer link-up. Instability on Wall Street immediately spills over into the European and Asian stock markets, thereby rapidly permeating the entire financial system.

**The Global Economic Crisis**

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*Cont.*

**Speculative Onslaught on Black Monday, September 29, 2008**

There was something disturbing about the Black Monday, September 29, 2008 collapse of Wall Street, following the decision of the U.S. House of Representatives. Did this paper money "vanish into thin air" as claimed by financial analysts, or was it "appropriated" by institutional speculators in one of the largest transfers of money wealth in American history?

There was prior knowledge on how the Congressional vote would proceed. President Bush's speeches had intimated that a collapse would occur. There was also an expectation that the market would crumble if the proposed 700 billion dollar bailout were to be rejected by the U.S. Congress.

Speculators, including major financial institutions, had already positioned themselves. Powerful financial actors with prior knowledge and access to privileged information prior to the House's rejection of the bill made billions in speculative trade on Black Monday when the market crumbled. And thenon Tuesday, September 30, they made billions when themarket rebounded, with the Dow jumping up by 485 points, a 4.68 percent increase, compensating in part for Monday's decline. Those financial actors who had foreknowledge and/or who had the ability to influence the vote in the U.S. Congress also made billions of dollars.

Ironically, almost twice as much money was wiped out from the U.S. stock market on Black Monday, September 29 (1.2 trillion dollars) than the value of the Bush administration's bank bailout under the Troubled Assets Relief Program (TARP) (700 billion dollars).

Even before the opening bell, Monday looked ugly. But by the time that bell sounded again on the New York Stock Exchange, seven and a half frantic hours later, $1.2 trillion had vanished from the U.S. stock market.[2]

This money did not vanish. It was confiscated from the pockets of people who had invested their lifelong savings in the stock market.

While public opinion celebrated the refusal of the U.S. Congress to accept the Bush administration's bailout, the decision of the legislature had fed the speculative onslaught.

Political uncertainty regarding the proposed bailout constituted ammunition for the speculators.

In a bitter irony, the Wall Street banks are "double dippers"; they are the recipients of the bank bailout. And at the same time they made money speculating first on the rejection by the U.S. Congress and subsequently on the later adoption of the bank bailout legislation.

On October 1, Wachovia Bank was taken over by Wells Fargo, overriding a competing bid from Citigroup. The deal was sealed with the support of Warren Buffett, the richest man in the world, according to Forbes, and a major shareholder of Wells Fargo.[3]

The first week in October 2008 represented a crucial turning point. The Dow Jones fell by 21 percent over the week, with Thursday, October 9 suffering its biggest fall since Black Monday, October 19, 1987. The S&P 500 index lost 22 percent of its value. The entire western banking landscape was in disarray. Iceland's banking system was destabilized and the country was put in receivership. The Reykjavik government gave the green light for the forced bankruptcy of the entire banking system.

Following a pledge by G7 finance ministers and central bank governors on the weekend of October 10-11 to prevent further bank collapses, the world's stock markets rebounded on October 13. The G7 had committed itself to "taking all necessary steps to unfreeze credit and money markets". The Dow increased by 936 points (eleven percent) at the close of trading on October 13, its largest one day increase since 1933.4 Most European exchanges had "recovered", with the Paris CAC index rebounding by an astounding 8.8 percent at the close of trading.

This short-lived "recovery" was part of the speculative game. Two days later, on October 15, Black Wednesday, the Dow Jones plummeted by 7.9 percent.

The sequence of a "one day collapse" followed by a "one day surge" and recovery, followed by another "one day collapse" a few days later, is part of the process of financial manipulation. Day to day instability and swings in stock market values are the source of large windfall profits accruing to "institutional speculators" and hedge funds.

**Financial Warfare: The Powers of Deception**

The September-October 2008 financial meltdown was not the consequence of a cyclical downturn of economic activity. It was the result of a complex process of financial manipulation, which included speculative trade in derivatives.

Financial manipulation has a direct bearing on the workings of the market. It potentially triggers instability in market transactions. This snowballing instability then becomes cumulative, leading to an overall slide of market values.

Inside information, high level political connections and foreknowledge of key policy announcements are crucial instruments in the conduct of large-scale speculative operations.

"Financial intelligence" and the powers of deceit were the driving forces behind the 2008 financial meltdown. Covert undercover financial operations were waged. Those powerful financial institutions, which had the ability to drive the market up at an opportune moment and then drive it down, had placed their bets accordingly. As a result, they reaped billions of dollars in windfall gains both on the upturn as well as on the downturn.

In contrast, for those who had put their faith in the free market, lifelong savings were erased in one fell swoop, appropriated by the shadow banking system. The crash of financial markets had led to a massive concentration of financial wealth.

The weapons used on Wall Street are prior knowledge and inside information, the ability to manipulate with the capacity to predict results and the spreading of misleading or false information on economic occurrences and market trends. These various procedures are best described as the powers of deception that 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, 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 and offshore banking enable financial institutions to transfer their profits with ease from one location to another. This procedure is also used as a safety net that protects the interests of key financial actors including CEOs and major shareholders of troubled financial institutions. Companies can be divested from within and 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, not to mention Bernhard Madoff).

As events unfolded, Merrill Lynch was bought and Lehman Brothers was pushed into bankruptcy. These are not haphazard occurrences. They are the result of manipulation, using highly leveraged speculative operations to achieve their objective, which consists in either displacing or acquiring control over a rival financial institution. The 2008 financial meltdown has nothing to do with free market forces: it is characterized by financial warfare between competing institutional speculators.

The Federal Reserve Bank of New York and its powerful Wall Street stakeholders – which are Wall Street's largest private banks – have inside information on the conduct of U.S. monetary policy. They are therefore 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 U.S. intelligence, the CIA, Homeland Security and the Pentagon are crucial in the conduct of speculative trade, since that allows the speculators to predict events through prior knowledge of foreign policy and/or national security decisions which directly affect financial markets. An example: they purchased "put options" on airline stocks in the days preceding the 9/11 attacks.

**Notes**

1. Daniel R. Amerman, "AIG's Dangerous Collapse", Financialsense, http://www.financialsense.com/fsu/editorials/amerman/2008/ 0917.html, 17 September 2008.

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4. Michael M. Grynbaum, "Stocks Soar 11 Percent on Aid to Banks", New York Times, http://www.nytimes.com/2008/10/14/business/14 markets.html, 13 October 2008.

*__Michel Chossudovsky__ is an award-winning author, Professor of Economics (Emeritus) at the University of Ottawa and Director of the Centre for Research on Globalization (CRG), Montreal. He is the author of The Globalization of Poverty and The New World Order (2003) and America's "War on Terrorism" (2005). He is also a contributor to the Encyclopaedia Britannica. His writings have been published in more than twenty languages.*

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**Michel Chossudovsky and Andrew Gavin Marshall (Editors)**

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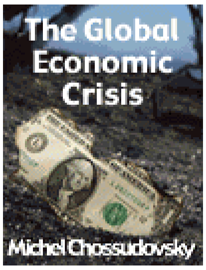
**The Global Economic Crisis**

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*This book takes the reader through the corridors of the Federal Reserve, into the plush corporate boardrooms on Wall Street where far-reaching financial transactions are routinely undertaken. Each of the authors in this timely collection digs beneath the gilded surface to reveal a complex web of deceit and media distortion which serves to conceal the workings of the global economic system and its devastating impacts on people`s lives.*

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