The October Surprise: Global Panic

By Stephen Lendman
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Since 9/11, the notion of an October surprise has been around. The idea going something like this. Another real or manufactured terror attack. The dominant media stokes fear. The public is again traumatized. The Bush administration pledges all effective measures to protect national security. Formerly seizes total power. Suspends the Constitution and declares martial law. Mass detentions follow. Beginning with dissenters and elements of the public considered "dangerous."

This may be coming with the 3rd Infantry's 1st Brigade Combat Team back in the US as of October 1. According to the Army Times, as "an on-call federal response force for natural or manmade emergencies and disasters, including terrorist attacks." Augmented by USNORTHCOM.

According to Wayne Madsen's recent article titled "FEMA sources confirm coming martial law," it gets worse. He cites "knowledgeable" FEMA sources saying that "the Bush administration is putting the final touches on a plan (to declare) martial law in the US with various scenarios anticipated as triggers." Economic collapse. Massive social unrest. Bank closures. Street protests. Violence in response, and another stolen election.

Early in the month, a different October surprise arrived. Not the expected one. Not yet at least. The Wall Street Journal put it this way: "The Dow Jones Industrial Average (DJIA) capped the worst week in its 112-year history with its most volatile day ever, as hopes for a major international bank rescue plan were overwhelmed at day's end by another wave of selling."

The DJIA dropped 22% over the past eight trading sessions. Investors were "shell-shocked." Many spent Friday "trying to protect themselves from further declines. The past week's (October 6 – 10) 18% decline "and Friday's 1018.77 point swing from low to high were the biggest since the Dow was created in 1896." The VIX measure of market fear hit 69.95. By far its highest level ever, and some investors think it may touch 100 in the current climate. Until now, the Dow's worst week was in 1933. Trading volume also set a record at 11.16 billion shares.

"Market crash shakes world" headlined the Financial Times (FT). Mass trauma, fear and uncertainty sent tremors everywhere, and no one knows if Friday ended it. Maybe just began it. First markets crater. Then world economies, and finally the inevitable human fallout. Affecting many tens of millions everywhere. Innocent people paying dearly.

Morning headlines say it all. And they're getting grimmer. On October 10, the Wall Street Journal said the "Market's 7-Day Rout Leaves US Reeling. Stocks in a Slow-Motion Crash....After Year of Declines, Investors Lose $8.4 Trillion of Wealth." Most scary is what's ahead and how much more people can or will tolerate.

The Financial Times was just as grim headlining "Global equities plunge….Japan leads Asian market rout…Wall Street in biggest fall since 1987 crash." Once the nation's largest company, General Motors may now face bankruptcy. Its October 10 stock fell to its 1950 valuation and now has a market capitalization of just $2.6 billion. Shockingly expressed in one headline saying "Wheels falling off for General Motors." Add the engine and chassis, too.

Ford Motor's outlook is little better. Its stock price is the lowest in decades, and one analyst warned that "the accelerating deterioration in industry fundamentals will be a serious challenge to liquidity (for both companies and Chrysler) during 2009." JD Power and Associates was even grimmer saying that the global auto market may experience an "outright collapse" in 2009. And we're only talking about autos.

Look at banks and world finance. The source of today's crisis and reason global economies are reeling. Economists like Nouriel Roubini were once scoffed at. No longer. He warned for months that "the risk of a total systemic meltdown is now as high as ever since the credit crunch is gripping European banks as well" and spreading globally. Affecting good ones as well as bad. Trashing the baby with the bath water. Erasing savings for tens of millions everywhere. And for seniors who may not have time to recoup.

The crisis didn't emerge like Topsy. It's been simmering for years, and in July 2006 historian Gabriel Kolko warned about it in an article titled "Bankers Fear World Economic Meltdown." He noted how:

the "whole nature of the global finance system has changed radically in ways that have nothing whatsoever to do with 'virtuous' national economic policies….The investment managers of private equity funds and major banks have displaced national banks….moving well beyond regulatory structures….Traders have taken over from traditional bankers because buying and selling shares, bonds, derivatives and the like now generate the greater profits, and taking more and higher risks is now the rule….They often bet with house money (and) low interest rates….let them do things….that were once deemed foolhardy."

