Who is Behind the Financial Meltdown?

Market Manipulation and the Institutional Speculator

By Prof Michel Chossudovsky
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Theme: Global Economy

The market is heavily manipulated. The driving force behind the meltdown is speculative trade. The system of "private regulation" serves the interests of the speculators.

While most individual investors loose when the market falls, the institutional speculator makes money when there is a financial collapse.

In fact, triggering market collapse can be a very profitable undertaking.

There are indications that the Security Exchange Commission (SEC) regulators have created an environment which supports speculative transactions.

There are several instruments including futures, options, index funds, derivative securities, etc. used to make money when the stock market crumbles.

The more it falls, the greater the gains.

Those who make it fall are also speculating on its decline.

With foreknowledge and inside information, a collapse in market values constitutes 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.

Short Selling

One important instrument used by speculators to make money out of a financial meltdown is "short selling".

"Short selling" consists in selling large amounts of stocks which you do not possess and then buying them in the spot market once the price has collapsed, with a view to completing the transaction and cashing in on the profits.

The role of short selling in bringing down companies is well documented. The collapse of Lehman, Merrill Lynch and Bear Stearns was in part due to short selling.

Short selling has also been used extensively in currency markets. It was one of the main instruments used by speculators during the 1997 Asian Crisis to bring down the Thai baht, the Korean won and Indonesian rupiah.

Speculation in major currency markets also characterizes the ongoing financial crisis. There have been major swings in currency values with the Canadian dollar, for instance, loosing 10% of its value in the course of a few trading days.

Temporary Ban on Short Selling

Following the stock market meltdown on Black Monday September 15, the Security Exchange Commission (SEC) introduced a temporary ban on short selling. In a bitter irony, the SEC listed a number of companies which were "protected by regulators from short sellers". The SEC September 18 ban on short selling pertained largely to banks, insurance companies and other financial services companies.

The effect of being on a "protected list" was to no avail. It was tantamount to putting those listed companies on a "hit list". If the SEC had implemented a complete and permanent ban on short selling coupled with a freeze on all forms of speculative trade, including index funds and options, this would have contributed to reducing market volatility and dampening the meltdown.

The ban on short selling was applied with a view to establishing the protected list. It expired on Wednesday October 8 at midnight.

The following morning, Thursday 9th of October, when the market opened up, those companies on the "protected list" became "unprotected" and were the first target of the speculative onslaught, leading to a dramatic collapse on of the Dow Jones on Thursday 9th and Friday 10th.

The course of events was entirely predictable. The lifting of the ban on short selling contributed to accentuating the downfall in stock market values. The companies which were on the hit list were the first victims of the speculative onslaught.

The shares of Morgan Stanley dropped 26 percent on October 9th, upon the expiry of the short-selling ban and a further 25 percent the following day.

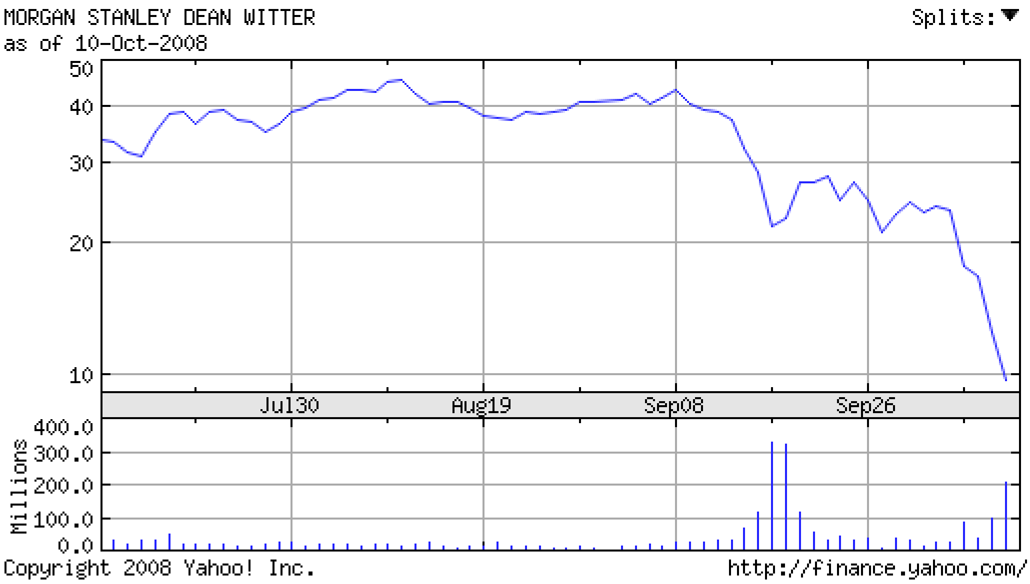
Financial warfare

There are indications that the downfall of Morgan Stanley was engineered by financial rivals. A day prior to the September 18th ban on short selling, Morgan Stanley was the object of rival speculative attacks:

