ECONOMIC 9-11: The Financial Hijacking of America

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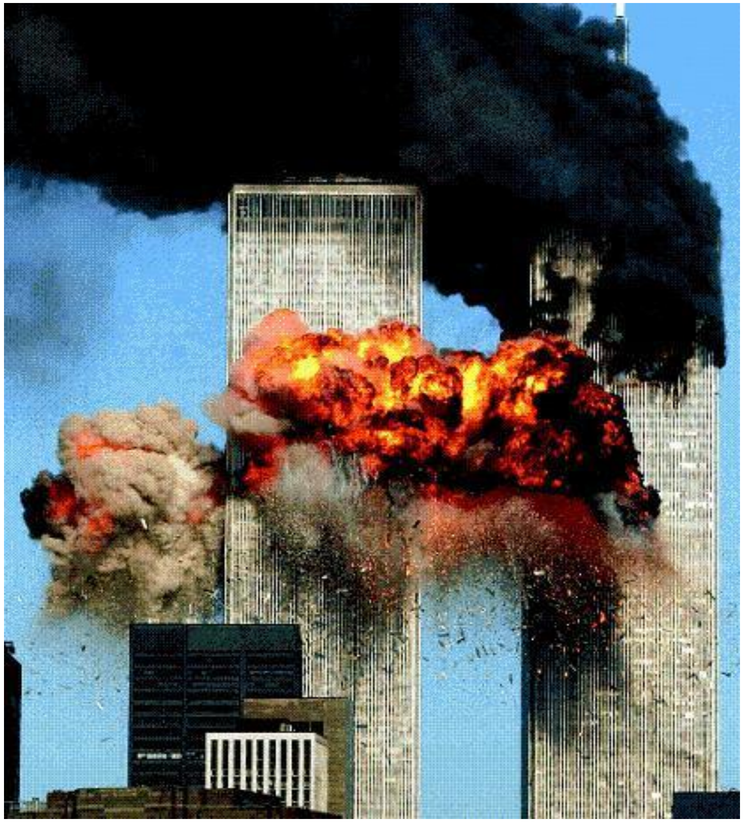
What we learned from 9-11: major disasters can be used to justify major changes – from giving up personal rights to giving up national sovereignty. Naomi Klein calls it the “shock doctrine” or “disaster capitalism.”



A lesser known 9-11: September 11, 2008 was the day Lehman Brothers was bombed in the stock market.

Although Lehman went bankrupt on Sept 15, its stock actually collapsed on Sept 11 – its highest trading volume and biggest drop ever before bankruptcy.

The Lehman bankruptcy was the largest in history, sending shockwaves around the world.


THE TI

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Tuesday September 16 2008 timesonline.co.uk No 69430

Lehman collapse sends shockwave round world

hares and oil prices plunge, thousands lose jobs

ry Duncan Economics Editor

ars of a global financial meltdown w yesterday as the world's biggest ıkruptcy plunged markets into noil.

ıvestors were left reeling as the ıpt demise of the Lehman Broth- investment bank sparked the est shake-up on Wall Street in ıdes.

nother of US capitalism's biggest tutions, Merrill Lynch, is to be lowed by Bank of America in a billion takeover to save it from ose.

ıres fell as fear spread through ıancial system. Central banks un- urgent measures amid concerns ıe world economy was entering gerous new phase. The Bank of ıd injected £5 billion of emer- lending into money markets. 5,000 Lehman staff in Britain

Dow Jones industrial average was down 300 points, or 2.6 per cent. Sentiment was also bolstered by steep falls in oil prices, which dropped by more than $5 a barrel to $96, closing under $100 for the first time in six months and raising hopes that cheaper fuel would ease economic stresses on Western nations.

However, by close of trading the Dow had fallen by more than 500 points — its biggest one-day drop since the reopening after the September 11 attacks — as concerns mounted over the world's largest insurer. Shares in American International Group (AIG), which sponsors Manchester United, fell by 45 per cent after it made an unprecedented approach to the US Federal Reserve for $40 billion in emergency funding.

Last night the Fed asked Goldman Sachs and J P Morgan Chase, two of Wall Street's remaining big banks, to head a $75 billion emergency package to keep AIG afloat.

As central banks battled to stabilise the system, the Fed eased its rules for emergency lending further. It announced that it would accept company shares in return for crisis loans for the first time. In Frankfurt, the European Central Bank injected €30 billion in emergency funds into eurozone markets.

A group of ten global banks also attempted to foster calm announci...

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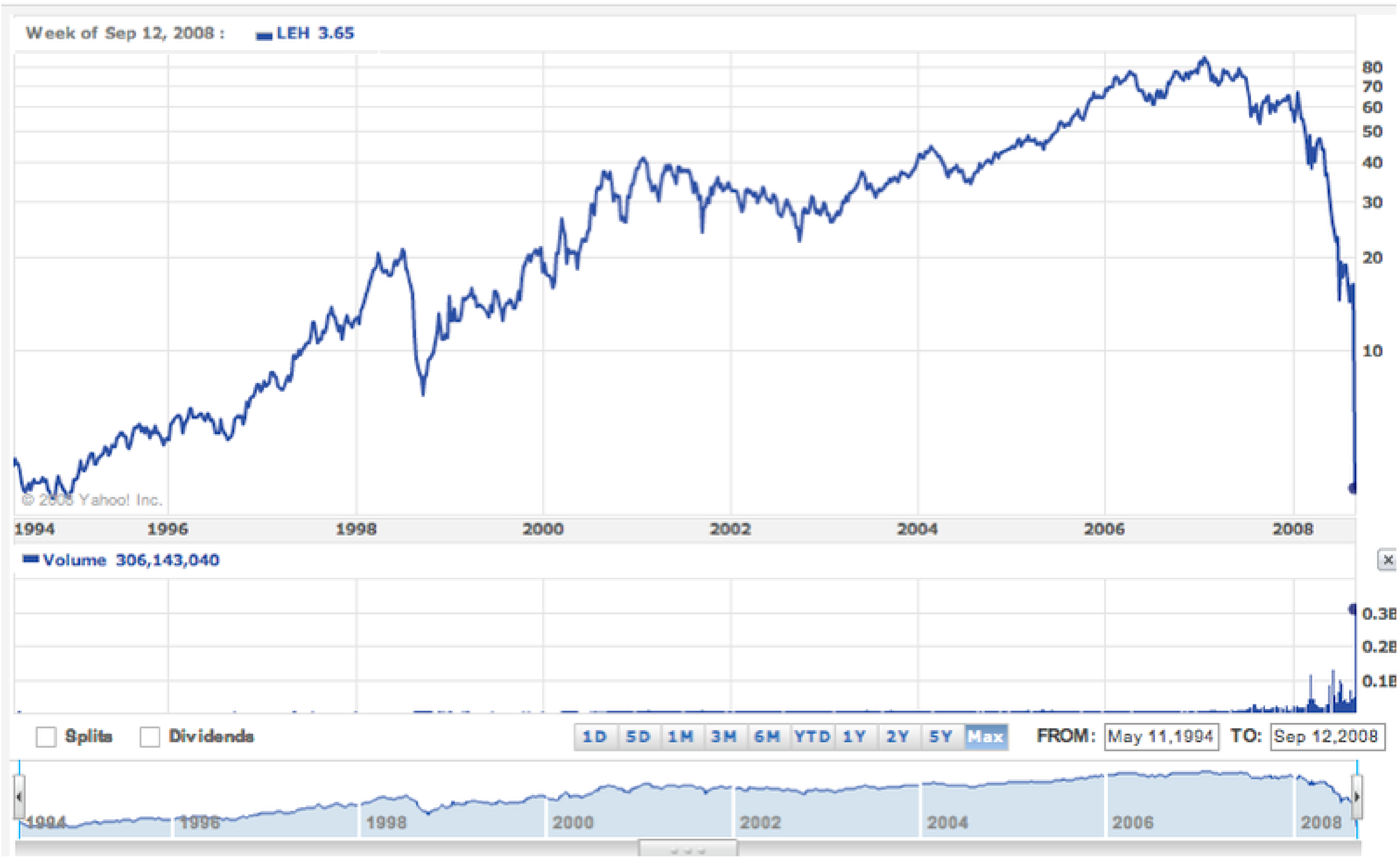
It was a “catalyzing event.” Banks that were “too big to fail” would thereafter be rescued by the taxpayers, no matter what the cost.

Ft.com

What went wrong? Lehman's stock hit its all-time high in 2007, and the bank's books seemed to be in no worse shape than other Wall Street banks.



- CEO Richard Fuld said Lehman was brought down by false rumors and illegal naked short selling.
- By Sept 11, per the SEC, as many as *32.8 million LEH shares* had been sold and not delivered – more than a *57-fold increase* over the prior year's peak.

Lehman had the assets to back its liabilities, so technically it was not "insolvent." It was "illiquid" – the other banks would not lend to it.

- In March 2010, the Lehman bankruptcy trustee reported that JPMorgan and Citigroup contributed to Lehman's fall by demanding additional collateral for their short-term loans – although JPM's own analysis indicated that it was actually over-collateralized.

Bear Stearns, too, had the collateral but was illiquid, because the other banks would not lend to it.