Compounded by the irrational development of global finance, liberalization and loose regulations. Playing fast and loose and betting on the come. The potential gains are enormous and so are the risks of a major financial crisis. A meltdown. Now we've got one that global institutions are "utterly inadequate" to deal with.

Kolko warned then that "the entire global financial structure (was) becoming uncontrollable….financial liberalization produced a monster….contradictions wrack the world's financial system (that's) both crisis-prone (and) immoral. (We) may very well be on the verge of serious crises." Now we've got one and in dire straits.

Because "a kleptocratic class (took) over the economy," according to economist Michael Hudson. A criminal element betting on high returns through computerized gambling "and when bad bets are made, bailouts are the (payoff) for campaign contributions." For having friends in high places as well.

Today's crisis isn't an accident or from happenstance. It was planned, according to economist and critic F. William Engdahl in his recent article titled "Behind the Panic." To "shape the future of global banking" through creative destruction. Panic incited by a well-designed "long-term strategy." To change the "face of European banking." Weaken it with toxic junk. Asset Backed Securities. Force enough of it into liquidation or cheap enough to buy at fire sale valuations. The idea being to "create three colossal global financial giants – Citigroup, JP Morgan Chase, and Goldman Sachs." Add Bank of America and make it a foursome. Then use their "muscle to ravage European banks." Even if they wreck the US and world economies. Resuscitate them so they can "advance their global agenda over the coming years." To dominate world finance and increase US hegemony in the new century.

That's the scheme, and Engdahl calls it "a fight for the survival of the American Century." Built on "the twin pillars of American financial (and military) dominance," but the game is far from over. "Battle lines are drawn." EU nations have their own ideas. Stabilization and recovery plans as well that differ from Washington's and look much sounder. It remains to be seen where things are heading and whether competing nations can work together and do it effectively. They haven't much time.

Washington's Efforts to Shape the Last Century

Engdahl recounted some of them in his important book on war, geopolitics, oil and finance: "A Century of War." He explained how Washington designed "the greatest confidence game" ever. A "special hegemony" to:

— print limitless amounts of dollars;

— accumulate huge trade deficits;

— "inflate (the) currency beyond imagination;"

— have the government pay bankers interest on its own money; and

— create an unprecedented public and private debt to enrich the few at the expense of the many.

Up to now it worked. Let America rule the world. Control its energy and finance. Avoid serious challengers and crush potential ones.

From the early years of the last century, US muscle flexing took many forms. From conflicts to geopolitics to controlling world resources to financial warfare. JP Morgan and other Wall Street notables were experts on the latter. Creating panics for greater power. Like today's with similar aims.

In 1969, Richard Nixon had his own scheme with the country in recession. Interest rates were cut. Dollars flowed abroad. The money supply was expanded, and in May 1971 America recorded its first monthly trade deficit. It triggered a panic US dollar sell-off. Gold backed the currency then. Reserves were one-quarter of official liabilities, and (on August 15) Nixon unilaterally imposed a 90-day wage and price freeze. A 10% import surcharge. An 8% currency devaluation, and he closed the gold window. Suspended dollar convertibility into the metal and ended compliance with Bretton Woods' core provision. He pulled the plug on world economies. Shook them and on February 12, 1973 did again. With a further 10% dollar devaluation that created the worst global instability since the 1930s. What lay behind his actions?

To buy time ahead of a bold new monetary “paradigm shift.” To revive a strong dollar and US hegemony. By a “colossal assault” on world industrial growth. Through an engineered oil embargo. A 400% increase in oil prices. A flood of petrodollars to be recycled into US investments and purchases. Big Oil and major banks to profit hugely at the cost of economic crisis. The worst since the 1930s. Causing bankruptcies, unemployment and stagflation.

