It's the Financial Oligarchy, Stupid:

A study of Anglo-American news coverage during the 2007-2008 financial crisis and bank bailouts

Image: What next? (2008, September 20). *The Economist*.

A thesis presented in partial fulfilment of the requirements for the Masters Degree in Communications Studies at Auckland University of Technology.

Steve Edwards
2012

GRADE: A

To the beautiful beings

we knew as

Angela, Chris and Chad,

who chose to leave this world

because they found its structural violence

too much to bear.

May the isolation, despair and pain they felt

not be in vain.

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Attestation to Authorship

I hereby declare that this thesis is my own work and that to the best of my knowledge and belief it contains no material previously published or written by another person (except where explicitly defined in the acknowledgements), nor material which to a substantial extent has been submitted for the award of any other degree or diploma of a Univserity or institution of higher learning.

Signed Steve Edwards Date:

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* In a three-Act story, this is the inciting incident in Act I, wherein either the worst (or best) thing that could happen to a character occurs. This early reversal of fortune is mirrored by an event that is the best (or worst) thing that could happen to the same character by the story's end. In short, I needed to be emancipated from my research, writing and preconceived ideas up to that point in order to see the world anew.

** I finished my thesis four months after my burning ears heard of screaming in the faculty and before the thief chick got out of prison.

Abstract

News media depictions of the financial crisis promoted the idea that it was caused by greed and a lack of regulatory oversight. These explanations failed to adequately explain why the sector that controls the money in capitalist societies required bailouts. Here I consider the financial crisis of 2007 and 2008 as a narrative arc in an Anglo-American context. This narrative arc draws upon the classic three-Act story structure. It reveals key plots, events and 'scenes' like a movie that progresses from bad to worse; except there is more to the changes in fortune for the plot's protagonists. Unlike the overly simplistic portrayal of the financial crisis in the news, this study argues that the crisis narrative was constructed for propaganda purposes, by merging truthful facts with fictional elements.

An account of the major changes that occurred in the political economy of banking and finance from the early 1970s serves to contextualize this study. Anglo-American capitalist oligarchs and elites colluded to transform the world under the rubric of 'free market reform' and individual 'freedom.' The purpose was to exploit the unfolding financial crisis in order to extend control over governments and their respective citizenries. In this context, developments affecting major media outlets are traced as regulations were changed amid the rhetoric that 'free markets' would make companies more competitive. The resultant concentration of media ownership occurred as news outlets promoted unfettered financial markets as a pre-requisite for economic prosperity. The news media's portrayal of a global merger wave in banking and finance conglomerates; the tech-stock bubble of the late 1990s and corporate scandals in the early 2000s are outlined. The emergence of an American housing bubble, its bursting and the financial contagion that followed are tracked through the media reportage. The culpability of Wall Street, the City and their respective financial authorities and political elites is examined.

This study employs news framing theory to explore the ideological constructions of news content and elite discourses across news coverage from 10 major American and British press outlets between September 15 and October 4 2008. The consequences of the forced collapse of a large Wall Street investment bank leading up to the passage of a $700 billion bailout, are analyzed as narrative-driven event clusters which obscure the collusion of financial oligarchs, monetary authorities and political elites.

Chapter 1: The Politics of Money, Media and Mass Propaganda

No minority population group remains as obscure to their respective citizenries as the oligarchies of the United Kingdom and the United States. Oligarchs are super rich individuals who exploit their wealth to influence governments and fund institutions, such as universities and foundations, so that an educated elite will use political mechanisms to protect the oligarchy's fortunes. Indeed, oligarchies are synonymous with hierarchical societies that feature extreme economic inequality (Lundberg 1968; Winters 2011a). In George Orwell's 1949 dystopian novel *Nineteen Eighty-four* there is a passage from an imagined non-fiction book titled *The Theory and Practice of Oligarchical Collectivism* by Emmanuel Goldstein. He is the official enemy of Oceania, one of three super-states that the novel's protagonist, Winston Smith, is a citizen of (p.224). In *The Theory and Practice of Oligarchical Collectivism*, the character Goldstein 'wrote' that "[i]n the long-run, a hierarchical society was only possible on a basis of poverty and ignorance" (Orwell 1993 [1949]: 198). In other words, the extremes between the wealthy and the poor are sustained by hierarchical power structures that have an interest in maintaining widespread ignorance about the purpose of ruling institutions.

An Anglo-American financial oligarchy emerged in the 1970s and has risen to become the dominant capitalist coalition in the United States and Britain. A global credit boom between 1991 and 2007 became a key driver of new and expanded fortunes made in finance. The Anglo-American financial oligarchy's influence over news coverage during the financial crisis period 2007 to 2008 was pervasive (Engdahl 2009; Ferguson 2011; Johnson & Kwak 2010; Prins 2009; Shaxson 2011). Although their visibility in news reports was fleeting, the Anglo-American financial oligarchy's strategic defence of wealth interests during the financial crisis was detectable.

The news media's search for causes of the financial crisis obscured the power relations involved. Mainstream reportage focussed on the spectacle of financial turmoil, wherein blame was attributed to greed and a lack of regulatory oversight. Such treatments relied on the assumption that governments are benign institutions that merely make 'mistakes' and that economics and politics are separate activities. This construction of events conceals the linkages between corporate/financial elites and the state apparatus, academia, think-tanks, foundations and the upper reaches of the news media. Furthermore, the emphasis on the real time signifiers of financial crisis, such as stock market data, combined with the absence of sustained investigations into the root causes, created and amplified "an atmosphere of catastrophe" (Kenway & Fahey 2011: 172). In this atmosphere, news outlets magnified fears of financial and economic collapse and this became the justification for saving 'too big to fail' financial institutions.

To add accounting salt to the fiscal wounds, the financial sector shamelessly insisted that central banks and governments everywhere should offer support (Chossudovsky 2010a; Ferguson 2011; Gowan 2009). For instance, the total cumulative sum of low-interest loans and assets purchases made by the United States central bank, the Federal Reserve System, to banks (including other central banks) under its 'emergency' operations amounted to $29.616 trillion between December 1 2007 and November 10, 2011 (Felkerson 2011: 31-32; United States Government Accountability Office [GAO] 2011: 131, 205).[1] The European Central Bank borrowed just over $8 trillion between December 17 2007 and February 1 2010 from the US central bank (Felkerson 2011: 11; GAO 2011: 205). Authorities in the United States and United Kingdom merely patched up and re-inflated the burst bubbles of credit and complex financial assets with fresh expansions of credit and cash, while largely 'ignoring' the financial turmoil experienced by their respective citizenries (Chossudovsky 2010a: 23-27; Ferguson & Johnson 2009a,b).[2]

This thesis investigates the financial crisis period 2007 to 2008 as a narrative arc in an Anglo-American context. This narrative arc draws upon the classic three-Act story structure to reveal key moments as 'scenes' in a movie plot that progresses from bad to worse (Frensham 2003). As Kristina Riegart and Eva-Karin Olsson (2007) have argued, for an event to be deemed a crisis by the media, it has to have an element of surprise (p.145). Therefore, news outlets deploy dramatic story-telling elements in order to construct a 'crisis' narrative. "It's the Financial Oligarchy, Stupid" explores the networked power relations among key players from Wall Street, Washington and the City of London. These power relations I will argue underpinned public events, although this was rarely evident in the news media.

News accounts of important events shape shared understandings of the world. Since it is not possible for us to attain expertise in every field of knowledge, we depend on the news to provide accurate, timely and intelligent coverage of issues, developments and discoveries. This dependency, however, leaves news audiences vulnerable to manipulation by individuals, institutions and invisible mechanisms. This manipulation extends to the news outlets themselves since their interests are, usually, more aligned with oligarchic power configurations than with ordinary citizens. Popular understandings of the financial crisis period 2007 to 2008 were derived from complexly constructed news frames.

News frames set the boundaries of argument, how the debate is to proceed and most importantly what is to be left unsaid (Altheide 1997; Goffman 1974). David Westby suggested that "frames are symbolic constructions that in different ways are derivatives of ideologies" (2005: 219). David Snow and Robert Benford viewed ideologies as "cultural resources" that "simultaneously facilitate and constrain framing processes" (2005: 209). Robert Entman argued that frames assign causes and solutions to problems (1993: 52). A news frame then, is the reconstruction of an event according to a particular focus, and what constitutes acceptable social discussion as opposed to politically dangerous lines of investigation, thought or ideas (Carragee & Roefs 2004; Gamson, Croteau, Hoynes & Sasson 1992). News frames work by creating meaning out of easily recognised storylines or narratives, concepts and symbolic

images that exist in a culture's social memory. News frames also employ reasoning devices – such as interview statements – and ideologically-infused social norms and values, that are repackaged to shape an event that is deemed newsworthy in the daily 'news hole' or schedule (Entman 2004; Entman & Rojecki 1993; Reese 2007). Thus, an institutional frame is a construction of the cultural milieu within which it is aligned (Fuchs & Graf 2010).

As the financial crisis unfolded, personalized news frames were often used. These personalized frames operated in two ways; valorization and stigmatization. Valorizing treatments fawn at the status of financial oligarchs and elites (Layton 2003; Williams 2008). Stigmatizing treatments produce scapegoats – whether they are persons, groups or organizations – that become targets on which to project blame, animosity and fear (Schackner 2008: 24, 48, 52). In the drama of the telling, both valorizing and stigmatizing tend to be very effective at obscuring the causes of news events (Johnson-Cartee 2005; Schackner 2008; Williams 2008; Winters & Page 2009). Additionally, the news media heightened the sense of drama with fear frames that served to obscure the internal inconsistencies of a 'rescue' master frame. Master frames work as over-arching mechanisms to gain support for specific political goals and to undermine opposition (Snow & Benford 1988: 198). The 'rescue' master frame's strictures require the obfuscation of in-depth reportage.

To contextualize this pattern, the work of American media scholars Edward S. Herman and Noam Chomsky is employed (2008). Their Propaganda Model, which describes the structural mechanisms that filter the news so that it is more palatable for elite interests, is explicated in relation to the Anglo-American news media. This Propaganda Model provides a theoretical framework for exploring news bias in the coverage of the financial crisis, including the 'rescues' of financial institutions. The Propaganda Model theorizes that news outlets can censor the news without resorting to collusion and conspiracy, because of the pressures of advertising, primary sources and the routines of newsrooms. Herman and Chomsky also argue that ideologically-infused beliefs, including the institutional 'voice' or frame of news outlets, influence how reporters, editors and columnists cover or censor news stories.