- In March 2008, the FRBNY agreed to lend Bear $25 billion, to provide the liquidity the market would not provide. Then it changed its mind and lent the money to JPM to buy Bear for $2/share, down from a high of $133. The loan was made ON BEAR'S OWN COLLATERAL.

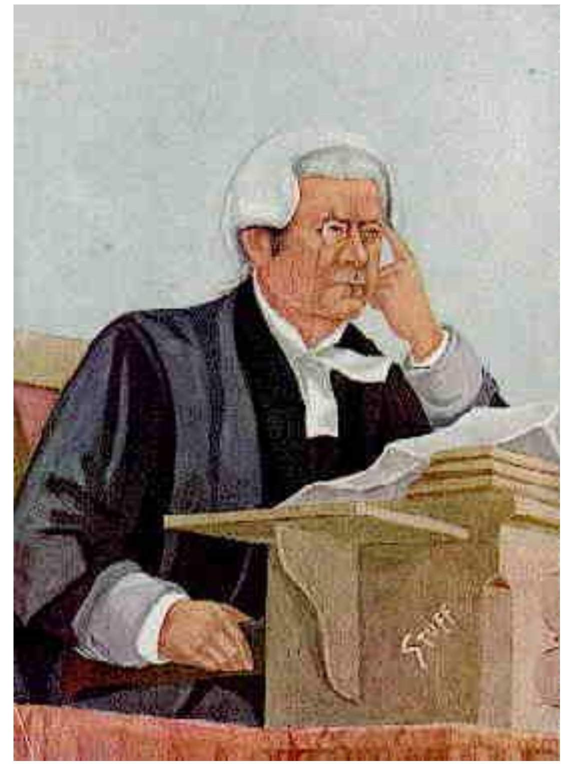
- Ben Bernanke called it a “bailout,” but for Bear it was a “hostile takeover.” Bernanke defended it as necessary to prevent a massive wave of cross-defaults and “chaotic unwinding” of investments across U.S. markets.
- Bernanke and Paulson worked all summer for a TARP-type bank bailout, but Congress was slow to go along.
- *They needed an economic 9-11.*

“Lehman Had to Die, It Seems, So Global Finance Could Live,” NYTimes, Sept 14, 2009

- “Lehman Brothers became a victim, in effect *the only true icon to fall* in a tsunami that has befallen the credit markets.”

  -- Judge James Peck, the bankruptcy judge ruling on the case

- Lawrence MacDonald says in “A Colossal Failure of Common Sense” that the free market was allowed to work for only one day. Lehman was just “put to sleep” with a pillow over her head.



Why would one bankruptcy be so calamitous? On Sept 18, according to Rep. Paul Kanjorski on CSPAN, there was a *$550 billion* run on the money market funds in the space of an hour or two, threatening to collapse the economy.

- KANJORSKI: On Thursday at about 11 o'clock in the morning the Federal Reserve noticed a tremendous drawdown of money market accounts in the United States, to the tune of $550 billion was being drawn out in a matter of an hour or two. The Treasury opened up its window to help. It pumped $105 billion in the system and quickly realized that they could not stem the tide; we were having an electronic run on the banks. They decided to close the operation, close down the money accounts and announce a guarantee of $250,000 per account so there wouldn't be further panic out there.

KANJORSKI: If they had not done that, their estimation was that by two o'clock that afternoon, five-and-a-half trillion dollars would have been drawn out of the money market system of the United States, would have collapsed the entire economy of the United States, and within 24 hours the world economy would have collapsed. *It would have been the end of our economic system and our political system as we know it.*

Unanswered questions . . .

- The Lehman bankruptcy occurred on Sept 15. Why was the disastrous run on the money markets not till Sept 18?
- A report by the Joint Economic Committee pointed to the $62 billion Reserve Primary Fund "breaking the buck," but that was on Sept 15.
- On Sept 16, AIG was bailed out with $80 billion from the Fed, and the stock market actually rose. What happened on the 17th?
- Per the SEC, failed trades (naked short sales) climbed to *49.7 million – 23%* of trades.

“Let’s play Wall Street bailout” -- Rep. Marcy Kaptur, D-Ohio:

More unanswered questions . . .

- Why did Fed Chairman Bernanke not stop the bleeding by offering to buy commercial paper directly?
- He said he lacked the authority. But the weekend after Congress voted to approve the TARP, he announced that the Fed would do just that -- create a special lending facility to buy commercial paper.

Where did the Fed get $80 billion to bail out AIG? Congress, too, wants to know . . .

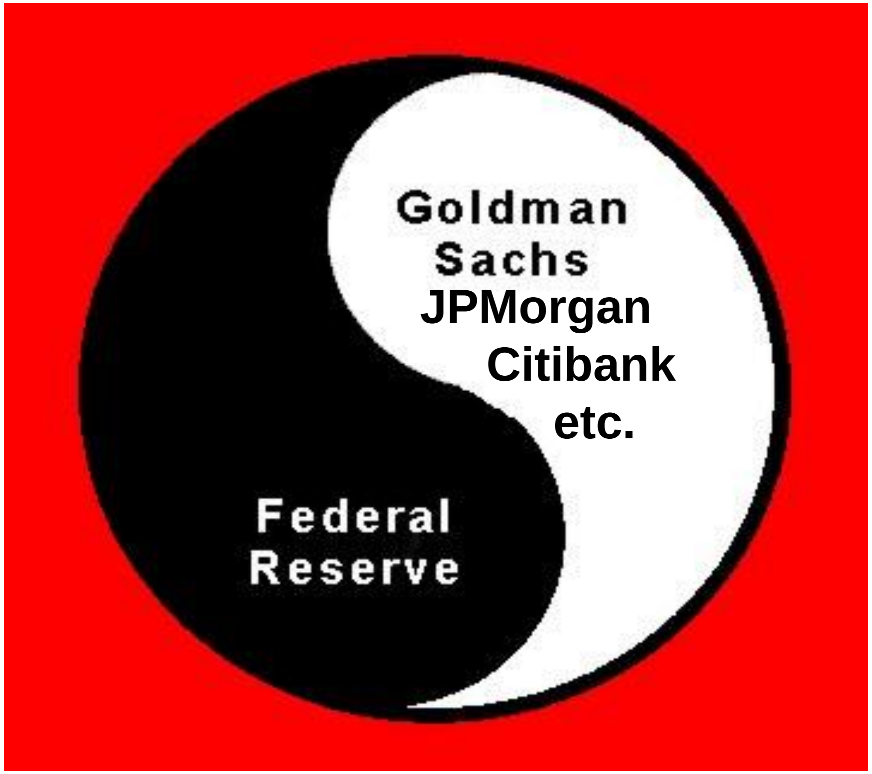
"Many of us were, shall we say, if not surprised, taken aback when the Fed had $80 billion to invest -- to put into AIG just out of the blue. All of a sudden we wake up one morning and AIG has received $80 billion from the Fed. So of course we're saying, Where's this money come from?

'Oh, we have it. And not only that, we have more.'"

-- House Speaker Nancy Pelosi, June 2009

When a lawsuit was brought to find out, the Federal Reserve refused to answer. It claimed that --
(a) the documents were held by the NY Federal Reserve, which was not federal but was owned by a consortium of banks; and (b) the suit involved "protected trade secrets."

Whose trade secrets, and what secrets?