Under Jimmy Carter in 1979, Fed chairman Paul Volker advanced his own radical monetary policy on the pretext of fighting high inflation. It was another Washington scheme to preserve dollar hegemony. Keep it the world’s reserve currency, and do it by crushing industrial growth to let political and financial power prop up dollar strength.

It worked by raising interest rates from 10% to 16% and then 20% in weeks. The US and world economies plunged into deep recessions, and the dollar began a strong five year ascent.

In the 1980s under Ronald Reagan, Mexican president Jose Lopez Portillo wanted to use his oil revenue to modernize and industrialize the country. To make it stronger and more independent. That prospect was anathema to Washington and it reacted. With a scheme to demand rigid repayment of Mexican debt at exorbitant rates.

In 1981, it began with an orchestrated run on the peso. Stories were circulated about an impending devaluation and capital flight. Portillo instituted an austerity plan, and his government cracked under pressure. The peso was devalued 30%. Mexican industry was devastated. Industrial production cut. Bankruptcies followed. Millions of Mexicans suffered grievously. The nation became effectively insolvent. It had to accept IMF help. Took on large amounts of debt, and major banks profited hugely by working with the government and IMF. Socializing the debt. Spinning it off to tax payers and privatizing gains through structural adjustment looting. Similarly in other countries. Causing mounting debt. Charging onerous interest rates, and earning greater profits from hundreds of billions of dollars in servicing costs.

Reagan-era deregulation caused the S & L crisis. A lesser version of today’s. By letting banks invest in speculative real estate. Engage in massive fraud. And get the right wing Cato Institute to say: “If Congress had set out in 1980 to create an environment that would lure all the crooks and frauds in the country into one industry, few would have been more suitable than” this one. “It was easy (finding) disenchanged S & L owners who were willing to sell out for a reasonable price, and once one had an S & L charter, opportunities abounded.”

It ended up bankrupting hundreds of banks. Shrunk the industry from 4500 in 1979 to about 2200 in 1991 and hundreds more afterward. It also cost taxpayers around $200 billion. Pocket change compared to the trillions needed for the current crisis.

In the 1980s, Japan was the country that could say “no.” At decade’s end, it was the world’s economic and banking leader. Because reckless speculation left American banks in deep crisis. Japan operated more prudently. It prospered, and challenged American dominance. Washington feared former communist countries would adopt its model. This was anathema. It might shut out US companies. Show Japan’s way was superior so it had to be stopped.

The 1985 Plaza accord was the scheme. To get Japan to exercise monetary and fiscal measures to expand domestic demand and reduce the country’s external surplus. At the same time, the Bank of Japan held interest rates at 2.5% from 1987 – 1989. To stimulate US goods purchases. Instead cheap money went into Japanese stocks and real estate. It created two colossal bubbles. A lost decade followed, and the economy is still recovering and under new duress from the current panic.

The 1990s Asian crisis was also manufactured. In summer 1997, it hit. For no apparent reason beyond rumors that the Thai baht was in trouble, and Thailand had too few dollars to back it. "Asian Contagion" was unleashed. Hot money came in earlier. Then exited electronically. From Thailand, Indonesia, South Korea, the Philippines, and other Asian Tiger countries. Through a Washington-engineered scheme because these nations' economic model bested America's and threatened it.

Tiger countries grew by protecting their markets and barring foreign companies from owning land and national firms. They also restricted Western and Japanese imports to grow their own economies and homegrown industries. Again anathema so it had to be stopped.

The countries were hammered. Forced to devalue their currencies and get IMF help. With strings. Accepting debt bondage. Opening their markets. Structural adjustments. Privatizations. Spending cuts. Mass layoffs and constrained wages and benefits. The whole toxic package in return for aid. The regional toll was devastating. An estimated 24 million lost jobs. Its growing middle class destroyed. A black hole of misery for around 20 million people. Forcing them to do anything to survive. Crushing the Asian miracle to let Western brands replace local ones. Bargain hunters get great deals at fire sale prices. The New York Times called it "the world's biggest going-out-of-business sale." The region now hammered again from the current crisis. No secret where it was manufactured. No telling how it will end up. No guessing many millions feel pain and are fearful.

