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The Battle of the Titans: JP Morgan Versus Goldman Sachs

Or Why the Market Was Down for 7 Days in a Row

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We are witnessing an epic battle between two banking giants, JPMorgan Chase (Paul Volcker) and Goldman Sachs (Geithner/Summers/Rubin). Left strewn on the battleground could be your pension fund and 401K.

The late Libertarian economist Murray Rothbard wrote that U.S. politics since 1900, when William Jennings Bryan narrowly lost the presidency, has been a struggle between two competing banking giants, the Morgans and the Rockefellers. The parties would sometimes change hands, but the puppeteers pulling the strings were always one of these two big-money players. No popular third party candidate had a real chance at winning, because the bankers had the exclusive power to create the national money supply and therefore held the winning cards.

In 2000, the Rockefellers and the Morgans joined forces, when JPMorgan and Chase Manhattan merged to become JPMorgan Chase Co. Today the battling banking titans are JPMorgan Chase and Goldman Sachs, an investment bank that gained notoriety for its speculative practices in the 1920s. In 1928, it launched the Goldman Sachs Trading Corp., a closed-end fund similar to a Ponzi scheme. The fund failed in the stock market crash of 1929, marring the firm's reputation for years afterwards. Former Treasury Secretaries Henry Paulson, Robert Rubin, and Larry Summers all came from Goldman, and current Treasury Secretary Timothy Geithner rose through the ranks of government as a Summers/Rubin protégé. One commentator called the U.S. Treasury "Goldman Sachs South."

Goldman's superpower status comes from something more than just access to the money spigots of the banking system. It actually has the ability to manipulate markets. Formerly just an investment bank, in 2008 Goldman magically transformed into a bank holding company. That gave it access to the Federal Reserve's lending window; but at the same time it remained an investment bank, aggressively speculating in the markets. The upshot was that it can now borrow massive amounts of money at virtually 0% interest, and it can use this money not only to speculate for its own account but to bend markets to its will.

But Goldman Sachs has been caught in this blatant market manipulation so often that the JPMorgan faction of the banking empire has finally had enough. The voters too have evidently had enough, as demonstrated in the recent upset in Massachusetts that threw the late Senator Ted Kennedy's Democratic seat to a Republican. That pivotal loss gave Paul Volcker, chairman of President Obama's newly formed Economic Recovery Advisory Board, an opportunity to step up to the plate with some proposals for serious banking reform. Unlike the string of Treasury Secretaries who came to the government through the revolving door of Goldman Sachs, former Federal Reserve Chairman Volcker came up through Chase Manhattan Bank, where he was vice president before joining the Treasury. On January 27, market commentator Bob Chapman wrote in his weekly investment newsletter *The International Forecaster*:

"A split has occurred between the paper forces of Goldman Sachs and JP Morgan Chase. Mr. Volcker represents Morgan interests. Both sides are Illuminists, but the Morgan side is tired of Goldman's greed and arrogance. . . . Not that JP Morgan Chase was blameless, they did their looting and damage to the system as well, but not in the high handed arrogant way the others did. The recall of Volcker is an attempt to reverse the damage as much as possible. That means the influence of Geithner, Summers, Rubin, et al will be put on the back shelf at least for now, as will be the Goldman influence. It will be slowly and subtly phased out. . . . Washington needs a new face on Wall Street, not that of a criminal syndicate."

Goldman's crimes, says Chapman, were that it "got caught stealing. First in naked shorts, then front-running the market, both of which they are still doing, as the SEC looks the other way, and then selling MBS-CDOs to their best clients and simultaneously shorting them."

Volcker's proposal would rein in these abuses, either by ending the risky "proprietary trading" (trading for their own accounts) engaged in by the too-big-to-fail banks, or by forcing them to downsize by selling off those portions of their businesses engaging in it. Until recently, President Obama has declined to support Volcker's plan, but on January 21 he finally endorsed it.

The immediate reaction of the market was to drop – and drop, day after day. At least, that appeared to be the reaction of "the market." Financial analyst Max Keiser suggests a more sinister possibility. Goldman, which has the power to manipulate markets with its high-speed program trades, may be engaging in a Mexican standoff. The veiled threat is, "Back off on the banking reforms, or stand by and watch us continue to crash your markets." The same manipulations were evident in the bank bailout forced on Congress by Treasury Secretary Hank Paulson in September 2008.

In Keiser's January 23 broadcast with co-host Stacy Herbert, he explains how Goldman's manipulations are done. Keiser is a fast talker, so this transcription is not verbatim, but it is close. He says:

"High frequency trading accounts for 70% of trading on the New York Stock Exchange. Ordinarily, a buyer and a seller show up on the floor, and a specialist determines the price of a trade that would satisfy buyer and seller, and that's the market price. If there are too many sellers and not enough buyers, the specialist lowers the price. High frequency trading as conducted by Goldman means that before the specialist buys and sells and makes that market, Goldman will electronically flood the specialist with thousands and thousands of trades to totally disrupt that process and essentially commandeer that process, for the benefit of siphoning off nickels and dimes for themselves. Not only are they siphoning cash from the New York Stock Exchange but they are also manipulating prices. What I see as a possibility is that next week, if the bankers on Wall Street decide they don't want to be reformed in any way, they simply set the high frequency trading algorithm to sell, creating a huge negative bias for the direction of stocks. And they'll basically crash the market, and it will be a standoff. The market was down three days in a row, which it hasn't been since last summer. It's a game of chicken, till Obama says, 'Okay, maybe we need to rethink this.'"

But the President hasn't knuckled under yet. In his State of the Union address on January 27, he did not dwell long on the issue of bank reform, but he held to his position. He said:

"We can't allow financial institutions, including those that take your deposits, to take risks that threaten the whole economy. The House has already passed financial reform with many of these changes. And the lobbyists are already trying to kill it. Well, we cannot let them win this fight. And if the bill that ends up on my desk does not meet the test of real reform, I will send it back."

What this "real reform" would look like was left to conjecture, but Bob Chapman fills in some blanks and suggests what might be needed for an effective overhaul:

"The attempt will be to bring the financial system back to brass tacks. . . . That would include little or no MBS and CDOs, the regulation of derivatives and hedge funds and the end of massive market manipulation, both by Treasury, Fed and Wall Street players. Congress has to end the 'President's Working Group on Financial Markets,' or at least limit its use to real emergencies. . . . The Glass-Steagall Act should be reintroduced into the system and lobbying and campaign contributions should end. . . . No more politics in lending and banks should be limited to a lending ratio of 10 to 1. . . . It is bad enough they have the leverage that they have. State banks such as North Dakota's are a better idea."

On January 28, the predictable reaction of "the market" was to fall for the seventh straight day. The battle of the Titans was on.

Ellen Brown developed her research skills as an attorney practicing civil litigation in Los Angeles. In Web of Debt, her latest book, she turns those skills to an analysis of the Federal Reserve and "the money trust." She shows how this private cartel has usurped the power to create money from the people themselves, and how we the people can get it back. Her eleven books include Forbidden Medicine, Nature's Pharmacy (co-authored with Dr. Lynne Walker), and The Key to Ultimate Health (co-authored with Dr. Richard Hansen). Her websites are www.webofdebt.com, www.ellenbrown.com, and www.public-banking.com.

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