Also embedded in the construction of news frames are codified communications that appear on the surface as banal details, while they concurrently facilitate inter-elite collusion. For example, the Anglo-American financial oligarchy released statements which contributed to the atmosphere of crisis at the same time as they orchestrated the collapse of Wall Street's fourth largest investment bank, Lehman Brothers. Thus, collusion operates within a re-worked Propaganda Model which advances cartel oligarchic behaviour. As such, this thesis also triangulates the ideas of the Propaganda Model, news framing theory and dramatic narrative elements to examine the construction of the 'rescue' master frame. The unstated claim of the 'rescue' master frame was that following the inevitable climax of the crisis, the financial system would be 'saved.' The financial crisis narrative was constructed by the daily 'rescue' frames, but these were never cogently described as such in the news coverage. This study then

is a behavioural and performance review of American and British major media outlets that were themselves entwined with their respective political economies. The arrangement of chapters serves to explicate why the financial crisis occurred, why the news media covered it the way they did and how the agendas and objectives of the key players were obscured.

Chapter two contextualizes the financial crisis with an account of the major changes that occurred in banking and finance as a consequence of plans developed by capitalist groups in the early 1970s. Rival Anglo-American capitalist oligarchs and elites set a course to advance their control by lifting regulatory restrictions on financial systems, beginning with the flow of capital between countries. Their goals were to generate and benefit from financial volatility to restrict governments in their policy choices and to force workforces to compete with each other across the world. The Anglo-American ruling elites thereby developed an ideology that came to be called neoliberalism, which served to legitimize the deployment of 'free market' policies. This 'free market' model had been carefully formulated, debated and field-tested in the 1960s and 1970s in academia, thinktanks and selected 'Third World' countries, before it was rolled-out in America and Britain in the late 1970s and early 1980s (Engdahl 2004; 2009; Johnson & Kwak 2010; Klein 2007; Pilger 2002; Pilger & Lowry 2001). The development of financial capitalism is traced, with reference to the proliferation of new financial technologies and the growth of a state-sponsored Anglo-American network of tax havens within the global financial architecture (Palan, Murphy & Chavagneux 2010; Shaxson 2011). In particular, the speculative role of derivatives, which are financial contracts that derive financial claims from underlying assets, are examined.

Chapter three sketches the formation of large news media groups as mergers among major media outlets occurred in the US and the UK during the 1980s, 1990s and 2000s. The resultant concentration of media ownership occurred because of the incremental lifting of controls that had restricted the cross-ownership and market share of newspapers, magazines, television networks and radio stations (Bagdikian 2004; Eldridge, Kitzinger & Williams 1997; McChesney 2004a,b; 2008). The news media's portrayal of a global merger wave in banking and finance conglomerates, a tech-stock bubble of the late 1990s and its subsequent scandals in the early 2000s are outlined. A pattern of complicity is evident in the performance and behaviour of the major news outlets throughout this period. They played a formative role in the creation of market bubbles and subsequently feigned innocence when they burst (Clark, Thrift & Tickell 2004; Layton 2003; Starkman 2009a; Williams 2008). At the time, news outlets routinely promoted financial markets as a means to achieve economic prosperity (Clark et al. 2004; Langley 2006a,b; 2007).[3] The effect was to lure people to invest in riskier financial institutions, stock markets and other financial assets so that they would suffer steep financial losses (Clark et al. 2004; Ferguson 2011; Langley 2004; 2006; 2007; Williams 2008).

Chapter four traces keys events of the 'financial crisis' narrative arc. It starts one month after it began; on September 12 2007 when the Bank of England's governor submitted a white paper on the bailout

role of central banks to the House of Commons Treasury Committee. A 'leak' to the *BBC* the following day – September 13 – that the United Kingdom's fifth largest retail bank, Northern Rock, had approached the Bank of England for a bailout, triggered an immediate bank-run. Chapter four ends with the imminent collapse of Lehman Brothers following a 'crisis' meeting convened at the New York Federal Reserve at 6p.m., Friday September 12 2008 to decide its fate. Here, the news media effectively primed the markets the next day – Saturday September 13 – to expect a 'meltdown' come Monday morning.

Chapter five incorporates a case study of news stories from ten print publications based in the United States and the United Kingdom. The coverage is divided into discrete event clusters over a three and a half week period following the Lehman Brothers 'crisis' weekend of September 12 to 14, through to the passage of the $700 billion bailout bill on October 3. Event cluster one, "Institutional 'Meltdowns' and 'Fallout' " examines the reportage of financial turmoil following news of Lehman Brothers' imminent bankruptcy on Sunday September 14 through to the news of a systemwide bailout by American financial authorities, announced on Thursday September 18. Event cluster two, "Bank Holding Companies" captures the simultaneous moves by Goldman Sachs and Morgan Stanley to navigate their way out of speculative attacks by becoming bank holding companies within the Federal Reserve System on Sunday September 21. This cluster also captures the attempts of these financial institutions to gain symbolically important new investments on Tuesday September 23. Event cluster three, the "Bailout Bill Rejected" scrutinizes the week of political controversy that ensued after the weekend announcement that the bailout figure sought by the US Treasury was $700 billion. The cluster ends with coverage following a vote-down of the bailout bill in Congress' House of Representatives on Monday September 29. Event cluster four, the "'Resurrection' of the Bailout Bill" studies coverage of the intensive lobbying that occurred to get the bailout bill passed just four days later on Friday October 3.

The methodology for this case study employs an event cluster modelling technique developed to decipher submarine intelligence reports (Schubert 1995; 1997). This clustering technique is practical for news media analysis because the procedure is designed to handle reports with uncertain information. The doubt inherent to submarine intelligence gathering, such as the identity of specific submergible craft, is comparable to news reportage. The behaviour of elite actors may be likened to submergible vessels since the location, time and real purpose of interviews, publicized information and events are often not specified in news reports. Sometimes the identity of interview sources (and often the extent of their institutional affiliations) is not disclosed.

Important component events are identified and sequenced. Some news content does not refer to a specific event or refers to an event that either belongs to another event within the cluster or to another event cluster. 'Historical' events are also mentioned in the reports. This kind of content contains interpretations and propositions about unfolding events in *general*. In their study "Media Images and the

Social Construction of Reality," Gamson, Croteau and Hoynes et al, offered the idea that a "set of texts" might contain an embedded 'metamessage' or big picture (1992: 381). Such 'meta-level' information reveals the narrative arc or meta-conflict, which joins up the clustered events (Schubert 1995; 1997). At given points in these clusters I will show how this narrative arc serves the strategic objectives of the Anglo-American financial oligarchy.

From a data set of approximately 400 articles, news stories were gathered as photocopies from the Auckland University of Technology's library collection. Additionally copies were obtained from *Factavia*, *Newseum*, the National Library of Australia, Otago University, *Zinio.com* and media procurement companies. The American articles collected were daily newspapers: *The Wall Street Journal*; *The New York Times*; and *The Washington Post*. The weekly magazines examined were: *Time*; *BusinessWeek*; and the fortnightly magazine, *Fortune*. The UK daily publications: were, the *Financial Times*; *The Times*; and one weekly newspaper, *The Guardian Weekly*; and one weekly magazine; *The Economist*. Searches were conducted to capture a broad representation of articles from the 10 publications. The daily newspaper dates range is from September 15 to October 4 2008. The magazines' publication dates range from September 20 to October 13 2008, and vary according to press times.[4]

The articles were organized chronologically into publication sets. Some of these articles were discarded because they were mostly market data reports, without much commentary, interviews or political expression. (The total search retrieved over 700 articles). The remaining articles included both features and shorter news stories along with editorial pieces. Regular and guest columns were also considered. These articles reflect the market turmoil, mergers, bankruptcy, political manoeuvring for bailouts, and the events associated with them. The publications were chosen on the basis of influence among the financial, political, media and broader business communities of New York, Washington and London.

The Wall Street Journal was chosen firstly because its name indicates an obvious connection to the Wall Street financial district. It caters mostly for an elite investor audience but has a mass audience of consumer-level investors based in New York and other American cities with financial districts. Indeed, the term 'Wall Street' is to the American financial industry what Hollywood is to America's movie industry – an expression that has outgrown the original location (Creswell & White 2008, September 28). *The Wall Street Journal* is owned by The Dow Jones Company, which is the parent company of a major stock market index familiar to news audiences, the Dow Jones Industrial Average. The Dow Jones Company is in turn owned by a huge media conglomerate, News Corporation (Arsenault & Castells 2008; Wolff 2008). *The Wall Street Journal* also has an influence in the financial centres of Asia and Europe since it publishes editions aimed at those markets.

The New York Times was selected because of its institutional frame as a prestigous newspaper of record. Its location in one of the world's four top tier media capitals means it can set the news agendas

of other news outlets and therefore shape public opinion (Arsenault & Castells 2008; Curtin 2003; Krätke 2003; Wintonick & Achbar 1992). Its audience is comprised of both a mass readership of ordinary people and an elite readership of politicians, investors and media personnel. While it is a national newspaper, its reach is international. This broad ideological field reflects a requirement to respect 'democracy' in order to sustain the legitimacy of the investment class. This is a delicate balance since its real allegiance is to investment class interests.

The Washington Post was chosen for its proximity to the Washington political elite. Its ideological field influences politicians, administration officials and technocrats in Washington-based institutions who pursue agendas that favour the ruling elite. Its reach is national and international because daily coverage covers the workings of Congress. Occupying a chair of its board of directors at the time of the financial crisis was Warren Buffett, a multi-billionaire oligarch who performs a symbolic ideological role in American cultural life as a folksy affable guy (Thornton, Walters & Rouse 2006).

The *Financial Times* was selected for its specialized role as a financial/business publication. Its London edition has a strategic influence over its audience of elite investors in the City and the political players of Westminster. The newspaper's four international editions means that it reaches elite audiences in the financial centres of the US, Europe, Asia and the Middle East. Its online users extend this ideological field even further. The *Financial Times*' pro-market discourse could be expected to buttress the financial elites of 'the City' – London's financial district.

The Times ideological field is mostly aimed at influencing the conscious thoughts of Middle Britain, especially in London. It appeals to the Middle Britain prejudice, cultivated by the Anglo-American elite, that their governments and politicians are the primary instigators of economic management. Such ideological distortions help to obscure patterns of oligarchic collusion. It could therefore be expected to be more subtle in its marginalization of the public than the avowedly pro-market financial publications such as the *Financial Times*. *The Times* is also owned by News Corporation.

The Guardian Weekly was selected for its centre-left institutional frame and its track record of being quite critical of big government and corporate agendas. Its ownership structure is more independent of large corporations, and associated think-tanks. With minimal advertising, *The Guardian Weekly* thus serves as a counterpoint to the other publications. However, it is still constrained by the elite milieu within which it circulates.

Time magazine was chosen because it has a large mass readership across the United States and internationally. Its strategic ideological purpose is to influence a working and middle class American audience. It is owned by The Time Warner Company, which is a major media conglomerate. An important part of *Time*'s institutional framing is its annual "Time Person of the Year" cover issue that

features an influential individual, the selection usually becomes an international story in itself (Arsenault & Castells 2008).