- http://strangestories.files.wordpress.com/2007/11/goldman-sachs.jpg

The Secret of Modern Banking

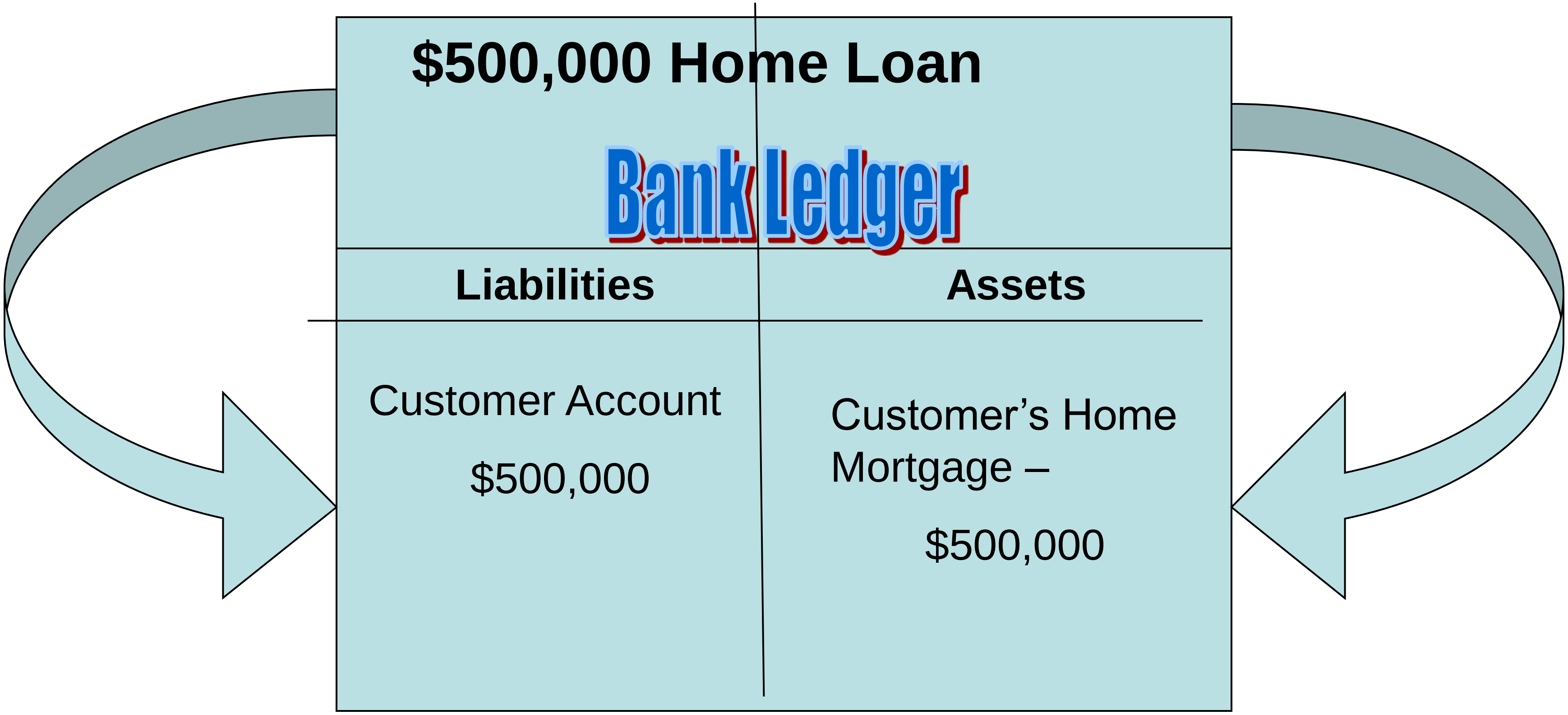
"The modern banking system manufactures money out of nothing. The process is perhaps the most astounding piece of sleight of hand that was ever invented. Banking was conceived in inequity and born in sin . . . . *Bankers own the earth*. Take it away from them but leave them the power to create money, and, with a flick of a pen, they will create enough money to buy it back again."

-- Sir Josiah Stamp, governor of the Bank of England, 1927

Banks create money with accounting entries. So said U.S. Treasury Secretary Robert B. Anderson in 1959:

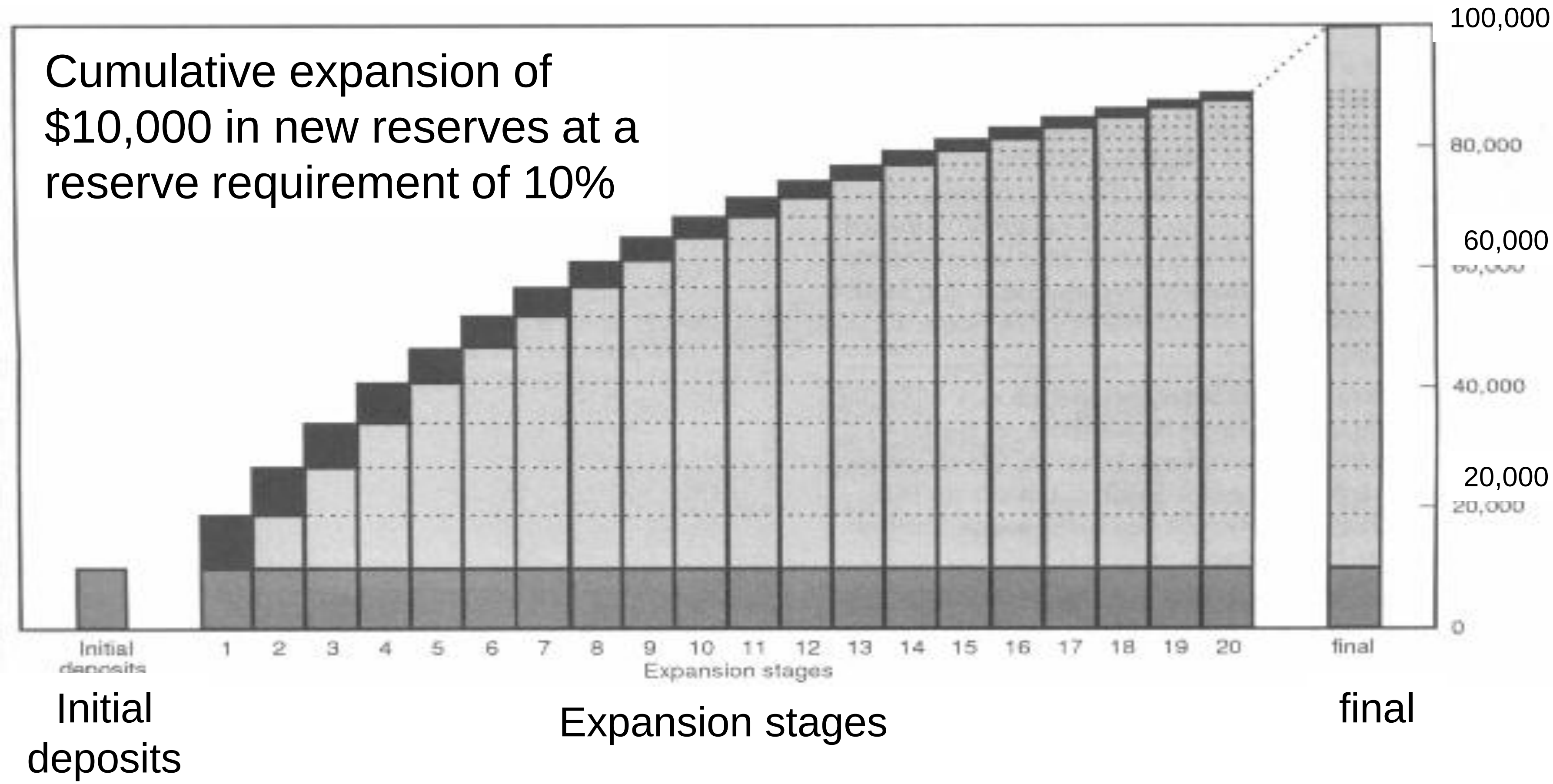
- "[W]hen a bank makes a loan, it simply adds to the borrower's deposit account in the bank by the amount of the loan. *The money is not taken from anyone else's deposit*; *it was not previously paid in to the bank by anyone. It's new money, created by the bank for the use of the borrower*."

The loan money is created by double-entry bookkeeping. The loan is entered as a “liability” of the bank on one side of the ledger (because it owes the borrower that money). It is entered as an “asset” of the bank on the other side (because the borrower will pay that amount over time).



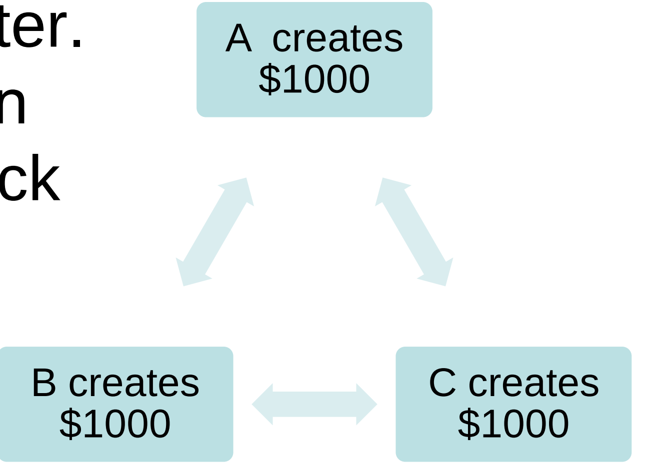
Net result: 0.

From "Modern Money Mechanics" (Chicago Federal Reserve) – showing how $10,000 in deposits becomes $100,000 in loans