No end to other notable examples. Two especially stand out. The 1990s ones affecting post-Soviet Russia and South Africa. In each case, neoliberal "shock therapy" was devastating. It empowered an oligarch class in Russia. Let them strip mine the nation's wealth and offshore it to tax havens. Impoverished tens of millions of people. Bankrupted 80% of farmers. Caused mass unemployment. Created a permanent underclass. An annual 700,000 a year population decline and much more.

South Africa fared no better. Despite Nelson Mandela's pledge to support black economic empowerment. As president he surrendered to capital. The consequences were horrific. Far worse than under apartheid. Double the unemployment rate and number of people in desperate poverty. Millions of poor blacks without homes. Another million evicted from farms. One-fourth of the population with no running water or electricity. Around 60% with inadequate sanitation. A 13 year life expectancy decline since 1990. Appalling human wreckage much like what happened in Russia and elsewhere. To empower capital at the expense of people. Heading for America and in one week took a quantum leap.

Spreading everywhere. On October 2, enough for The New York Times to say that Latin American leaders have gone from "schadenfreude to fear(ful)." Hugo Chavez skipped the UN General Assembly opening to visit China and said Beijing is more relevant than New York. Venezuela and Bolivia expelled their US ambassadors, and Brazil's Lula da Silva railed against an American regional naval presence and said his nation's warships must be on alert in response. He's also furious at Wall Street and Washington for the current crisis and said: "We did what we were supposed to do to get our house in order. They spent years telling us what to do and they themselves didn't do it."

Argentina's Christina Fernandez de Kirchner was also bitter in stating: "We are witnessing the First World, which at one point had been painted as a mecca we should strive to reach, popping like a bubble." And the Chicago Tribune quoted an Inter-American Dialogue expert saying that "whatever credibility the US had in the region, on economic management, that's clearly gone."

Forty world specialists from 20 countries attended the International Conference of Political Economy in Caracas, Venezuela from October 8 – 11. To analyze and propose South-based, alternative solutions to the financial crisis. Venezuela's Minister for Planning and Development, Haiman El Troudi, highlighted his country's relative strength. Its impressive economic growth (at 6% in first half 2008), and recommended that Venezuelans repatriate their US investments given the current climate. To protect them from unsafe American banks.

He and President Chavez also criticized the IMF and called for it to "dissolve....kill itself." They were harsh on the World Bank as well. Chavez added that "We are decoupling from the wagon of death." El Troudi said we are witnessing the end of neoliberal hegemony. Others agreed that a new model is needed. The old one clearly failed.

The Current Panic and Meltdown

Credit today is frozen. From a debt crisis, not a liquidity one. Markets are reeling as a result. Crashing in free fall from severe financial stress. From the largest ever leveraged asset and credit bubbles. Multiple ones. Imploding. Starting with housing. Causing widespread mortgage defaults and huge financial institution losses. Multi-trillions more asset dollars at risk. Compounded by banks reluctant to lend. Fearing they won't be repaid. Prices are falling. Trust is eroded. Losses mounting from destructive deleveraging. Mortgages, stocks, bonds, commodities, credit, private equity, hedge funds imploding more intensively than since the Great Depression.

Forcing troubled companies to the wall. Each one exposing others. Some too big to fail but they did. Getting investors to run for the exits. Selling good assets to cover bad ones. Freezing up money markets. Making short-term Treasuries the only safe bet. Getting world governments scrambling for solutions. Already in recession and getting worse. Fearing an intensified financial crisis. A systemic collapse.Turning a deepening recession into a global depression. A disaster only urgent, well-designed, and coordinated actions may prevent. But no assurance anything will work this late.