Fortune magazine was picked because its ideological field incorporates propaganda targeted at an elite audience of investors who believe the claims promoted under the rubric of 'free-markets.' *Fortune* magazine is designed to influence an American investment class readership who lack the sophistication of the upper echelon, while sharing their values. These values, however, are not completely understood, because the actual goals of the top-tier of the global investment class is to sustain control over societies – 'by any means necessary.' Therefore, *Fortune* sustains pro-market frames that obscure the discrepanies between the neoliberal ideology and elite manipulation of a boom-bust-bailout formula.

In a similar way, *BusinessWeek* targets an elite audience of American investors who also believe the claims promoted under the rubric of 'free-markets.' Its market niche is likely to be less critical of the activities of various financial and regulatory institutions than *Fortune*. This criticism, predictably, does not threaten the core ideological 'assumption' of capitalism; that it is a commercial system rather than a political-economic arrangement favouring the super-rich. In other words, *BusinessWeek* is not going to be read by market insiders situated in the upper echelon of global banking and finance in order to find out what is happening in financial markets. It is, rather, a coffee table business magazine designed to lure its readers into believing in the global secular religion: financial capitalism.

The Economist's ideological field is mostly an elite one, which encompasses the financial and political centres of Britain, Europe and North America. Because *The Economist*'s owner, The Economist Group, is half-owned by the Schroder, Rothschild and the Cadbury oligarchic families, it has insider networks within London and representation at the meetings of global policy-shaping groups (Brook 2008, February 25; *Ketupa.net: FT & Economist: Overview* n.d.). The news magazine's role is to influence elite discourse throughout the world (Estulin 2009: xi, 89, 92). Since it is one of the few major media outlets to have access to off-the-record discussions, it is looked to by elites, and other news outlets, for the ways in which pro-market orthodoxy is being refined. Because it also has a mass audience, it is necessary for *The Economist* to construct highly sophisticated news frames that work on two levels without exposing its ideological function.

My reason for choosing this thesis topic can be explained as follows. I could see that the news media were failing to examine *why exactly* governments were expected to bailout banks and other financial institutions. Of course, the answer to that question is multi-layered. Typically, however, the news media barely scratched the surface of the question.

The modis operandi I had for this thesis was to test for collusion and conspiracy. If an investigation turned up evidence of collusion and/or conspiracy, I would examine the extent to which such evidence was obfuscated by news media coverage. I figured that analysis of how the financial crisis was reported

in an Anglo-American context by British and American news outlets would elicit discrepancies between the official narrative and what was being obscured. That the news media was failing to investigate why the world's wealthiest people were insisting on tax-funded 'rescues' as governments refused to tell them to use their own money, emerged as an important theme in my research.

This thesis essentially contests the claimed legitimacy of ruling elites to rule. I am also contesting notions of privilege, status and private consensus-shaping among oligarchs and elites regarding decisions of public import. As such, I am also making a political statement by *de-capitalizing* occupational and honorary titles such as president, prime minister, chancellor, governor, sir and lord. In this context, inverted commas are used for certain words, terms and phrases in order to either: contest their common meanings (such as 'free markets,' 'the market,' and 'rescue'); to indicate the rhetorical manipulation that characterized the financial crisis (such as 'financial Apocalypse,' and 'better than the alternative'); or useages that were representative of news media practices in general, or to indicate a term, such as 'atmosphere of catastrophe' which captures such practices succinctly.

Chapter 2: Financialized Capitalism and Financial Oligarchy

Financial collapse: the search for causes

Mainstream media reports of the 2007-2009 financial crisis period ubiquitously suggested that the financial crisis had two primary causes: greed and a lack of financial regulation (Ferguson 2011; Prins 2009; Schechter 2009). This had created an environment for "unfettered risk-taking incentives," where bonuses were linked to practices that sought to maximize short-term profit over more secure longer-term investment choices (Acharya, Philippon, Richardson & Roubini 2009: 24). A more sophisticated view expressed in academic writings is that from about 1970, capitalism became increasingly financialized and therefore 'parasitic' or 'predatory' on the so-called 'real economy' (Blackburn 2008; Foster 2007; 2010; Foster & Magdoff 2009; Lapavitsas 2009; 2010; Niloufer 2009; Magdoff & Sweezy 1985; Ramirez 2009). Financialization is commonly described in terms of a pattern of wealth accumulation derived from bets on paper assets by financial elites and their institutions, rather than by profits extracted off production activities and trade in physical goods or the 'real economy' (Arrighi 1994; Epstein 2002; Foster 2010; Krippner 2005; Palley 2007).

As is common in times of crisis, some observers looked for historical parallels and patterns. Laevan and Valencia surveyed recent financial crises and found that there were 395 banking, currency and sovereign debt crises between 1970 and 2007 (2008: 7).[5] Others explored financial crises in relation to different time frames (Bichler & Nitzan 2010; Glick & Hutchinson 1999; Klein 2007), national-regional developments (Diaz-Alejandro 1985; Wade & Veneroso 1998), or the logic of speculative attacks (Corsetti, Pesenti & Roubini 1998; Klein 2007; Miller 1999). Some researchers employed a critical political economy perspective, which addressed the unequal distributions of wealth and the political power which vast fortunes seem to command (Bonner & Wiggin 2006; Johnson & Kwak 2010; Prins 2009; Wilmarth 2009; Pérez Caldentey & Vernengo 2010). Common to all financial crises since the 1970s was the prior lifting of legal restrictions on financial activity (Donmez 2010; Klein 2007; O'Hara 2009). Critiques from Bill Bonner and Addison Wiggin (2006), F. William Engdahl (2009), Michael Hudson (2010) and Nomi Prins (2009) explain the workings of financial capitalism in terms of a self-perpetuating financial oligarchy. The oligarchy thesis is argued more explicitly in Simon Johnson and James Kwak's book *13 Bankers* (2010).

Oligarchy theory entails the study of small wealthy and privileged groups who use their highly concentrated material wealth to shape the political trajectory of society in defence of their fortunes (Winters 2011; Winters & Page 2009). Power is derived from the resource base that the actors possess and control. The skillful deployment of this resource base translates into certain effective strategies (Pettigrew 1972: 189). Significantly, Prins (2009) and Johnson and Kwak (2010) contend that

government support for the financial oligarchy has merely parlayed the current crisis for a bigger one because the 'bailouts' are, of themselves, another bubble, which will eventually create 'a day of reckoning.'

Dominant capitalists: a financial oligarchy

Oligarchy theory can be used to explain the persistence of dominant capitalist groups and their entwined relations with big governments (Bichler & Nitzan 2004; Winters 2011a). This theory explores the idea that what matters to any minority ruling group is self-interest and suggests that their interests are determined by the logic of power. In order to rule, a ruling class or coalition of dominant groups must share a mindset or worldview that has a singular logic.[6] Power requires submission to its organizing system, and those with power act most obediently to the logic (Nitzan & Bichler 2009). The power of ruling groups is based primarily on the maintenance of the organizing system's legitimacy (Phillipson 2007: 382). In turn, legitimacy is sustained via communication technologies, including media institutions themselves (Achbar, Abbott & Bakan 2005; Achbar 1994; Palan 1998; Sovacool 2010). Communication technologies and media institutions disseminate symbolic power that ruling groups depend on in order to create and reproduce beliefs about their status as worthy rulers (Nitzan & Bichler 2010).[7]

The common understanding is that oligarchies and democracy are mutually exclusive, with the presumption that oligarchies only exist in countries ruled by dictatorships; as in Suharto's Indonesia, or in post-communist regimes such as Russia (Gelpern 2009; Johnson & Kwak 2010; Winters 2011a,b). However, representative democracy, or limited democracy, based on the Westminster parliamentary system was spread around the world as a strategy to protect the extremely wealthy from the riskiness of "pure" or participatory democracy (Achbar 1994; Winters & Page 2009: 3). Typically, an "oligarchic-mass settlement" was 'necessary' to form a democracy, the purpose of which is to manage issues that are of little importance to the oligarchs. Broadly, the condition for allowing representative or limited democracy is that the democratic society does not bother the oligarchy.[8] In civil oligarchies, where the state apparatus defends the wealth of an oligarchy by upholding property rights as a trade-off for disarming and abiding by its laws, it is not necessary for democratic processes to work (Winters 2011a: 208-210).[9]

In his book *Oligarchy*, Jeffrey Winters (2011a) argues that oligarchs are distinguishable from dominant capitalist groups because the Marxist theory of capitalism models for economic motives, whereas oligarchy theory is a framework for studying a political motive in the deployment of material resources. However, Jonathan Nitzan and Shimson Bichler argue a 'capital as power' theory, and contend that 'capital' is a "*symbolic representation of power*" (2009: 7). Nitzan and Bichler explore the proposition that capitalism is primarily a power system, wherein dominant capitalist groups use their vast financial claims to wealth to maximize their 'accumulation of power.' Those capitalists with the largest holdings of capital

gravitate together to form the dominant groups at the centres of power – located in the largest global cities, some of which are capital cities (Cassis 2006; Marazzi 2008). From the perspective of the super-rich, the public and private sectors are viewed as two divisons of capitalism, and democracy as its administrative system (Nitzan & Bichler 2009). Together, oligarchs steer the trajectories of whole societies. In this dissertation, I merge capital as power theory with oligarchy theory.

Oligarchs focus their efforts on "wealth defense" which are measures designed to maintain the conditions of "extreme material inequalities" (Winters & Page 2009: 2; Winters 2011a). Such wealth defence measures fall into two broad categories: "property defense," which is about protecting property from confiscation; and "income defense," which focuses on ensuring private property is not legally redistributed. Since the state protects oligarchs' property rights in civil oligarchies, the super-rich focus on income defence, such as limiting taxation (Winters 2011a: 6-7, 20-26, 208). Oligarchs need not expend extensive personal time or effort to influence political systems because their wealth buys them an army of skilled professional actors who "blend smoothly" into pluralistic politics (Winters & Page 2009: 2; Winters 2011a). Such actors within the oligarchy's orbit inhabit the government policy-shaping think-tanks and foundations, and may do stints in 'prestigious' lobbying, consultancy and law firms or as officials and politicians funded by the oligarchs (Nitzan & Bichler 2009; Winters & Page 2009). In other words, a 'wealth defense industry' shapes policy agendas in private before the final phase when the media prepares the public for new plans (Dye 1978: 329; Winters 2012).