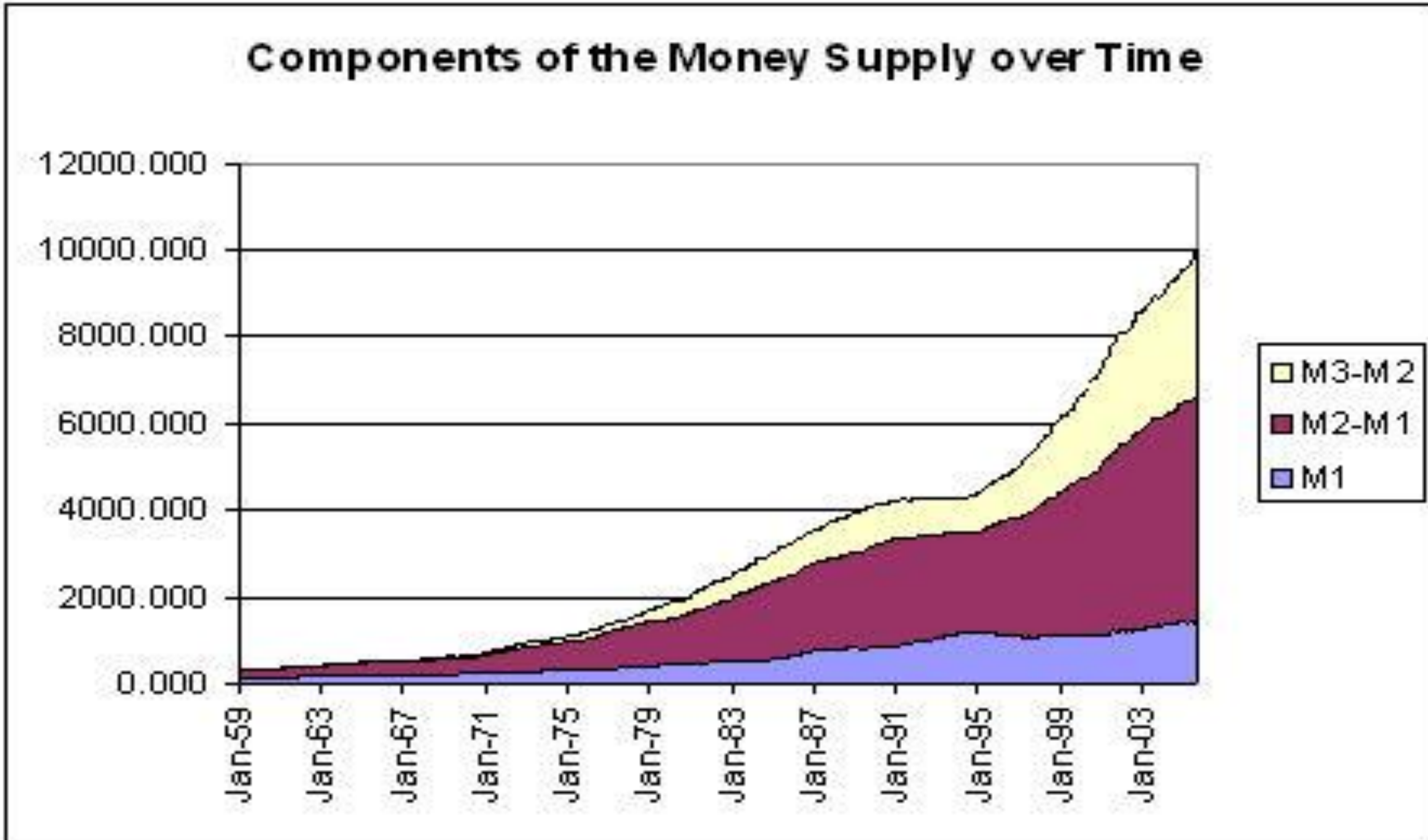


That's the text book explanation, but it really looks more like this . . . and this is where "liquidity" (or interbank lending) comes in --

- Deposits are needed to clear outgoing checks, but the banks create the loans FIRST and worry about the deposits later. If they don't have the deposits, they can borrow them. In effect, they borrow back the money they just created.
- The federal funds rate is now .2%. Banks borrow at .2%, while the rest of us borrow at 6%.
- Result: a 5.8% profit for the banks, on money they created with accounting entries.



Today, ALL of our money except coins is issued by banks when they make loans.

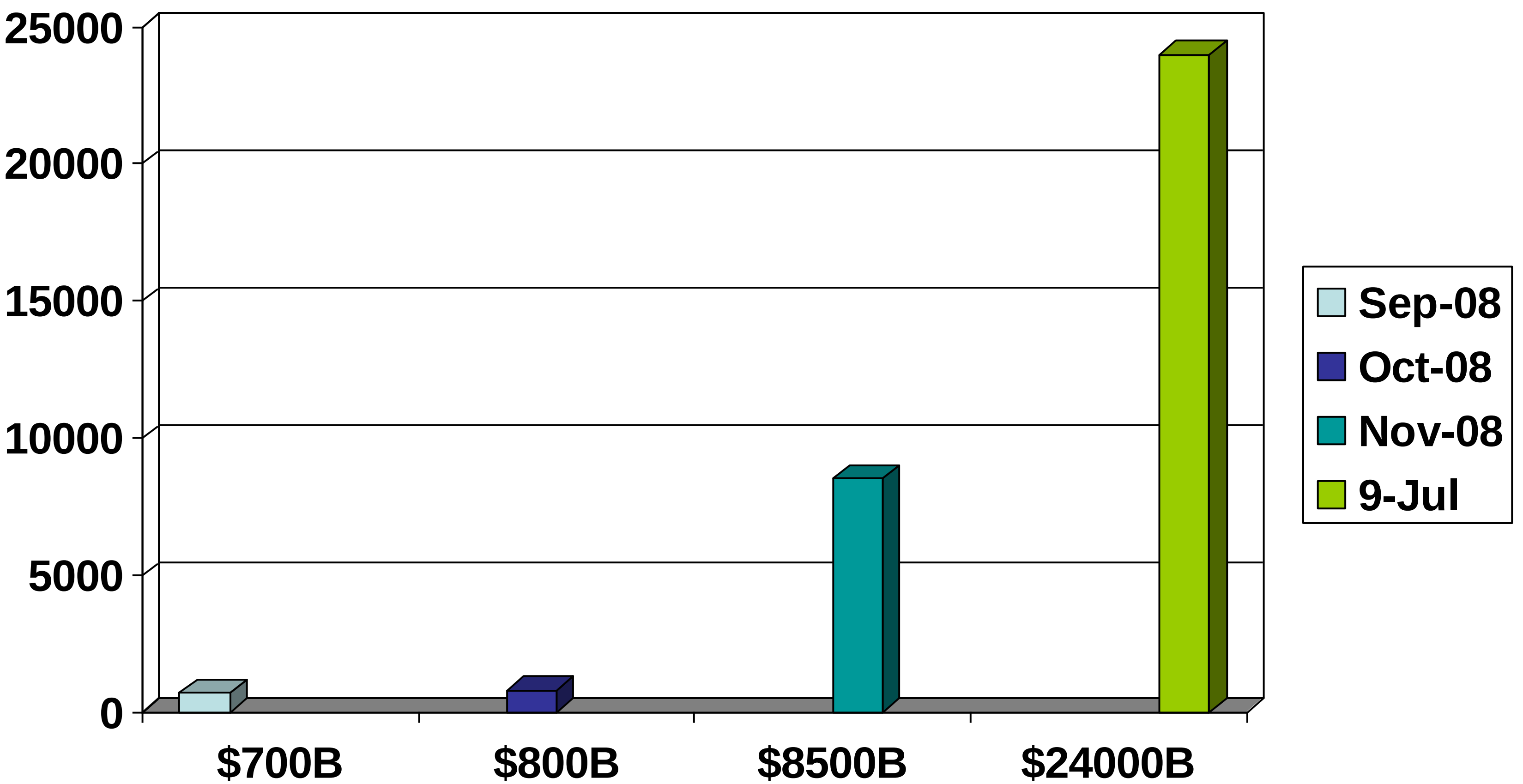


But it is a shell game, a confidence trick that depends on “market confidence” to work. Suspicious customers can start bank runs, which have to be backstopped by central banks acting as “lenders of last resort” . . .

… or by massive government bailouts.

- Hurwitt ’08

Wall Street has now gotten trillions in aid, but credit is not flowing to Main Street.

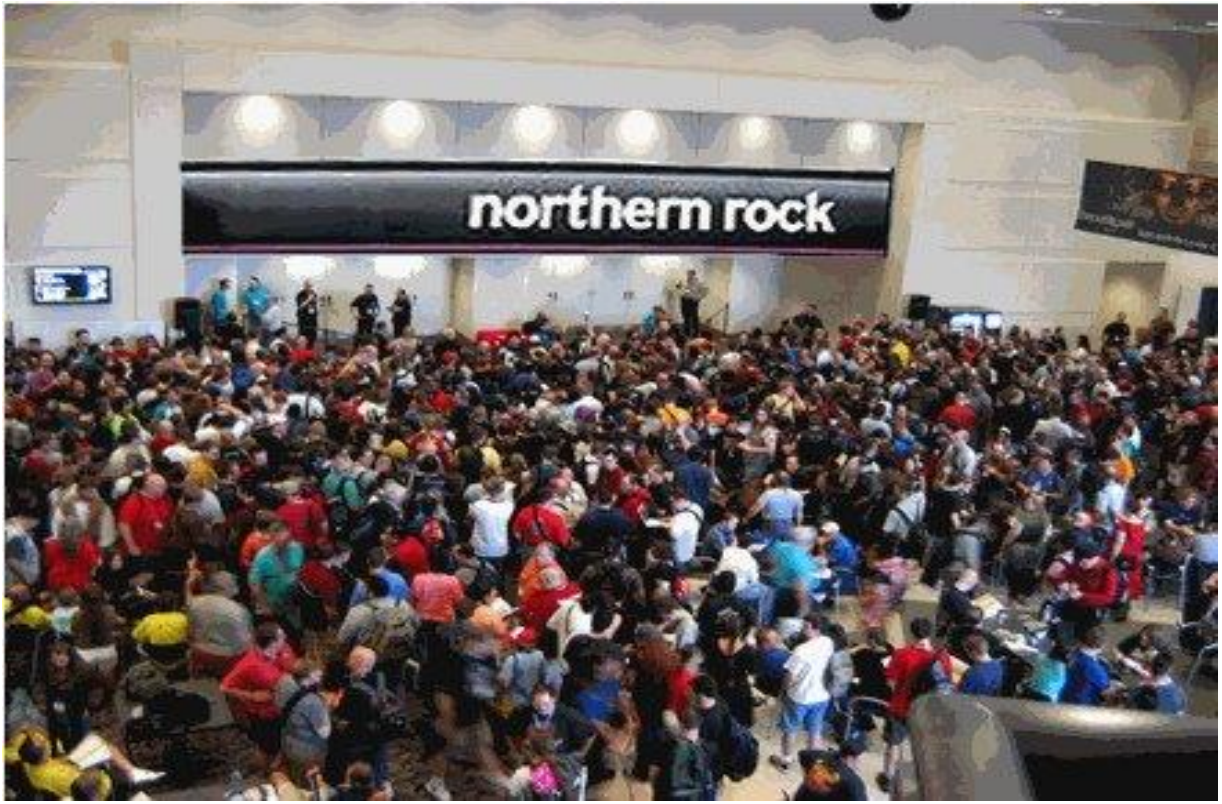


THE GLOBAL CONTEXT

- Who pushed Lehman over a cliff without a parachute? Wall Street rivals? Or Wall Street's own rivals?
- Barclays Bank was in negotiations to buy Lehman right up to the last minute, when Alistair Darling, Gordon Brown's Chancellor of the Exchequer, blocked the deal.