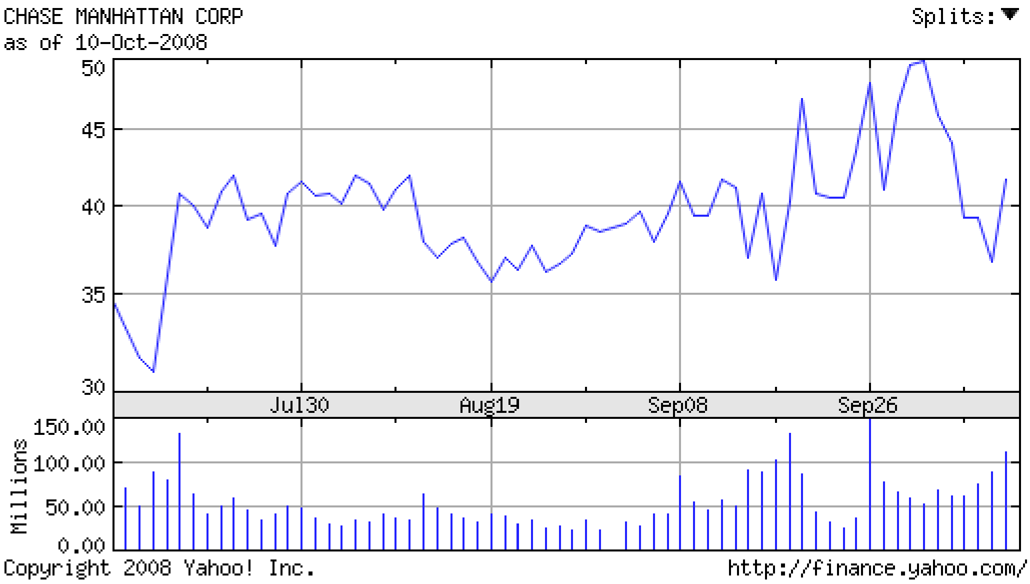
> John Mack, chief executive of Morgan Stanley, told employees in an internal memo Wednesday [September 17]: "What's happening out there? It's very clear to me – we're in the midst of a market controlled by fear and rumours, and short sellers are driving our stock down."' (Financial Times, September 17, 2008)

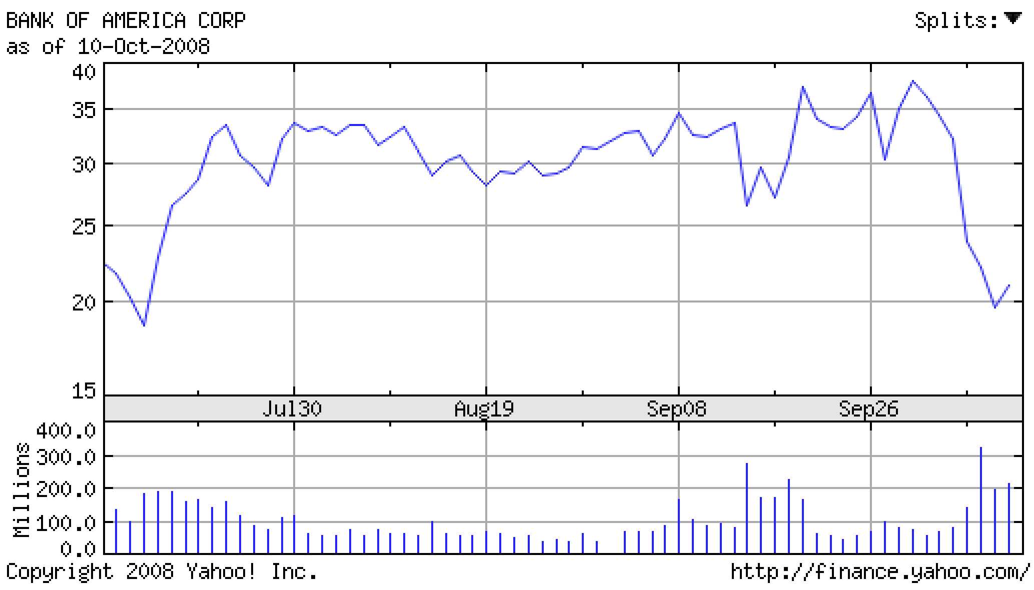
Morgan Stanley was also the object of doubts expressed by the ratings agency Moody's, which contributed to investors dumping Morgan Stanley stock.

> Moody's cited an expectation that "an expected downturn in global capital market activity will reduce Morgan Stanley's revenue and profit potential in 2009, and perhaps beyond this period".



In contrast JP Morgan Chase, controlled by the Rockefeller family climbed by almost 12%.





The winners of financial warfare are JP Morgan Chase and Bank America. Both banking institutions have consolidated their control over the US banking landscape. They have used the financial crisis to displace and/or take over rival financial institutions.

The concentration of wealth and the centralization of financial power resulting from market manipulation is unprecedented.

Regulators Serve the Interests of Speculators

The SEC was fully aware that the ban on short selling would serve to exacerbate the downfall.

Why did they carry it out? How did they justify their decision? Who's interests are they serving?

In a twisted logic, the SEC, which largely serves the interests of institutional speculators, contends, quoting the results of an academic research paper, that short selling contributes to reducing market instability, thereby justifying the repeal of the September 18 short selling ban.

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Michel Chossudovsky is Professor of Economics at the University of Ottawa and Director of the Centre for Research on Globalization (CRG), which hosts the critically acclaimed website www.globalresearch.ca . He is a contributor to the Encyclopedia Britannica. His writings have been translated into more than 20 languages.

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About the author:

Michel Chossudovsky is an award-winning author, Professor of Economics (emeritus) at the University of Ottawa, Founder and Director of the Centre for Research on Globalization (CRG), Montreal, Editor of Global Research. He has taught as visiting professor in Western Europe, Southeast Asia, the Pacific and Latin America. He has served as economic adviser to governments of developing countries and has acted as a consultant for several international organizations. He is the author of 13 books. He is a contributor to the Encyclopaedia Britannica. His writings have been published in more than twenty languages. In 2014, he was awarded the Gold Medal for Merit of the Republic of Serbia for his writings on NATO's war of aggression against Yugoslavia. He can be reached at crgeditor@yahoo.com