The key problem in determining the degree of political influence that financial oligarchs might have is the secrecy pertaining to their wealth and income (Winters & Page 2009).[10] Jeffrey Winters argues that the cusp of a wealthy individual becoming an oligarch is reached with an annual income of $4 million (Winters 2011a: 214-216; 2012). However, it is during crises that big players become most visible; during the financial collapse some firms were deemed 'too-big-to-fail' and received preferential assistance while others were left to fail (Ferguson & Johnson 2009a,b; Smith, Wagner and Yandle 2010). During a crisis, there will be at least one oligarch who is betrayed, because a scapegoat fills an historical role that has proved indispensable to oligarchs in their acts of mass public deception (Winters & Page 2009). The scapegoat is stigmatized, while the dominant "in-group" that society identifies with is framed as noble and guiltless. Betrayal is vital to heighten a crisis and provide necessary cover for the true workings of oligarchs. It is around the locus of betrayal, that the oligarchy is most illuminated (Smith et al. 2010).

Importantly, oligarchs impoverish societies by accumulating the 'lion's share' of wealth claims, while restricting the majority from an equitable income portion. This limits the capacity of populations to live within (and outside) the strictures of capitalism. For example, in 2007, the world wealthiest citizens or high net worth individuals (HNWIs) whom numbered 10.1 million, had a combined financial wealth totalled $40.7 trillion (Capgemini & Merrill Lynch Wealth Management 2011: 4). High net worth

individuals are defined as people with "investable assets of US$1 million or more" (p.4-5).[11] As Frances Hutchinson (1998) argues in, *What Everyone Wants to Know About Money*, capitalism controls people by limiting their access to land. In *The Grip of Death: A Study in Modern Money, Debt Slavery and Destructive Economics*, Michael Rowbotham (1998) argues that this political control is primarily achieved through a deliberate scarcity of cash and an abundance of credit/debt.

During the 2007-2008 period of the financial crisis the news media did not explore the power relations that underpinned the American financial system. Contrary to the common belief that the United States' central bank is government owned, it is actually a cartel of privately-owned companies (Griffin 2008: 440; Wessell 2009: 155). The Federal Reserve Systems' member banks are its joint-stockholders – every one of which receives a six per cent annual dividend (Board of Governors of the Federal Reserve System 2008: 374; Brown 2008; Deloitte & Touche 2009: 4; Griffin 2008; Rothbard 2002; Still 2009). The Federal Reserve System has 12 regional banks, each being a corporation, and their member banks include all national banks and any state-chartered banks that are awarded membership status (Board of Governors of the Federal Reserve System 2008: 374; Deloitte & Touche 2009: 4).[12] Through this cartel system, the American financial oligarchy can influence strategies, monitor rivals and enforce tacit agreements that would not be legally enforceable via courts or legislation (Ayres 1987; Rothbard 2008).

Winters' oligarchic theory posits that oligarchs need not conspire or cut "backroom deals." He argues that a "very well-paid mercenary army" comprises a Wealth Defense Industry, which follows the oligarchs' directives as orders (Winters 2011: 18-19, 214, 217-218; 2012).[13] However, powerful economic interests have the capacity to collude or conspire, especially when the corporations they control dominate markets, as cartel theory and anti-trust law predicts. A common definition of conspiracy is "a combination of two or more persons by some concerted action to accomplish a criminal or unlawful purpose" (Ward 1969: 631). Conspiracy law developed out of the recognition that groups of people can inflict more harm upon society when they act collectively, as opposed to a person acting alone (Katyal 2002: 1314-1316; Marcus 1977: 932-933). Oligarchs can use their wealth resources to gain favourable legislation and judicial decisions. Yet, what is permissible in law may harm society (Achbar, Abbott & Bakan 2005; Ferguson 2011; Johnson & Kwak 2010; Katyal 2002: 1314-1315, 1338; Schechter 2009). Thus, a conspiracy is a secret agreement to augment political power by harming society.

Standard definitions of collusion refer to secret agreements that are *illegal*. Such unlawful agreements seek to gain further economic advantage by undermining existing competitors and limiting new entrants, such as by price-setting, quality chiselling and product standardization (Ayres 1987; Marks 1986). In other words, collusion involves agreements for economic gain where the *intent* that underpins them remains hidden. Collusion may be either explicit or tacit. Since it is rare to gain evidence of secret deals, circumstantial evidence that shows a "meeting of the minds" or "conscious parallel business behaviour" can be used to support other evidence (Ayres 1987: 297; Marks 1986: 387, 395-396). However, since

oligarchic theory predicts that the wealthy can collude or conspire to make legal what was previously illegal, or prevent laws being passed to limit the opportunity for collusion and conspiracy, I take a broader view to encompass wrong-doing in oligarchic-elite networks.

The issues of collusion and conspiracy are important for this study of news coverage of the current economic crisis and the events that led to it. After all, investigations into wrongdoing perform a journalistic task that cannot or will not be undertaken by law enforcement authorities (Randall 2000: 99-101). By examining the actions of financial oligarchs, we can determine the discrepancies between their stated intentions, their rationalizing justifications and their actual purpose. As such, this chapter will attempt to explain the deeper reasons as to why Wall Street and the City (London) were 'rescued,' while workforces, taxpayers, householders were fired, billed and foreclosed (Ferguson 2011; Johnson & Kwak 2010; Prins 2009).

The rise of the Anglo-American financial oligarchy

In her book *The Shock Doctrine: The Rise of Disaster Capitalism*, Naomi Klein traces the history of the neoliberal movement by focussing on one of its leading proponents – a Chicago-based 'free market' economics professor, Milton Friedman. At the University of Chicago's Department of Economics, Friedman trained elite Chilean students, called the 'Chicago Boys,' for the task of transforming their society to benefit large and mostly American-based corporations (Klein 2007; von Werlhof 2010). Friedman emphasized to his students that "speed, suddenness and scope" were key to 'free market' policy deployment (Klein 2007: 7). Central to the 'free market' system is "shock treatment," which means rapid far-reaching changes to the political economies of countries through the sudden implementation of neoliberal policy shocks (Klein 2007: 71). Indeed, policy shocks often occurred when governments and their central banks had been confronted with a wide range of crises, usually in the form of a currency, banking or sovereign debt crisis (Glick & Hutchison 1999; Miller 1999; Klein 2007; Laevan & Valencia 2008).

In the Chilean case, however, the mass populace was subjected to 'shock treatments' following a CIA-backed coup on September 11 1973 (Klein 2007: 60, 128). General Augusto Pinochet's coup was assisted by destabilizaton efforts directed by US National Security advisor Henry Kissinger, who viewed president Salvador Allende's socialist government as a "contagious example", as though nationalizing key infrastructure and resources, owned by American and Chilean corporations, was a virus that needed to be exterminated (Chomsky 2006: 111; Klein 2007: 63-70).[14] The "Chicago Project", which had been funded by the Ford Foundation and the US State Department, made use of the same modus operandi that propelled general Suharto to power in Indonesia in 1965 (Klein 2007: 60-62, 67-70; Pilger 2002; Pilger & Lowry 2001).[15] To ensure the success of Suharto's coup, the CIA provided "shooting lists" of up to five thousand of president Sukarno's left wing supporters. Suharto duly ordered the

Indonesian military to kill them. With extra weaponry and field radios provided by the Pentagon, Suharto had up to a million Indonesians murdered in 1965 and 1966. These 'shock treatments' of terror literally cleared the opposition for the 'Berkeley Mafia,' who were Indonesian economists trained at the University of California, in Berkeley City, to implement the requisite 'economic shock treatments' (Klein 2007: 60-62, 67-70; Pilger 2002; Pilger & Lowry 2001). Like the 'Chicago Boys,' the 'Berkeley Mafia' were funded by the Ford Foundation. After they had metted out 'shock treatements' in Chile, many of the Chicago Boys went globe-trotting to deploy neoliberalism (Klein 2007: 60, 128).

However, there is a gap in *The Shock Doctrine* relating to the power relations behind the planning and deployment of 'free-market' policies. In their seminal book, *Imperial Brain Trust* (2004 [1977]) Laurence Shoup and William Minter trace the history of the New York-based global policy-shaping think-tank, the Council on Foreign Relations (CFR). Between 1971 and 1973 a special CFR Study Group met to discuss what they called the "1980's Project;" the goal of which was to reconfigure control of the planet (Estulin 2009: 183-184; Shoup & Minter 1977: 254-284).[16] Central to this project was the deployment of neoliberal ideology under the rubric of 'free market reforms' that promised economic prosperity for all (Pappas 2004; Shoup & Minter 1977).[17] In fact, the intention was to reduce the material wealth of mass populaces so that they would be less able to assert their political independence and, therefore be hindered in their efforts to build autonomous, resilient communities.

To this end, in April 1972, the chairman of the Council on Foreign Relations, David Rockefeller, presented his idea of a new alliance between the wealthy and politically connected of America, Europe and Japan to a secretive global policy-shaping group called the Bilderberg Foundation, which convened in Knokke, Belgium. In July 1972, Rockefeller, who was also chairman of the Chase Manhattan Bank, hosted 250 oligarchs and elites at his country estate in Pocantico Hills, Hudson Valley, New York, where they formed a new global-policy shaping think tank called the Trilateral Commission (Engdahl 2009: 273-275; Estulin 2009: vi, 137, 142, 145-146; Klein 2007: 54-55; Shoup & Minter 1977: 254-281). This new global-policy shaping group was designed to formulate policies, strategies and tactics to further what *The Economist* later called a "counterrevolution" (Klein 2007: 78). This counter-revolution, amply detailed in *The Shock Doctrine*, sought to undermine those opposed to the dominant capitalist coalitions of America and Europe. By joining forces with oligarchs from Japan, the Trilateral Commission's task was to assist in the roll-out of the "1980's Project", which included globalizing neoliberal ideology, so that risky military coups could be avoided in developed civil oligarchies (Engdahl 2009: 273-378; Estulin 2009: 137-147; Perloff 2008: 154-166; Shoup & Minter 1977: 254-281).

Meanwhile, Richard Nixon committed two sets of political heresies. In 1971, he applied price controls on housing rents and oil (Klein 2007: 81).[18] The same year, he became the first American president to declare a 'war on drugs' (Coleman 2006a: 148, 196-205; Estulin 2009: 55-60; Scott 2007: 47). Nixon was removed by a conspiracy known as the 'Watergate scandal' involving key plotters such as Henry

Kissinger, fellow CFR member general Alexander Haig, and ex-CIA and FBI officer, James W. McCord.[19] In Nixon's successor, Gerald Ford, the American oligarchy had the right president, particularly as the Ford Foundation had co-funded the training of the 'Berkeley Mafia' and the 'Chicago Boys.' The new president also made both Kissinger and Haig part of his cabinet (Klein 2007: 60-62, 67-68, 70; Estulin 2009).[20] The neoliberal counter-revolution had not only an American president, but in Ford's appointment of Nelson Rockefeller as vice president, those American oligarchs and elites that were in the Rockefeller's orbit signalled to key insiders that they meant business. Nelson's brother, John D. III, published a book in 1973 called *The Second American Revolution*, that argued for a radical transference to private interests of state "functions and responsibilities" (Rockefeller 1973 as cited in Engdahl 2009: 275).[21] In other words, the American oligarchy planned to use neoliberal ideology as the intellectual framework from which propaganda could be constructed to obscure the real reasons for 'free market shock treatments.'

