Anatomy of the stock market crash

by William Engdahl

On Monday, July 7, the New York "Dow Jones" listing of selected stock prices fell 62 points, the largest single day fall in the market's history—even greater than "Black Friday" in 1929. By Tuesday, revealing the unprecedented interdependence among all of the world's stock exchanges as a result of recent "financial liberalization," London stocks plunged, with about $7.5 billion in paper value wiped out within minutes.

Dealers in the exchanges used the word "panic" to describe trading. All leading stock exchanges in Europe followed suit to different degrees. What was behind this?

The answer is insider manipulation to make huge speculative profits, endangering the entire international banking system in the process. This reveals how explosive the entire edifice of international financial speculation of the past 10-15 years has become.

Here is a brief outline of what happened:

Merrill Lynch, Pierce, Fenner, and Smith, based in New York with branches in London, Frankfurt, Lugano, Tokyo, Colombia, Venezuela, Argentina, Brazil, and Mexico, is perhaps the world's largest trader in stocks and securities. It grew so over the past 15 years largely under the direction of White House Chief of Staff Donald Regan. Regan, before he came to Washington to become the secretary of the treasury in 1981, was chairman of the firm and organized a series of "innovations."

There is significant evidence that these innovations were built on the back of a world network of secret bank transfers and illegal transactions. As *EIR* has documented extensively, Regan was at the center of a series of financial "innovations" in the 1970s which turned the U.S. banking system, in particular, into a laundry for the dirty money that stems largely from the illegal drug trade.

Recent court evidence in Ticino, Switzerland implicated Merrill Lynch in laundering millions of dollars in illegal narcotics profits from Italian organized crime. Once with Merrill Lynch in Lugano, these dollars, stemming from the heroin-smuggling operation known as "the Pizza Connection" because the receipts were disguised as the profits of a chain of pizza parlors, were brought back to the United States via Merrill Lynch-New York to buy up stock in legitimate companies.

'Creative lending'

One insider of this firm, who has spent time in every major branch worldwide, revealed how staggering profits are made amid the collapse of world industry, trade, and production.

"The thing which really scares me, more even than rigging of stock trades," he confided, "is what I refer to as 'creative lending.' Merrill Lynch does it. American Expess International does it, Salomon Brothers, Crédit Suisse First Boston. We all are in it."

How does this work? Simple. You agree to take in illegally gotten dollars from countries best known to be producing massive volumes of cocaine and other illegal drugs—Colombia, Venezuela, Bolivia. The dollar volumes from this narcotics industry are staggering in size. Reliable calculations indicate worldwide that it could reach $500 billion yearly. But everyone agrees it is big and growing. What better way to "launder" such huge funds than to find a friendly worldwide financial house which will "look the other way" when you walk into their Bogota, Colombia branch with $100,000 dollars in fresh cash money. "There is so much drug money in South America, I am sure some of this is coming into our accounts. We try to be careful and screen, but its impossible," he admitted.

"So, say in Bogota, someone comes in with these dollars to buy U.S. governmment securities from our local office, putting up the required 10% margin. This means the other 90% is leveraged. Then, we do what is called in the business, 'gearing.' The client puts in $100,000 to buy from us securities worth $600,000 face value. We lend him the remaining $500,000. Then we sell notes to cover that and make a profit on charging higher interest rates. I am holding all the cards in this game. *Right now, this is the biggest source of new lending in the world.* We gouge our customers with the fees we charge for this business."

A real-estate crash

Our indiscreet source continued: "I could have my testicles cut off if this ever got into print, but people would kill to get into this business, because it is so profitable. I don't want to paint a picture that we deal in dirty money. . . ." But, he concluded, "There's a lot of wild things going on out there. Money always rushes into the sector with the highest returns. Before, it was oil, now it is in financial services—stocks, futures, options, swaps.

"But more likely than a stock market collapse—except perhaps in Tokyo—I would look for a collapse in property markets. Real estate, here in the United States, is a likely trigger to collapse. U.S. real estate has risen in value 30-fold in the past 20 years. It is 90% leveraged money, maybe a $6 trillion market. Already New York real-estate values are beginning to come down, albeit still slowly. But people want to believe it can't ever happen."