The City,
London's financial center

Interestingly, Darling also failed to save Northern Rock a year earlier, when it suffered the first British bank run in 141 years on Sept 13, 2007. It was a catalyzing event for the U.K., just as the Lehman bankruptcy was for the U.S. Giant banks would no longer be allowed to fail.



PM Gordon Brown, Darling's boss, has several times called for "a new global financial order" --

- In 2007, Brown called for a "new world order" reforming the UN, World Bank, IMF and G7.
- At the G20 conference in October 2008, he called for a "new Bretton Woods" creating "global governance."

In 2009, Brown led a G20 Summit in London calling for a global currency and global financial regulator. He said:

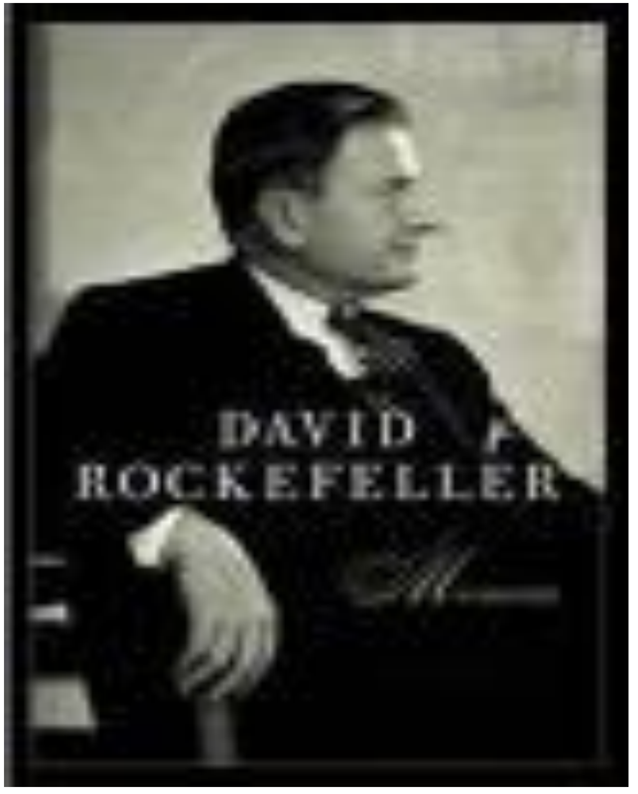
“Sometimes it takes a crisis for people to agree that what is obvious and should have been done years ago, can no longer be postponed. . . . We must create a new international financial architecture for the global age.”

“[T]he threats and challenges we face today [are] the difficult birth-pangs of a new global order . . . .”

Echoing a notorious statement by banking and oil magnate David Rockefeller in 1994:
"We are on the verge of a global transformation. *All we need is the right major crisis and the nations will accept the new world order*."

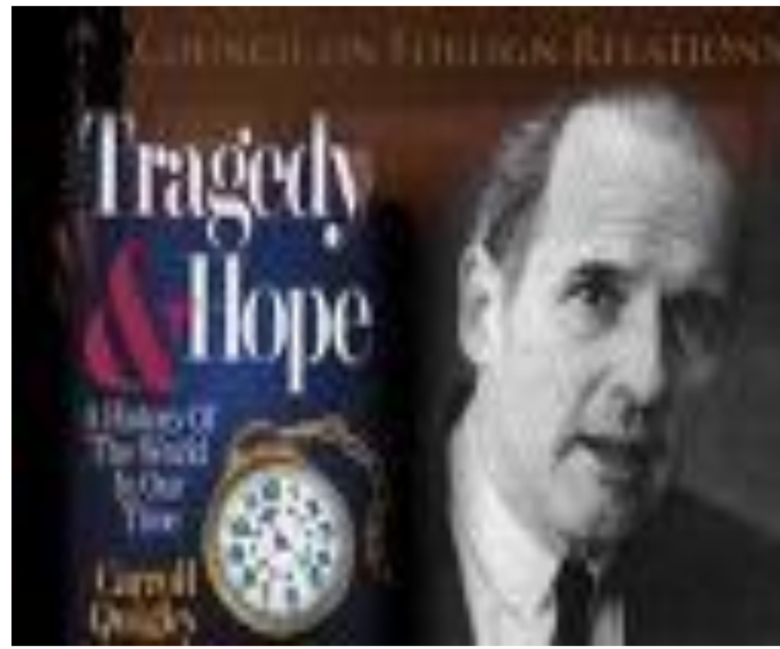
Rockefeller said in his "Memoirs" (2002):

"Some even believe we are part of a secret cabal working against the best interests of the United States . . . conspiring with others around the world to build a more integrated global political and economic structure . . . *If that's the charge, I stand guilty, and I am proud of it*."



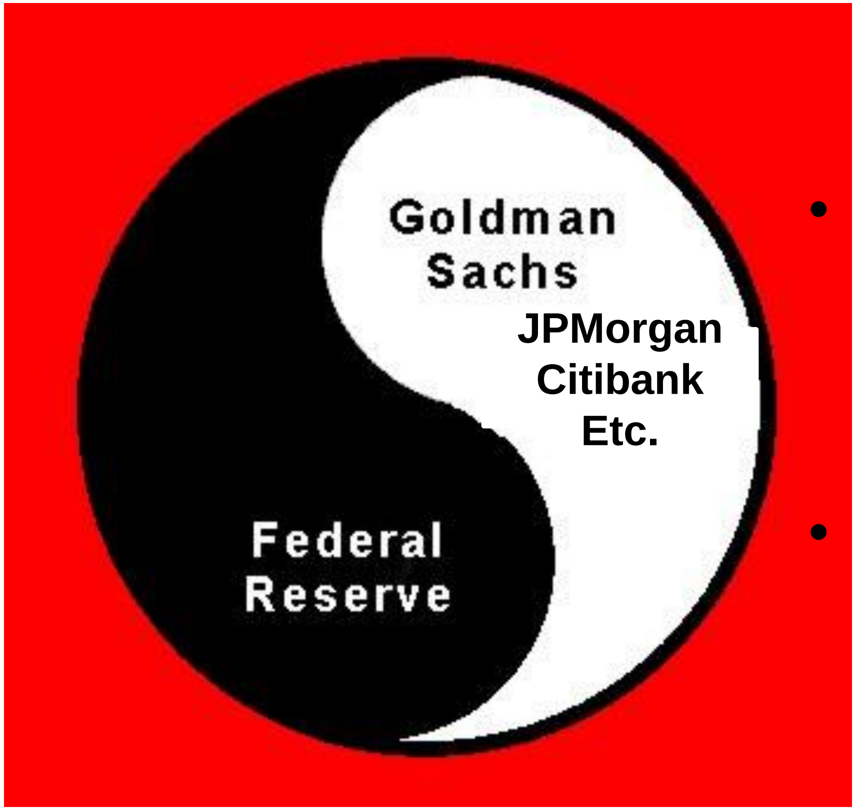
Prof. Carroll Quigley of Georgetown University was an insider groomed by the international bankers. He wrote in Tragedy and Hope in 1966:

"The powers of financial capitalism had another far reaching aim, *nothing less than to create a world system of financial control in private hands able to dominate the political system of each country and the economy of the world as a whole*."



Prof. Quigley went on:

"*Each central bank . . . sought to dominate its government by its ability to control Treasury loans.*"



- This has largely been achieved, with the U.S. central bank as the model.
- The U.S. Federal Reserve is not really "federal." It is privately owned by a consortium of banks.
- It issues the national currency as Federal Reserve Notes (dollar bills) and *lends* them to the banks that lend them to the government and to individuals.

Professor Quigley went on:

"The apex of the system was to be the Bank for International Settlements in Basle, Switzerland, a private bank owned and controlled by the world's central banks which were themselves private corporations."

The Bank for International Settlements?

The BIS has a controversial history.