Core to these collusive and conspiratorial arrangements was the liberalization of financial systems, which involved the easing or removing of regulatory restrictions over financial flows and financial claims within and between countries. Capital controls were lifted 'haphazardly,' and when combined with new computing power that took the velocity of money to light speed, national currencies became vulnerable to attack by speculators (Bryan & Rafferty 2006: 118-119; Miller 1999; Strange 2001). The Anglo-American elites' strategy was to construct the conditions amenable to financial volatility and use the ensuing financial crises as a mechanism to gain more control over the world's governments and their respective citizenries (Coresetti, Pesenti & Roubini 1998; de Angelis 2001; Engdahl 2009; Klein 2007).[22]

At the same time, governments and private corporations alike were compelled to protect themselves by exploiting a developing financial technology known as derivatives. Derivatives allow market actors to trade financial claims to an underlying asset or debt without having to own the commodity itself (Johnson & Kwak 2010: 79).[23] Holders of derivatives can exploit fluctuations in the prices of particular assets, exchange indexes, rates or events according to their specific in-built risks (Bryan & Rafferty 2007; Wilmarth 2009). Since their risks are constantly recalculated, financial institutions and industrial firms could pursue better than average returns by moving capital to take advantage of increased volatility in currencies, lending rates and asset values (Bryan & Rafferty 2007; Nitzan & Bichler 2009).

In order to universalize derivatives, state-based currencies needed to be liberalized, since all derivative contracts were denominated by a country's unit of account (the state currency). Without easy convertibility of one derivative contract for another across trade exchanges anywhere in the world, the full potential of derivatives would be inhibited. Since derivatives were theorized as a way to price the risk for anything into a single metric, the Anglo-American oligarchy saw derivatives as an innovative mechanism for high capital mobility across the globe (Bryan et al 2009: 466; McNally 2009).

The resultant physical expansion of financial portfolios was, in effect, a long-run game theory strategy based on the logic of creating higher capital mobility for an investment class over 'ordinary' people, who remained relatively fixed, susceptible to debt entanglement and oblivious to the new orbit in which high-speed monies travelled (de Angelis 2001; Nitzan & Bichler 2009).[24] Economic game theorists have modelled conditions under which firms will collude, and, conversely, what may trigger them to breach collusive agreements or to punish rivals caught cheating (through such activities as price or quality 'chiselling') (Ayres 1987; Domowitz, Hubbard & Peterson 1987).[25] Crucially, derivatives allowed coalitions of financial oligarchs and their elite professionals to make complex bets to destabilize target firms, industries or governments (Brown 2010: 368-369; Chossudovsky 2010a: 12; Ferguson 2011).[26]

A 2008 International Monetary Fund (IMF) survey spanning from 1970 to 2007 shows that banking, currency and sovereign debt crises occurred in 143 of the 161 countries in the dataset.[27] Excessive inflows of foreign capital fed a growing bubble made with loans and investments on an expectation that governments would be forced to bailout the biggest of the private interests (Chossudovsky 2010a; Corsetti, Pesenti & Roubini 1998; Klein 2007; Nitzan & Bichler 2010). Loans made to 'developing countries' in the 1970s from Anglo-American banking interests successfully arrested the 'developing countries' capacity to develop. This was a vital goal, since it meant that those countries were unable to pursue their own policies (Chossudovsky 2003; Engdahl 2004: 152; 2009: 271).

British prime minister Margaret Thatcher and US president Ronald Reagan, who had enthusiastically praised Chile's dictator, Augusto Pinochet, headed the Anglo-American led 'free market' revolution when they were elected in 1979 and 1980, respectively (Chomsky 2006: 112: Engdahl 2004: 179-183; 2009 285-286; Gill & Law 1993; Klein 2007). The priorities of the Thatcher regime were signalled by its first piece of legislation, the UK Banking Act of 1979, which allowed markets to move currency exchange rates (Palan 1998: 633). In the United States, federal and state governments in the 1980s began to liberalize laws that controlled bank mergers and branch banking between states and within states (Wilmarth 2009). The Reagan-Republican majority in Congress passed the Garn-St. Germain Depository Institutions Act in 1982, which allowed for the savings and loans industry to expand their operations to make commercial loans and buy corporate bonds (including junk ones) (Johnson & Kwak 2010).[28] The resulting shift of global finance away from genuine productive investment and into speculative trading and acquisitions, took their toll around the world (Allen 1999; Fane 2000; Klein 2007).

A decision by the Federal Reserve Board to sharply increase interest rates in 1979 triggered other central banks to follow suit. The increase in the cost of borrowing caused a liquidity crisis in 'developing countries' and this had a ripple effect on countries that bought their exports (Allen 1999; Engdahl 2009: 282-288). This meant the 'developing countries' could not earn enough from exports to meet their loans and this resulted in a world debt crisis (Allen 1999; Engdahl 2009: 286-292).[29] Governments of those countries were coerced to accept 'free market structural adjustments' in return for International

Monetary Fund (IMF) 'emergency loans' (Chossudovsky 2003; Engdahl 2009; Klein 2007; Peet 2003).[30] This interest rate policy shock, which copied "Thatcher's monetary shock model," increased the profits for Wall Street banks, since their monopoly trade in the suddenly lucrative US Treasury bonds and securities were highly sought by foreign investors (Engdahl 2009: 279, 282, 287). The high interest rates also furthered the plan to de-industrialize America, as the soaring cost of credit drove US-based manufacturers to outsource production to 'third world' countries (Engdahl 2009: 288-289; Klein 2007).

The City of London launched its financial liberalization in 1986 dubbing it the 'Big Bang,' which saw the entry of American and European banks. Many of these bought up the top investment banks of Britain (Allen 1999: 9).[31] The UK's 'Big Bang' was followed by the Single European Act of 1987 that paved the way for the elimination of border restrictions, universal regulations, buy-up of state infrastructure and the integration of financial markets (Allen 1999: 61). The legislation, which created a deadline for full integration was dubbed 'Europe 1992' and triggered an investment boom. This was a precursor for the introduction of the Euro currency in Europe (p.52).

In October 1987, it was the stock markets of the industrialized countries' turn to experience a near-instantaneous collapse of asset prices (Mishkin & White 2003 as cited in Hunter et al. 2003).[32] William Engdahl (2009) argues in *Gods of Money* that a newly developed financial derivative – stock index futures – were all modelled with the same in-built computer-automated trigger mechanisms. The sudden crash happened because financial markets peaked at a point where participants realized there was not enough liquidity or funding to sustain bet-making, and the decline set in motion "a computer-driven freefall" (p.308).[33] The Federal Reserve bailed out the privileged clients of Wall Street who needed cheap credit immediately to pay for the bets they had made (Mishkin & White 2003: 70).

In 1988, Japan's central bank lowered the cost of credit, which was evidently meant to encourage the purchase of US made goods, but instead fed an investment bubble in overpriced American real estate (Engdahl 2004: 226; Strange 2001). This bubble soon burst in the 1989-1990 period when Japan suffered a currency crisis and then a banking crisis that lasted from 1992 to 1997 (Glick & Hutchison 1999). Wall Street investment banks, Morgan Stanley and Salomon Brothers, had shorted Nikkei index stocks in Tokyo through derivatives contracts. The Japanese economy was attacked partly because it had tabled a plan to finance a state-centred economic model for the former Soviet bloc countries. In addition to the fact that Japan was at the time a leading industrial and financial power and communism had just collapsed, the Japanese plan threatened the American financial oligarchs' 'free-market' strategies for controlling the world (Engdahl 2004: 228).

A world recession in 1991-92 coincided with the beginning of the Asian real estate and stocks bubble that was fuelled by speculative investment. When the bubble burst in 1997, it was the eighth biggest collapse in financial history (Kindleberger & Aliber 2005). In Europe, the investment boom that had

started in 1987 in anticipation of greater market efficiency from an integrated single 'European Community' burst when over-hyped expectations and the 1992 deadline converged. The ensuing flight of capital in late 1992 caused what is known as the European currency crisis.

In January of 1992, the IMF insisted that the Russian currency, the ruble, be taken off a fixed exchange regime, and the Yeltsin regime helpfully complied. The immediate consequence was that inflation for household goods and services rose by 9,900% and real wages dropped by 84% (Chossudovsky 2003: 239-241; Engdahl 2004: 234). The collapse of the ruble quickly followed, along with the loss of people's savings, and the size of the Russian economy was reduced by perhaps as much as 50 per cent in a single year (Chossudovsky 2003: 240). This episode in economic warfare was designed to undermine Russia's potential to become a thriving capitalist economy and therefore a strong political power. The free float of the ruble was also designed to destroy the ruble economic zone in order to make other East European states vulnerable to financial crisis (Engdahl 2004: 235).[34]

In the United States, the Interstate Banking and Branch Efficiency Act of 1994 allowed banks to have branches across state borders (Engdahl 2009: 313; Johnson & Kwak 2010: 84). These and other liberalized laws governing the banking sector, precipitated more than 5400 mergers between 1990 and 2005. With the deals valued in excess of $5 trillion, the ten biggest banks increased their asset size relative to the banking market (Wilmarth 2009: 975). Throughout the 1990s, Wall Street's financial institutions also exploited legal loopholes to buy securities firms, while the securities firms reacted by acquiring loans companies and savings institutions (p.977-978).[35] Meanwhile, European Banks bought into American investment banks (p.977).[36] Financial transactions were becoming more profitable than the trade in commodities and services (Ferguson 2011; Johnson & Kwak 2010: 85-86).

By 1995, global flows of capital measured by payments through the inter-bank clearing system were performing 200,000 transactions per day and turning over $1.3 trillion (Strange 2001).[37] In such a volatile financial environment, it was the Asian 'Tiger' economies turn to crash in 1997. Thailand was the first to experience capital flight, then Indonesia, Malaysia, the Philippines and finally South Korea (Glick & Hutchison 1999; Klein 2007). Their currency and credit crises occurred as a consequence of pressure from leading Western financial institutions such as the IMF and the World Trade Organization (WTO) to make speculative 'investment' and currency trading legal. What made the Asia financial crisis so widespread was that Asian mutual fund brokers had packaged the 'Asia Tigers' securities into universal products so that when one 'Tiger economy' fell, the rest were taken down too (Klein 2007: 265).[38]

In effect, the attacks by the Wall St-Fed-Treasury-IMF-City Complex created an "uneven and volatile" transformation of capitalism (McNally 2009: 47; Robinson 2007).[39] The intensified spread of a debt money system on a global scale was achieved through the liberalization of currency regulations and the widespread use of derivatives as commodity money. In effect, derivatives universalized the

commodification of risk (Ferguson 2011; French, Leyshon & Thrift 2009). As derivatives became more widely used, they also inflated commodity values (Institute for Agriculture and Trade Policy 2009; Jones 2010; Pollin 2010; Wray 2008). From the perspective of the Anglo-American financial oligarchy, it was crucial that derivatives remained free of government regulation.