Here's what Nouriel Roubini and others recommend. Mirror opposite of EESA that will do more harm than good:

— additional rapid rate cuts globally; at least to 1% in America; much lower in the EU, Asia and elsewhere;

— guarantee all deposits until stability is restored at least;

— partially nationalize troubled banks; recapitalize them with public funds; in some form that now seems the plan according to The New York Times in its October 11 article headlined: "White House Overhauling Rescue Plan;" capital to be injected into banks by buying non-voting shares; what's known is Henry Paulson's October 10 statement that "We can use the taxpayer's money more effectively....if we develop a standardized program to buy equity in financial institutions;" it remains to be seen what, in fact, happens; Paulson represents Wall Street; not the public, national or world interests;

— he's not for reestablishing responsible regulation to curb market excesses; what economists like Roubini recommend;

— freeze all home foreclosures; establish a 1930s type Home Owners' Loan Corporation (HOLC) to refinance homes and prevent foreclosures; let foreclosed homeowners retain their properties and pay affordable rent;

— ease the debt burden of distressed households; cap credit card and other high consumer loan interest rates at much lower levels; put cash in peoples' hands; lots of it; at least several hundred billion dollars for starters; more if needed; as much as it takes;

— provide solvent financial institutions with as much liquidity as they need; corporate sector companies as well, including small businesses;

— save solvent companies; liquidate troubled ones too far gone;

— fund massive stimulus to revive the economy; for public works, infrastructure, education, alternative energy, unemployment benefits, job training, tax rebates to the needy, and state and local governments strapped for cash; money for what's needed most and that can do the most good;

— get stronger, more solvent countries to help weaker, more indebted ones; and

— move on these policies fast; world governments have little time left to save themselves; there's no assurance they can; and these measure don't address our destructive military Keynsianism; permanent war economy and need to redirect those funds for constructive homeland needs; mirror opposite of a reported a new Pentagon document requesting an additional $450 billion over the next five years.

Reeling from One Policy Response to Another

First came EESA. The Emergency Economic Stabilization Act. To reward fraudsters and not address the root of the crisis. Nor help millions of troubled households. Homeowners in foreclosure. Others threatened. The public traumatized by the most calamitous economic events since the 1930s.

Europeans formed their own plans. Different from Washington's. On October 10, G-7 finance ministers met to discuss policy. In early evening, they presented an action plan. Long on promises. Short on specifics. The New York Times reported that: "Many investors had hoped the ministers would (propose) more concrete steps" and quoted Peterson Institute of International Economics deputy director, Adam Posen, saying: "This fell short." But he wasn't giving up entirely or saying what they have in mind or will later decide can't work.

They agreed to:

— act decisively with all available tools to support financial institutions and prevent their failure;

— unfreeze credit and money markets; assure banks and other financial institutions "have broad access to liquidity and funding;"

— ensure banks and financial intermediaries "can raise (sufficient) capital from public (and) private sources;" to rebuild confidence and get them again lending to households and businesses;

— ensure national deposit insurance protection is sound so people have confidence in the safety of their deposits; and

— take appropriate action "to restart the secondary markets for mortgages and other securitized assets;" assure accurate valuations and transparency according to "high quality accounting standards."

Besides the US Treasury planning to "buy equity in financial institutions," AP reported on October 12 that the 15 euro-zone countries will "temporarily guarantee future bank debt to encourage lending….for an interim period and on appropriate terms" for up to five years. Recapitalizing banks is part of the plan. The hope is to unfreeze credit and get markets operating normally again.

According to The New York Times on October 12, "each country will announce concrete figures for the measures they expect to take individually." Belgian finance minister Didier Reynders said "There is no question of setting up a European fund." A final proposal will be presented to the full 27-member EU summit later in the week, and individual parliaments will have to vote on it.

Key to understand about whatever emerges in final details or any that follow – world governments will loot their treasuries to save powerful capital interests. Despite bold pronouncements we can expect more of ahead, practically nothing will be done for many tens of millions of people globally in greatest need. At best for them….crumbs.

In the coming days and weeks, we'll see statements become policies and how world markets react. Given the immensity of the crisis, no one's sure if anything can work. Nor is it reassuring to hear George Bush say remain calm. We've got things under control. On October 10, the Dow dropped 300 points while he spoke.