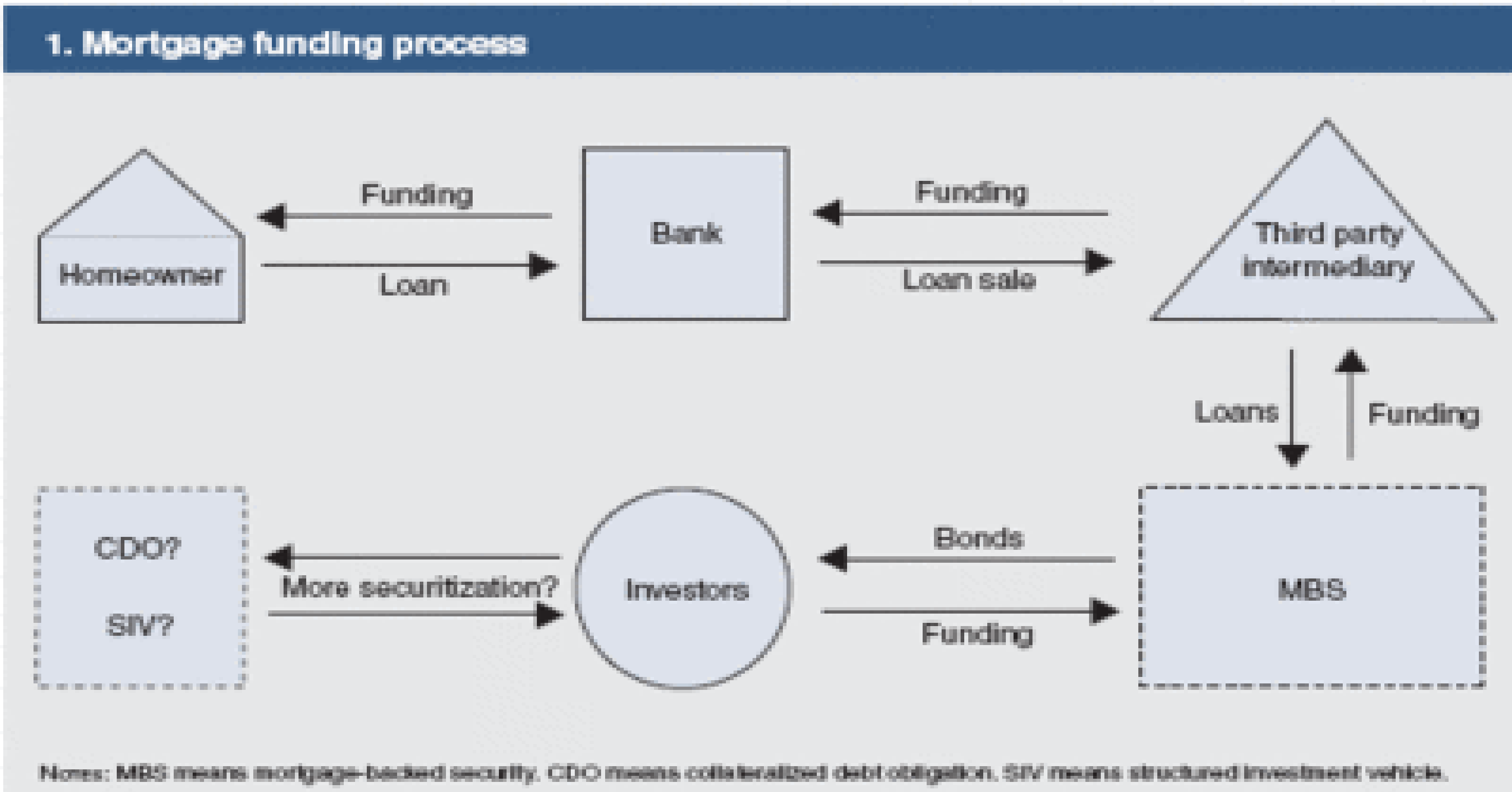
In 1944, the American government backed a Bretton-Woods resolution calling for the liquidation of the BIS, following Czech accusations that it was laundering gold stolen by the Nazis from occupied Europe.

The capstone of the private international banking pyramid is now the BIS, as Quigley foresaw.

- The BIS has 55 member nations and sets the rules for banking globally.
- Its power to make or break economies was shown in 1988, when a BIS accord called Basel I raised the capital requirement of its member banks from 6% to 8%.
- The result was to cripple the Japanese banks, which until then were the world's largest creditors. Japan entered a recession from which it has yet to recover.

U.S. banks escaped -- for the time being. They dodged the capital requirement by moving loans off their books, bundling them up as "securities" and selling them to investors.

economistsview.typepad.com



That worked until the BIS changed the rules again . . .

In November 2007, the credit bubble popped in the U.S. when new accounting rules were announced requiring U.S. banks to revalue their capital. The rule grew out of the Basel II Accords imposed by the BIS in 2004 requiring “value at risk” accounting. The new rule, called “mark to market” accounting, required banks to value their assets according to market demand that day. Since there was no longer much demand for mortgage-backed securities, many banks holding them as assets no longer had the capital base they needed to make new loans.

The result was a credit freeze that crippled U.S. banks just as Basel I had crippled Japanese banks. The government responded with massive bailouts, but bank bankruptcies continue.

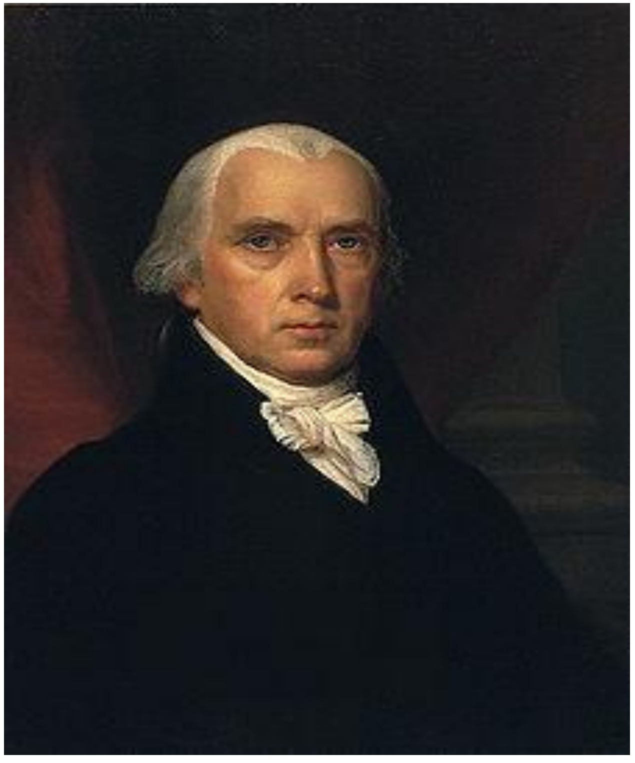
http://www.opencongress.org/articles/list?month=9-2008

The damage wrought by the BIS's Basel Accords suggests there is reason to worry when the BIS is given more power – something that has now happened.

The real threat: the Financial Stability Board could usurp the sovereign right of governments to create money, turning it over to a private international banking cartel.

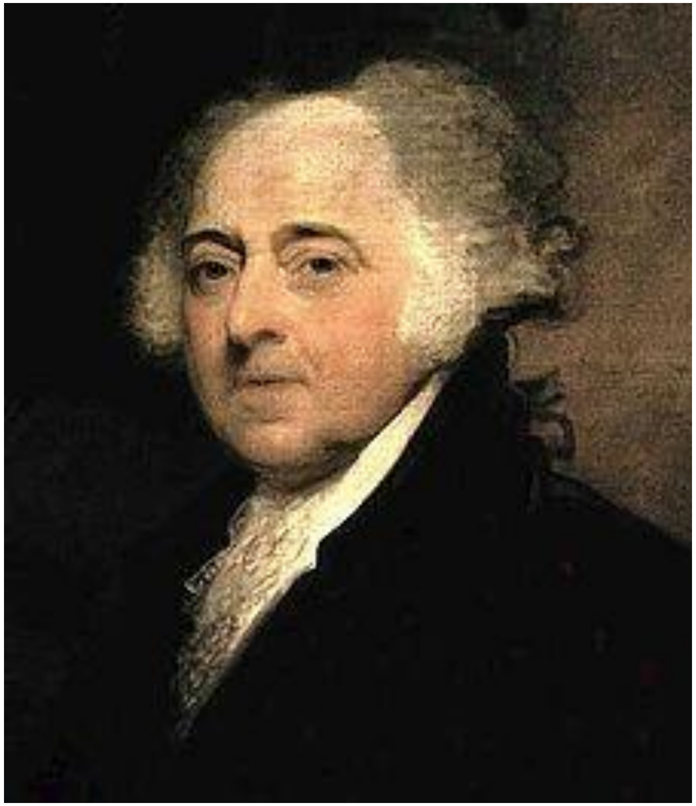
- This has been the goal of the private money cartel for hundreds of years. As Nathan Rothschild allegedly said in the 19th century:
- *"Let me issue and control a nation's currency and I care not who makes its laws."*

Leaders have warned about this for centuries:



"History records that the money changers have used every form of abuse, intrigue, deceit, and violent means possible to maintain their control over governments by controlling money and its issuance."

-- James Madison, 4th President of the United States (1809-17)



- “There are two ways to conquer and control a nation. One is by the sword. The other is by debt.”