Financial engineering and the spread of the debt money system

In 1998, the heads of the US Treasury, the Securities and Exchange Commission (SEC) and the Federal Reserve responded tersely to a concept paper on over-the-counter derivatives from the head of the US Commodity Futures Trading Commission (CFTC), Brooksley Born (Ferguson & Johnson 2009: 1; Johnson & Kwak 2010: 7-10). Lawrence Summers, the deputy secretary of the Treasury, reportedly rang Born and claimed that there were thirteen bankers in his office saying that her concept paper on OTC derivatives would trigger "the worst financial crisis since World War II" (Ferguson 2011; Johnson & Kwak 2010: 9).[40] She was concerned that because there was no regulatory supervision, the opportunity for fraud and the potential for untold risk were serious. In the decade to 1997, derivatives had grown 2800 percent from a small figure to around $70 trillion (Clark et al. 2004: 292; Johnson & Kwak 2010: 8). The US Treasury secretary Robert Rubin, the Securities and Exchange Commission chairman Arthur Levitt and Federal Reserve chairman Alan Greenspan issued a joint statement arguing that OTC derivatives should not be regulated and questioned the CFTC's jurisdiction. Born's warnings, which included testifying 17 times to Congress, went unheeded. The US monetary authorities were, in essence, exercising wealth defence on behalf of the Anglo-American financial oligarchy, since the mass manufacture of private derivatives were a powerful influence upon economies and industries the world-over.

Born's concept paper did not cause a market meltdown. But, the American financial oligarchs' 'business as usual' activities caused repercussions on Wall Street, when Russia announced it was defaulting on its own Treasury bonds (MacKenzie 2004: 18; Thompson 2003: 35). This event triggered the near collapse of Long Term Capital Management (LTCM), a company registered in a Caribbean tax haven, the Cayman Islands. LTCM owned a hedge fund that had bought stakes in US Treasury securities from developed countries, selected stocks, and various financial derivatives (MacKenzie 2004: 14).[41] Although it had no direct exposure to the Russian rouble, other financial institutions that had attempted to copy the LTCM speculative trading model were vulnerable.[42] Moreover, the volatility that ensued was substantially greater than LTCM's model and stress-testing measures had anticipated. LTCM had debts totaling $130 billion and outstanding derivatives deals with a nominal value of between $1.2 and $1.4 trillion. This would have exposed other major banks to heavy losses in the event of failure (Johnson & Kwak 2010: 53, 148).[43] To avoid collapse, the Federal Reserve Bank of New York organized a group of

thirteen New York banks to 'bailout' Long Term Capital Management (Johnson & Kwak 2010: 148; MacKenzie 2004; Moore 2008; Thompson 2003).[44]

Despite these volatile financial events, the federal government was coerced to change legislation that had been written in response to the reckless speculation, loose lending and market dominance by big financial institutions that had preceded the Great Depression. In 1998, Citicorp's merger with Travellers (an insurance and financial services group that also owned a prestigious investment brokerage, Salomon Smith Barney) produced Citigroup, the first global bank to emerge since the passing of the Banking Act of 1933 (Chossudovsky 2010a: 38-39; Johnson & Kwak 2010: 85). The purpose of this legislation, more commonly known as the Glass-Steagall Act, was to make banking and finance less risky by introducing regulatory controls that would guarantee savers' deposits. Its main feature was the separation of commercial banking from investment banking. Commercial banking functions include deposit-taking from both citizens and businesses, while investment banking directs capital to firms while also providing brokerage services for the trading of corporate and government securities (Johnson & Kwak 2010: 34).

Establishment of global banks was green-lighted by Congress with the passing of the Financial Services Modernization Act in November 1999, which repealed the Banking Act of 1933.[45] Better known as the Gramm-Leach-Bliley Act, the Financial Services Modernization Act was drafted by Timothy Geithner, a protégé of former US secretary of state and national security advisor Henry Kissinger; himself a compliant elite in the orbit of David Rockefeller (the American oligarch who chaired the Council on Foreign Relations at the time the think-tank developed the "1980s Project") (Engdahl 2009: 263-278, 368; Sorkin 2009: 63-64). In effect, Congress' abdication of regulatory responsibility fortified the financial oligarchs' power to augment 'too big to fail' institutions (Johnson & Kwak 2010; Prins 2009; Wilmarth 2009).[46] However, the capacity to create giant global financial entities would be of little use to the financial oligarchs if they could not use them to foment the conditions for market volatility and crisis on a global scale (Chossudovsky 2010a).[47] Towards the end of the Clinton regime, the Commodity Futures Modernization Act of 2000 was passed. This act, also drafted by Geithner, ruled that derivatives were not a gaming activity and that credit derivatives were not a security (Brady & O'Harrow 2008; Engdahl 2009: 368).

Since OTC derivatives are not usually traded on exchanges, there is no market price as such, which means the dealers – the large security firms and major banks – were in a powerful position to commodify risk to their advantage (Johnson & Kwak 2010; Prins 2009; Wilmarth 2009). Derivatives provided a very effective means to create highly leveraged informational asymmetries, since the details of positions that the market's key players were taking were only known to large complex financial institutions. This is because each of the global banks were leading originators of OTC derivatives, so it was impossible for the rest of the market to know what strategies the financial oligarchs were shaping.

To support the inflation of numerous asset bubbles, the financial oligarchs pursued a strategy known as securitization, whereby the rights to income streams of assets such as mortgages are bought off the lenders, and packaged into 'pools' that may contain other kinds of assets. Those are then sold on to investors as mortgage-backed securities (Bryan et al. 2009; Johnson & Kwak 2010). A mortgage-backed security makes a surplus for the purchaser based on the performance of the income stream extracted from the mortgage package.[48] Securitization thus represented a syndicalization of debt (French, Leyshon & Thrift 2009: 297).

Securitization was marketed as a way to disperse risk away from the banking sector and financial system to the non-financial sector, including households. Securitization however, is not merely about the transference of risk. By packaging the risk associated with various kinds of underlying assets into securities, different forms of capital such as interest, rents and fees merge into single securities that enhance "access to the flow of surplus" (Bryan et al. 2009: 466). In this way, securitization did for the financialization of 'free market' economies what the stock market did for Industrial Capitalism – it increased the fluidity of capital.

To ensure that the 'financial-innovation spiral' would spread outward, US banking and finance houses globalized securitization by selling their financial products to their European counterparts (Johnson & Kwak 2010; Prins 2009; Wilmarth 2009; Wray 2009). Securitization was crucial for the globalization of financial systems since it meant claims to the ownership of assets could transcend nation state boundaries (Wray 2009). In turn, the globalization of financial capital was an integral facet of the transnational project to reconfigure capitalism, which sought to uproot production and disperse it throughout the globe (de Angelis 2001; Robinson 2007b). The intention was to make workers into a more financially constrained global labour-force.[49] As such, workers became more reliant on debt-financed consumption, and middle class people particularly, funded their forays into investments either with savings or cheap credit (Robinson 2007b; Pérez Caldentey & Vernengio 2010: 79; Hope 2010; Johnson & Kwak 2010). Systemwide securitization created 'perverse incentives' in which all parties embarked upon competitive strategies that would maximize gains on every trade and constantly grow returns for every financial quarter (Khawaja 2009; Mizen 2008).[50]

2000-2007: Financial globalization and the growth of systemic risk

The twenty-year 'global merger wave' crashed in 2000 with the bursting of the dotcom-telecom stock bubble, and corporate earnings both globally and in the US dropped dramatically (Bichler & Nitzan 2004; Johnson & Kwak 2010: 149; Wilmarth 2009).[51] The collapses of US-based transnational corporations such as Enron and WorldCom showed that numerous global banks, acting as syndicates, had underwritten the failed firms' debt-based expansions.[52] Yet, the opportunity to dispense with the 'free market' system in favour of a more stringently regulated capitalism was forgone. Instead, the

governments and monetary authorities of the United States and the United Kingdom continued in their efforts to create a regulatory environment favourable to oligarchic interests. This intensified the financialization of capital and made its flows more volatile (Augar 2005; Ferguson 2011; Johnson & Kwak 2010; Tett 2010).

The growth of digital money, together with the 'financial innovations' that changed how financial and regulatory institutions operated, gave capital the capacity to exploit the 'offshore world' of tax havens (Palan et al. 2010; Shaxson 2011). As the name implies, a tax haven facilitates tax evasion because money is reprocessed through offshore financial centre communities via private banks protected by secrecy laws (Kudrle & Eden 2003).[53] Offshore financial centres (OFC) are comprised of commercial interests, who exploit the legislative framework created by the host-community - the tax haven - for beneficiaries domiciled elsewhere and sometimes even nowhere.[54] Tax havens are private banking havens which, in a world of electronic money, operate as secret bases from which to send, retrieve and hide digitized claims to funds (Palan 1998; Palan et al. 2010; Murphy 2008; Shaxson 2011). Crucially, tax havens as 'ring-fenced' regimes are regulatory extensions of the world's state system (Palan 1998: 634). The two leading tax haven networks of the world are integral to the British and American empires (Palan et al. 2010; Shaxson 2011). Since both Her Majesty's Government and the US Government explicitly sustain the tax shelter status of their respective monetary authorities, dependencies, colonies and states, the United Kingdom and the United States are themselves tax havens. Indeed, the jurisdictions of the Federal Reserve Bank of New York and the Federal Reserve System are tax havens themselves (Board of Governors of the Federal Reserve System n.d.). As such, the OFC-Tax Havens Complex is central to the world financial system and the creation of financial bubbles (Murphy 2008: 115-116; Palan et al. 2010).[55]

From 2001 to 2007, the big banks' shadow-banking system, comprising hedge funds, equity funds, conduits, structured investment vehicles (SIVs), and private banking havens ratcheted up the global credit boom that began in 1991 (Chossudovsky 2010a; Ferguson 2011; Johnson & Kwak 2010; Preston 2009). This global credit boom was engineered by a global banking cartel, comprised of the world's major central banks, treasuries and private banks (Engdahl 2009; Ferguson 2011).[56] The shadow banking system relied on short-term funding from credit/debt markets, which meant they had to constantly roll-over their securities and bonds. As Acharya et al succinctly put it, they were "financial institutions that mostly looked like banks" (2009: 7). Structured investment vehicles, within the shadow banking system, were a kind of shell-company that created a way for banks to invest in complex financial products, such as commercial paper, without affecting the parent bank's capital reserves requirements.[57] By having the SIVs create and hold the assets, these shell-like companies could raise money for the parent banks, but keep the assets off the holding company's balance sheets (Murphy 2008; Tett 2010). This innovation meant that banks could evade taxes and leverage their positions

further. Consequently, they could circumvent international banking rules that capped asset levels (Johnson & Kwak 2010; Murphy 2008).