In an October 13 Barron's interview, noted money manager Jeremy Grantham (now age 70) was asked if he thought we'd learn anything from the current crisis. His response: "an enormous amount in a very short time, quite a bit in the medium-term, and absolutely nothing in the long-term."

He's been bearish since last year but added that "the fundamentals are turning out worse than" he expected. "The terrible thing – after all this pain – is that the US equity market is not even cheap." It was so high in 2000 that it hasn't come down to trend, but it's getting close. However, "the really bad news is that great bubbles in history always overcorrect." He believes S & P 500 fair value is around 1025 compared to its 899.22 October 10 close. But "typically bubbles overcorrect by quite a bit, possibly by 20%. This is very discouraging," so he's not rushing to buy but he fears he'll act too soon. He predicts a market low in 2010.

Where he sees things going from here was also posed. He's highly respected as an expert, and yet he emphasized "how little (he) understand(s about) all of the intricate workings of the global financial system. (He) hopes that someone else gets it, because (he) doesn't. And (he) has no idea, really, how this will work out….(It's) so intricate that all (he) can conclude, by instinct (and from history), is that it will be longer, harder and more complicated than we expect." Quite an assessment from a man called "the philosopher king of Wall Street."

The Human Cost of Manufactured Crisis

Ordinary people are hit hardest. Millions will suffer grievously for years as a result of this totally avoidable crisis. Fraudsters who caused it are rewarded. Innocent homeowners, households, and workers are punished. Mercilessly. The result:

— trillions of dollars lost; likely trillions more ahead;

— millions of lost homes, homeowners behind in their payments, or threatened with foreclosure in the worst housing crisis since the Great Depression; ultimately may exceed it given current estimates of up to 10 million foreclosures before stability and recovery;

— likely well over a million 2008 personal bankruptcies and much higher numbers in 2009 compared to 800,000 in 2007 and 573,000 in 2006; figures below the 2000 – 2005 1.5 million average before passage of the 2005 Bankruptcy Abuse Prevention and Consumer Protection Act; according to Samuel Gerdano, American Bankruptcy Institute director, consumer over-indebtedness "made worse by the home mortgage crisis" is the problem; it won't likely recede in the near or intermediate-term;

— rising unemployment; not the spurious 6.1%; including discouraged workers and people working part-time who want (but can't find) full-time jobs, economist John Williams puts the real figure above 12% and rising;

— consumer over-indebtedness; maxed out on credit but needing more of it to survive; and charged usurious rates to get it;

— declining wages and benefits in the face of soaring expenses; making it all the harder to cope;

— food banks and homeless shelters facing increasing demands but forced to turn away people for lack of resources; and

— things overall are worsening; to the edge of the abyss according to some; even the most optimistic fear what's coming; who can know; no one dares be complacent.

Whatever final policies emerge. In whatever form they take. Unless they address the human dimension, they'll do nothing for people in most need. Growing millions. Desperate and in trouble. Their issue is economic and ethical. The G-7 statement addressed neither. It dealt only with saving Wall Street. Industrial capitalism. A better idea is let them die and replace them with a new order. A workable one. Respecting people, not capital.

Stephen Lendman is a Research Associate of the Centre for Research on Globalization. He lives in Chicago and can be reached at lendmanstephen@sbcglobal.net.

Also visit his blog site at sjlendman.blogspot.com and listen to The Global Research News Hour on RepublicBroadcasting.org Mondays from 11AM – 1PM US Central time for cutting edge discussions with distinguished guests. All programs are archived for easy listening.

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Articles by: Stephen Lendman

About the author:

Stephen Lendman lives in Chicago. He can be reached at lendmanstephen@sbcglobal.net. His new book as editor and contributor is titled "Flashpoint in Ukraine: US Drive for Hegemony Risks WW III." http://www.claritypress.com/LendmanIII.html Visit his blog site at sjlendman.blogspot.com. Listen to cutting-edge discussions with distinguished guests on the Progressive Radio News Hour on the Progressive Radio Network. It airs three times weekly: live on Sundays at 1PM Central time plus two prerecorded archived programs.