  -- John Adams, 2nd U.S. President, 1797-1801

"When a government is dependent upon bankers for money, they and not the leaders of the government control the situation, since the hand that gives is above the hand that takes. Money has no motherland; financiers are without patriotism and without decency; their sole object is gain."

Napoleon Bonaparte, French ruler from 1799-1815

A global currency is now in the works --

- In September 2009, at the G20 Summit in Pittsburgh, the IMF was authorized to issue $300 billion in SDRs as a global currency, replacing the dollar.
- That means that a bankrupt U.S. could soon have to borrow from the IMF and comply with “conditionalities” like everyone else.

Global financial governance is also in the works --

- In a speech before the CFR on April 30, 2010, ECB President Jean-Claude Trichet called for global governance under the G20 and the BIS to avoid another financial crisis.
- The head of this unelected governing body would be the Global Economy Meeting (GEM), a policy steering committee under the umbrella of the BIS in Basel.

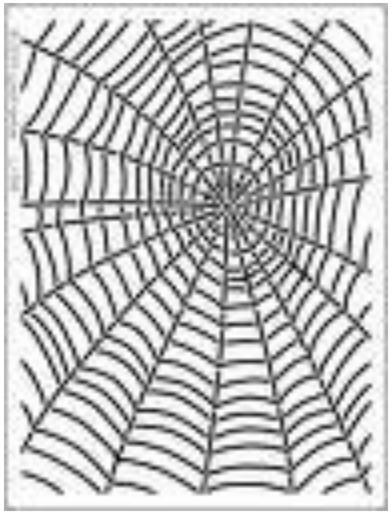
The BIS has become global regulator, as planned.

In April 2009, the G20 nations agreed to be regulated by a Financial Stability Board *based in the Bank for International Settlements*.

The G20 agreed to comply with “standards and codes” set by the Board.

These “codes” could forbid governments everywhere from issuing their own money and credit, requiring them to borrow instead from the global banking establishment.

If nations are unable to exercise their sovereign right to issue currency and credit – as we see today in the EU – the private global bankers' web of debt will be complete.



As Nathan Rothschild put it in the 19th century:

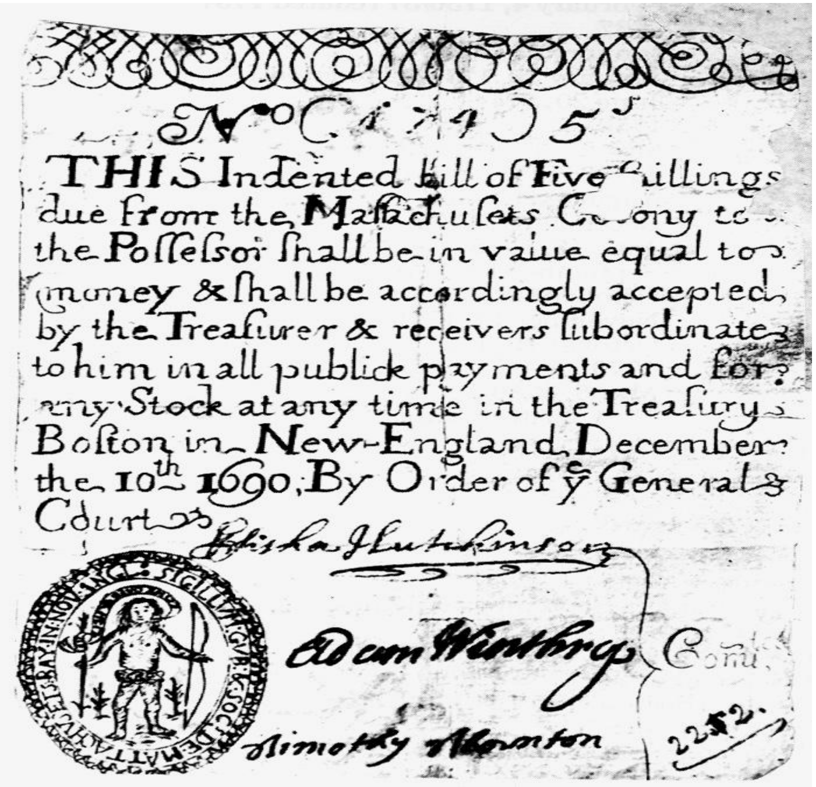
"I care not what puppet is placed upon the throne of England to rule the Empire on which the sun never sets. *The man who controls Britain's money supply controls the British Empire, and I control the British money supply."*

SOLUTIONS

To reverse the credit crisis, the power to create money and credit needs to be returned to the people themselves. Ways this might be achieved include --

- Money issued by Congress directly and spent into circulation.
- Money issued by a publicly-owned central bank and lent into circulation.
- Nationalization of bankrupt banks that are considered “too big to fail.” These banks can then issue credit to the public and serve the public’s banking needs.
- Publicly-owned local banks (state and municipal). States could avoid the drastic budget cuts now facing them by forming their own banks and issuing their own local credit.

For a century before the American Revolution, the American colonists did issue their own paper money, called "scrip." Benjamin Franklin credited the abundance in the colonies to it.

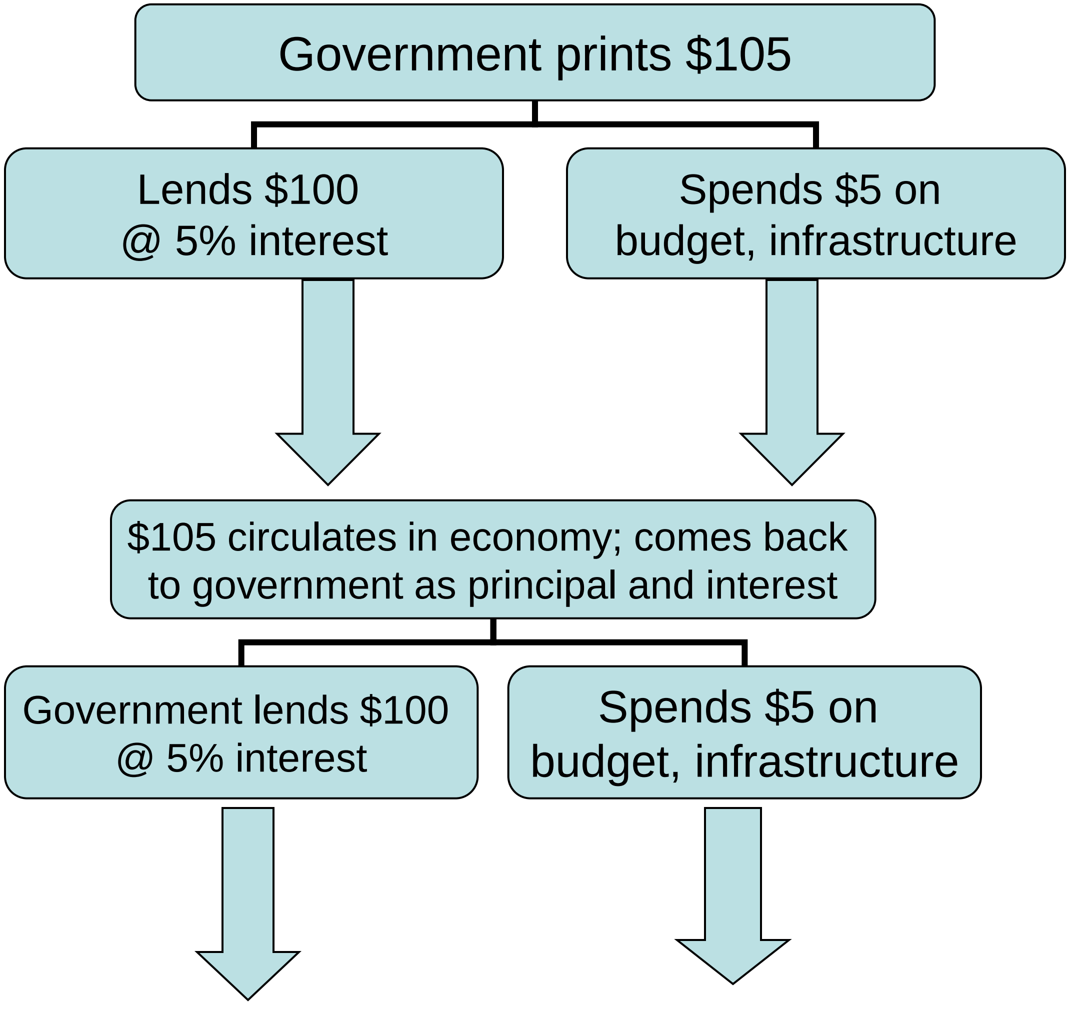

No (17495)
THIS Indented Bill of Five Shillings due from the Massachusets Colony to the Possessor shall be in value equal to money & shall be accordingly accepted by the Treasurer & receivers subordinate to him in all publick payments and for any Stock at any time in the Treasury. Boston in New-England, December the 10th 1690. By Order of ye General Court.
Elisha Hutchinson
Adam Winthrop
Timothy Thornton
Comit.