An unwitting public did not know that the global banks had, in effect, cast them as "shock absorber of last resort" or the ultimate backers of a financial regime branded the 'New Financial Architecture' (International Monetary Fund [IMF], 2005: 5, 89; Khawaja 2009; Pérez Caldenty & Vernengo 2010: 79).[58] The universal banks' created a vast array of corporate securities and their related derivatives products through the formation of syndicates (Wilmarth 2002; 2009). Under this new financial regime, regulation itself had become a 'free market' activity, in which financial elites could go 'regulatory shopping,' and bargain, threaten and choose the most favourable regulator and jurisdiction within and beyond the Anglo-American Tax-Havens Complex (Johnson & Kwak 2010; Palan et al. 2010; Shaxson 2011). In such an environment, the global banks were able to exploit their power as underwriting syndicates to inflate stock prices, commodity values and globalize a precarious derivatives bubble.

For their part, the US-based financial oligarchs pursued a strategy to inflate the housing real estate boom on a global scale (Bonner & Wiggin 2006; Gowan 2009).[59] The Federal Reserve began reducing its federal funds rate from its level of 6.5 per cent prior to the recession, and the terrorism of September 11, 2001 to a low of one per cent in June 2003, where it stayed for a year, before it began a slow rise (Engdahl 2009: 324; Ferguson & Johnson 2009: 12; Johnson & Kwak 2010: 146). This rate influences the interest that banks charge one another to borrow. This reduction in the price paid for credit that occurred in 2001, in turn created a disincentive to save and worked as a powerful magnifier for the credit boom, as people became housing speculators (Bonner & Wiggin 2006; Ferguson 2011; Langley 2006: 291). As a result, the volume of mortgage-backed securities grew from $275 billion in 2000 to more than $2 trillion in 2006 (Bichler & Nitzan 2009a).[60]

In July 2006, after rising mortgage defaults, the US housing market began its inevitable decline (Bichler & Nitzan 2009a). At this time, the chairman and CEO of the investment bank, Goldman Sachs, Henry Paulson, effectively took charge of US economic policy in July of 2006, when he became Secretary of the Treasury (Ferguson & Johnson 2009; Prins 2009; Swagel 2009: 3).[61] To illustrate what was at stake, total US household debt stood at $13.8 trillion in 2007, and that colossal figure was 99 percent of the United States' total annual economic production of $13.97 trillion (Mah Hui 2009).[62] In 2007, the US financial sector held $36 trillion in debt, or 259 percent of GDP (Johnson & Kwak 2010: 59). Numerous mortgage lenders collapsed in the first months of 2007, which Acharya et al describe as the first "phase of the shadow banking system's demise" (2009: 8).[63] These collapses included Countrywide, which had assets worth $199 billion at the time it was acquired by Bank of America (Federal Deposit Insurance Corporation 2009: 7).

On June 30 2007, Wall Street's fifth largest investment bank, Bear Stearns, closed two of its hedge funds, the High-Grade Fund and the Enhanced Leverage Fund (Cohan 2009: 440). This made investors nervous because it led people to conclude that other hedge funds might be in financial trouble as a result of the US mortgage-market crisis (2009: 439). In their paper "Too Big to Bail," Ferguson and Johnson argue that Paulson, as treasurer, led an attempt to stave off the inevitable burst of the credit bubble until after the 2008 presidential election in order to avoid the peak issue-attention cycle (2009a: 4; b: 6). This occurs during political campaigns when the public's consumption of news is heightened and may transform into demands that the oligarchs cannot fully control. This strategy – which has become known as the 'shadow bailout' – was, according to Ferguson and Johnson (2009 a,b), intended to remain beyond the scrutiny of the public.[64] These measures involved the little-known Federal Home Loan Bank System, which offered finance to major Wall Street banks; the purchasing of home mortgages and mortgage-backed securities, (particularly by Fannie Mae, in an attempt to keep the asset bubbles inflated); extraordinary additions of debt to the Federal Reserve's books; and the downplaying of concerns about the ballooning tax exposure for US citizens (Ashcraft, Bech & Frame 2009: 41, Figure 3 & 4; Ferguson & Johnson 2009b: 7).[65]

A French-based global bank, BNP Paribas also suspended three hedge funds with assets valued at €2 billion on August 9 2007 and this event triggered a 'freeze' in the interbank lending system (Federal Reserve Bank of St. Louis n.d.). The same day, the European Central Bank supplied €95 billion in credit into this interbank lending system (Cohan 2009: 457). The 'freeze,' or 'credit crunch' meant short-term money, or commercial paper, dried up for those corporations, including investment banks and investment funds, who needed that money to roll over their debt (Kellaway 2009).[66] Without much ado, Congress – which is another vital part of the Wall Street-Washington Casino Complex – granted approval for the limit of total US public debt to be "permanently increased" by $850 billion on September 29 2007 from $8.965 trillion to $9.815 trillion (Bureau of Public Debt 2007: 15).[67] Thus, with the end of the global credit boom, these interventions were to mitigate the impacts for the super-rich.

After a brief bank-run on Northern Rock, the UK's fifth largest retail bank, in mid-September 2007, Her Majesty's Treasury announced it would extend loan and guarantee deposits to ease savers' concerns (Acharya, et al, 2009; Ferguson & Johnson 2009; Tett 2010: 230). It was this event that jolted the major media outlets to change from 'business-as-usual' reportage to a 'crisis' journalism mode (Tett 2010: 228). Given that this study argues an oligarchy thesis, I explore the financial crisis as one generated by key players and institutions who had worked collusively to create the conditions for such a crisis.

Hence, the term 'financial crisis' here means a construction of events that unfold as a 'narrative,' which is intended to consolidate power, including financial wealth and control over debt, for the benefit of key actors. The idea of a 'financial crisis' narrative does not mean that the key players have pre-scripted all events, and nor does it mean that they have full control over subsequent developments. Indeed, the

‘financial crisis’ narrative can be likened to the classic three-Act story structure in which the protagonists’ choices propel the plot along, with the crises they face increasing in momentum and intensity as they seek to achieve their ‘endgame’ (Frensham 2003).

As the financial crisis spread in October 2007, numerous banks including UBS, Citigroup and Merrill Lynch announced large write-downs in their asset values (Johnson & Kwak 2010: 160). Despite the peak in US house prices occurring in July 2006, and the interbank lending system freezing on August 9 2007, it took until October 2007 for US and global stock markets to turn from bull to bear (Bichler & Nitzan 2009a). As *Financial Times*’ journalist Gillian Tett noted in her book *Fool’s Gold*, it became evident that the shadow banking system, which included structured investment vechicles (SIVs), were inextricably linked with the major banks. The money market funds had invested in structured investment vehicles, in order to market credit derivatives (despite the paucity of capital backing) (Tett 2010: 114-118, 231).

In December 2007, a communiqué announced that the Bank of England, the Federal Reserve, the European Central Bank, the Swiss National Bank and the Bank of Canada would provide liquidity facilities to address short-term funding problems (Acharya et al. 2009: 53; Federal Reserve Bank of St. Louis n.d.). This plan provided $110 billion in new funds.[68] The European Central Bank injected €350 billion or $500 billion into its financial system. As Anna Gelpern notes (2009), when authorities roll-out an array of measures, it sends a signal to markets that a crisis is systemic. Given that these were major central banks from five jurisdictions, this was a signal that a serious financial crisis was affecting numerous economies. The interbank lending markets had become dysfunctional, and this meant they had to rely more on overnight borrowing. This situation had arisen out of investor concern about the riskiness of banks as commercial entities, amid a downward spiral in the value of credit derivatives, including mortgage-backed securities (GAO 2011: 229; Tett 2010: 246). In effect, this coordinated response from the central banks occurred because the shadow banking system was undergoing a second phase of its rupture – the run on the structured investment vehicles (Acharya et al. 2009: 8).[69] At the root of the systemic financial crisis was the Anglo-American Casino Complex itself. It created a credit shock, or credit boom, in 1991 and amplified the effects by manufacturing a vast array of derivatives, and other financial technologies, until the boom collapsed in mid-to-late 2007.[70]

Financial collapse, credit crunch and the political economy of rescue 2008-09

The imploding US housing market provoked actions by the Treasury and the Federal Reserve, which vacillated between massive taxpayer subsidies for the wealthy and ridiculously tragic ‘free market’ posturing (Ferguson & Johnson 2009; Johnson & Kwak 2010). On Tuesday March 11 2008, the Federal Reserve announced a new mechanism called the Term Securities Lending Facility (TSLF) that would

provide liquidity or cheap credit of up to $200 billion against AAA rated securities, even though widespread securitizations made that rule hypocritical. This move further signalled to markets that the monetary authorities knew that financial institutions were in trouble (Ferguson & Johnson 2009). However, this facility would not become fully operational until March 27 2008.

During the week of March 10 to 14, Bear Stearns was the target of a bank-run. Bear Stearns' demise marked the third phase of the shadow banking system's rupture: a run on the big-five investment banks (Acharya et al. 2009: 8).[71] On March 14, the Federal Reserve coerced Bear Stearns to sell itself to JPMorgan Chase & Co. and on March 16 2008, a deal was reached at $2 per share (Tung 2009).[72] To make the deal happen, Paulson provided a letter stating that the Federal Reserve would take $29 billion of Bear Stearn's junk assets onto its books (Ferguson & Johnson 2009b).[73] The monetary authorities effectively helped JPMorgan Chase buy Bear Stearns rather than keep the securities firm in business, when the Federal Reserve created the Primary Dealer Credit Facility (PDCF) on March 16. This facility provided JPMorgan with federal credit to fund its takeover of Bear Stearns. By the end of March, thirteen commercial and investment banks, that were primary dealers of treasury securities, borrowed cheaply from the Federal Reserve's new credit facility, including Bear Stearns (Board of Governors of the Federal Reserve System 2010a; Prins 2009; Perry & MacDonald 2008, September 16).

By July 2008, foreign holders of US home mortgage debt issued by government sponsored enterprises (GSEs) had become nervous about the viability of one large mortgage institution, IndyMac. At this time, most mortgage firms had gone bust or stopped lending, and a run ensued on all GSEs (Ferguson & Johnson 2009b: 17). They included two huge house-mortgage companies, the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation; more commonly known by their folksy names, Fannie Mae and Freddie Mac, respectively (Forrester 2006: 1355). The US Treasury and the Federal Reserve were thus faced with the prospect of house sales completely drying up (Ferguson & Johnson 2009b: 17). Treasury bought the preferred stock of Freddie Mac and Fannie Mae and committed to buy 79.9 percent of their common stock, up to a limit of $100 billion each on September 7, 2008 (p.18).