Boston colonial scrip, 1690

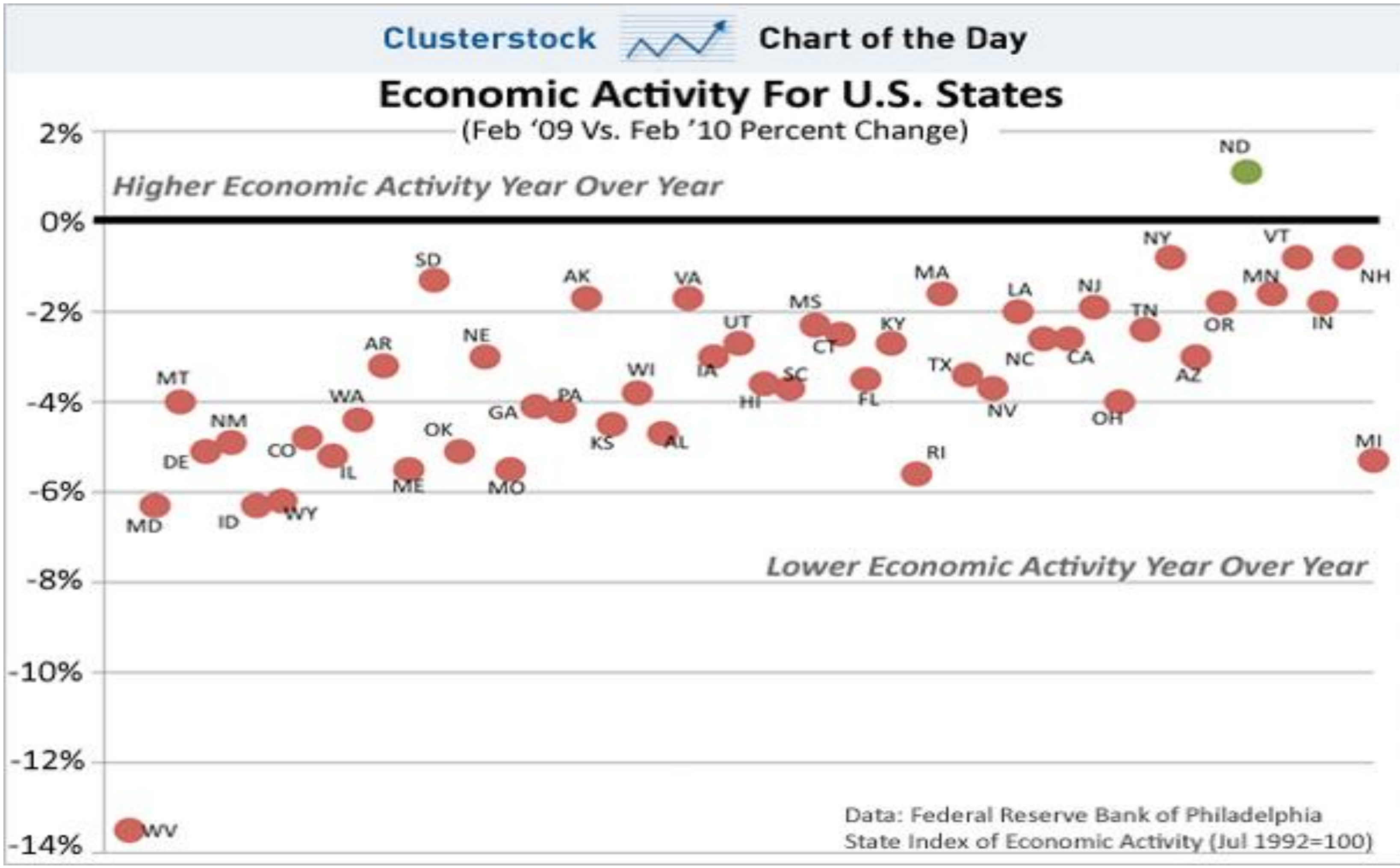
• www.coins.nd.edu

The best of these colonial systems was in Franklin's province of Pennsylvania, which owned its own bank. Money was printed and *lent* into the community. It was recycled back to the government and could be lent and relent.

During that period, *the colonists paid no taxes, prices did not inflate, and there was no government debt!*



Only one state has its own bank today – North Dakota. It is also the ONLY state to experience positive economic growth in the last year.



North Dakota is also the only state projected to have a budget surplus by 2011, and it has the lowest unemployment rate in the country.

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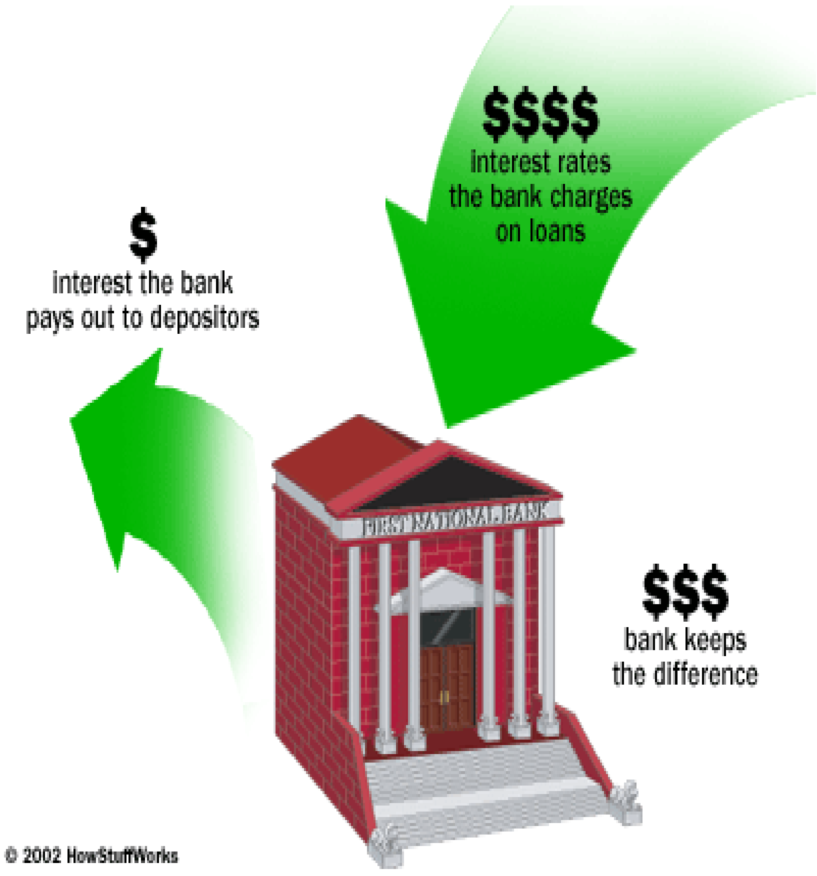
North Dakota has had its own bank since 1919, when farmers were losing their farms to the Wall Street bankers. They formed their own local Populist movement. They organized as the “Non-Partisan League,” won an election, and passed legislation for the state to found a bank.

In North Dakota, the Bank of North Dakota is a “dba” of the state, and ALL of the state’s revenues are deposited in it by law. The bank thus has an enormous capital base, which can be fanned into many times that sum in loans; and an enormous deposit base for clearing checks drawn on the loans. Profits are returned to the state. Last year, North Dakota had the largest budget surplus it had ever had.

Advantages of a state-owned bank --

- Instead of feeding Wall Street, state revenues remain in the state.
- A state can generate huge amounts of credit because it has huge amounts of capital and a huge potential deposit base.
- Profits and interest return to the state government, defraying taxes.
- No high-paid CEOs; no bonuses, commissions or fees; no toxic collateral; no shareholders demanding short-term profits.



Consider California, which is now teetering on insolvency --

- Projected revenues of *$89 billion*.
- Over $18 billion in deposits, mostly in Wall Street banks.
- Funds stashed in an investment pool managed by the Treasurer of *$71 billion*, earning an average of 2.24% interest as of Aug 2009.
- If only *$7 billion* of this pool were invested in equity for a state bank, the funds could back a potential loan portfolio of *$100 billion*.

With their own banks, states could acquire the reserves to clear checks drawn on these loans at the same rate banks do:

- States rated AA pay an avg of 4.45% on 20 year fixed bonds.
- CA and IL are rated A-, along with Estonia and Libya and just above Greece.
- CA pays 4.7% on its $85 billion debt.
- IL pays 12% on late payments.

- With their own banks, they could acquire reserves at --
- As low as 0% on their own deposits
- .2% on interbank loans at the fed funds rate
- 1.27% on brokered 6-month CDs
- No late fees, fears of lost credit ratings

Advantages to local banks:

- Deep-pocket backing allows local banks to compete with the lower interest rates of too-big-to-fail banks
- Partnering with the state bank frees up capital, replacing the "shadow lenders" that formerly bought CDOs
- Risky loans to students and startup businesses can be underwritten by the state

Advantages to local governments:

- Honest lender with mandate to serve the community replaces "city slicker" bankers selling derivatives scams to unwary local politicians
- Low-cost credit line replaces costly "rainy day" funds

A growing grassroots movement

Five state legislatures now have bills pending for state-owned banks (WA, MI, IL, MA and VA), and eight candidates are proposing that alternative for resolving their states' budget crises – 3 Democrats, 2 Republicans, 2 Greens, and 1 Independent.

For more information – www.webofdebt.com