The following week concerns about Lehman Brothers mounted. By the morning of Friday 12 September 2008, Lehman's had lost 93 percent of stock value from 31 January 2008. After the New York markets closed, a meeting convened at the Federal Reserve Bank of New York for 20 to 30 CEOs and CFOs from Wall Street, City and European banks. Paulson insisted that they needed "to come up with a private-market solution" (Sorkin 2009: 302).[74] The president of the New York Federal Reserve Timothy Geithner gave Lehman Brothers' financial data to the bankers and split them into three groups to consider options for the faltering Wall Street investment conglomerate (Prins 2009: 21; Sorkin 2009: 303). Conspicuously absent was Richard Fuld, CEO of Lehman Brothers. He had been diverted by Paulson to see if Barclays of London or Bank of America would buy the bank. But without anyone

present to represent Lehman Brothers, how could a legitimate deal be done? What followed is critical to understanding the political economy of the 'rescue.'

Bank of America backed away from a deal with Lehman's and entered into negotiations with Merrill Lynch.[75] In Gillian Tett's account, Barclays was going to takeover Lehman Brothers, but apparently it learned from the Federal Reserve on the Sunday morning of September 14 that the deal could only go through if it was prepared to take all losses between signing and closing the deal (2010: 273).[76] The logic underpinning this scenario is that the American financial authorities expected their UK counterparts to waive a legal restriction that stipulated an acquiring firm first gain shareholder approval (this would take too long). At the same time, Paulson, Geithner & Co. were unwilling to use any tax funds to guarantee the US side of Lehman Brothers' obligations (Griffiths 2009, September 12; Tett 2010: 273-274).[77] As the markets were enmeshed in derivatives contracts, financed by swaps in other financial contracts and by debt financed through buying more debt at cheaper prices, 'letting' Lehman's fail would be a policy shock that could only result in a meltdown.[78]

After Lehman Brothers Holdings Inc. filed for Chapter 11 protection, or bankruptcy, at 1:45 AM on Monday September 15 2008 (Sorkin 2009: 373), the Depository Trust and Clearing Corporation remained open so that the Federal Reserve could lend $87 billion through a JPMorgan Chase conduit to a Lehman subsidiary (Kary & Seinta 2008; Mamudi 2008).[79] The money appeared to be repaid on Tuesday and then another $51 billion was lent. Paulson explained to reporters at a White House press conference that he "never once considered that it was appropriate to put taxpayer money on the line in resolving Lehman Brothers" (Labaton 2008, September 16). However, as Johnson and Kwak noted, Paulson, Geithner and Federal Reserve chairman Ben Bernanke later claimed that the quality of Lehman Brothers collateral was not good enough before bankruptcy to obtain loans (2010: 162).[80]

In the circumstances of the Lehman Brothers 'crisis' weekend, where collusion was the unstated power relation that bound together all the key players at the New York Federal Reserve, derivatives became the trigger for a global-scale financial contagion. This is because the largest originators of global derivatives trading were the seventeen global banks, including Lehman Brothers, who formed underwriting syndicates (Wilmarth 2009).[81] Since derivatives binded different assets together into a competitive logic across a full spectrum of asset classes around the world, a coordinated settlement of the contracts was intrinsic; although not guaranteed (Bryan & Rafferty 2006: 76; Corrigan & Flint 2008: 119-120).[82] However, an 'orderly wind-down' of Lehman Brothers was intended only for market insiders.

Barclays returned on Monday to 'buy' parts of the Lehman's capital markets division for $1.75 billion, despite its assets previously being worth $72 billion (Prins 2009: 21; Teather & Clark 2008, September 17). Surreptitiously, Lehman Brothers also borrowed $68 billion over three transactions between September 15 and 17 from the Federal Reserve's Primary Dealer Credit Facility. These federal loans

matched the sum of liabilities owed by Lehman's capital markets division that Barclays bank had just 'bought.' Meanwhile, Barclays borrowed $1.176 billion from the Federal Reserve's Term Securities Credit Facility on September 17 and $47.942 billion on September 18 from the Primary Dealer Credit Facility (Board of Governors of the Federal Reserve System 2010a,b).[83] In other words, Barclays' takeover of Lehman Brothers' sounded assets was funded with federal loans backed by tax-dollars, while the Federal Reserve permitted Lehman's to borrow from it *after* it was forced out of business by the Wall St cartel.

By the Tuesday evening of September 16, the Federal Reserve and the Treasury had bailed out American International Group (AIG) with funds of $85 billion in return for a 79.9 percent stake (Sorkin 2009: 401; Tett 2010: 279).[84] As Prins (2009) and Johnson and Kwak (2010) note, it did not become apparent to outsiders until months later that, under the cover of the AIG bailout, its counterparties - the global banks - were being paid for bets with the insurance company (Johnson & Kwak 2010: 169; Prins 2010: 61, 190; Prins & Ugrin 2011: 1-2, 4-6). In effect, the global banks had used AIG as a giant sponge to absorb their risky bets (Ferguson 2011).[85] Since the insurer could not easily liquidate its assets, the US monetary authorities had to either bail it out, or let the other global banks and their preferential clients take larger losses.

On Wednesday September 17 and Thursday September 18, Morgan Stanley & Co. Incorporated borrowed $19 billion from the Federal Reserve's Term Securities Lending Facility. Between Wednesday September 17 and Friday September 19, Morgan Stanley accessed $86.3 billion in credit from the Federal Reserve's Primary Dealer Credit Facility, while Goldman Sachs borrowed $12.5 billion (Board of Governors of the Federal Reserve System 2010a,b). These transactions, which were cumulative sums, occurred amid speculative attacks on Morgan Stanley's and Goldman Sachs' stocks. But, as game theory among cartel rivals could predict, the two remaining 'independent' investment banks were not the innocent victims of these attacks. Indeed, they had entwined themselves in complex credit default swap trades, wherein institutional investors were betting on the likelihood that their rivals would default on their debt (Ferguson & Johnson 2009b; Jacobs 2010; Johnson & Kwak 2010). Their strategy was to bind all large firms together in order to coerce Congress for a system-wide bailout.

During financial crises, governments or politicians who may wish to explore alternatives do not do so because they have been forced to meet the markets' rational belief in a bailout. Indeed, the pattern of financial crisis reveals what I call a *boom-bust-bailout formula* so clear that three prominent economists termed the action of central bankers coercing government elites for tax-funded bailouts as a 'Present the Bill' ritual on behalf of financial oligarchs (Coresetti, Pesenti, & Roubini 1998: 12). Henry Paulson and Ben Bernanke performed this very ritual when they audaciously walked into the Capitol building, (where the two Houses of Congress are located) for a 7p.m. meeting on Thursday September 18, with a three-page summary of a bailout bill (Ferguson & Johnson 2009: 164). In effect, the three-page

summary was a proxy note for legislation, which did not stipulate an amount. According to the author of *Too Big to Fail*, Andrew Sorkin, Treasury's assistant secretary for legislative affairs Kevin Fromer told Paulson in a discussion earlier that day, Treasury never "propose[s] legislation to the debt ceiling." The standard procedure was to state the case such that Congress would act on it out of fear (Sorkin 2009: 437).[86] The Paulson-Bernanke congressional appearance was a set-piece of banking theatre (Coresetti et al 1998). Amidst the sudden pause of the market's music, the two front-men for the cartel's debt-based money system glided in before the federal government's lawmakers, just like partners to the rhythmic tempo of a tango.

On Friday September 19, the US Treasury announced it was guaranteeing the $3.4 trillion money market in mutual funds, for losses of up to $50 billion (Henriques 2008, September 18; Prins & Ugrin 2010: 3).[87] This sector had undergone a major sell-off during the week as investors panicked that all money market funds might be insolvent. In effect, this run on the mutual fund markets was the fourth phase of the shadow banking system's rupture (Acharya et al. 2009: 8).[88] Mutual funds make investments in stocks, securities and corporate bonds by pooling investors' money and are an important source of corporate funding through syndicated loans (US Government Accountability Office 2011: 28; Wilmarth 2009: 982).[89] The big investors in money market mutual funds were large financial institutions and wealthy investors (Mollenkamp, Shah & Gullapalli 2008, September 19).

In anticipation of a huge federal bailout, Goldman Sachs and Morgan Stanley both filed for registration with the Securities Exchange Commission on Sunday September 21 as Bank Holding Companies. Effectively, they were announcing that they were to become joint stockholders in the US central bank. Like most other companies of the Federal Reserve System, they would get greater access to cheap credit. Their status as special "Federal Reserve Members" rather than nationally chartered or state chartered members, was a clear signal of oligarchic power (Federal Deposit Insurance Corporation 2008a,b; Johnson & Kwak 2010). This move meant that Goldman Sachs and Morgan Stanley's London broker-dealer units gained access to the Federal Reserve's emergency lending facilities. Over the week of September 22 to September 26, Goldman Sachs' London unit borrowed $7.56 billion, while Morgan Stanley's London dealership accessed $53.370 billion, cumulatively. The Federal Reserve's data released on December 2, 2010 shows that broker-dealer investment banks, along with other large complex financial institutions, were more reliant on the new lending facilities than the news media reported (Board of Governors of the Federal Reserve System 2010a,b; GAO 2011; Felkerson 2011).

More federally-assisted 'rescues' followed. On Thursday September 25 2008, Washington Mutual was forced into bankruptcy by its regulator, the Office of Thrift Supervision, after a depositors' run and the cost of insuring its debt had spiked (Federal Reserve Bank of St. Louis n.d.; Jacobs 2010: 75; Johnson & Kwak 2010: 163). JPMorgan Chase immediately acquired Washington Mutual for $1.9 billion in a merger assisted by the Federal Deposit Insurance Corporation (Prins 2009: 180, 185). As a result of

talks between top US government and financial officials in the small hours of Monday 29 September 2008, Wachovia and Citigroup entered into an 'exclusivity agreement' later in the day. The understanding was that Citigroup would acquire Wachovia, who was barred from negotiating with any other potential parties for one week (Subramanian & Sharma 2010b: 4).

On the same day, the US House of Representatives rejected the bill for the Emergency Economic Stabilization Act of 2008 by 205 for and 228 against. The authorization of $700 billion in bailouts and new facilities thus seemed to stall. This event became major world news. What got little attention was that the Federal Reserve approved a $330 billion increase for its currency 'swap lines' initiative that now included the Bank of Canada, the National Bank of Denmark, the Reserve Bank of Australia and Norway's Norges Bank (Federal Reserve Bank of St. Louis n.d.: 8).[90]

The Senate passed the bailout bill by 74 votes to 25 on Wednesday October 1 (Subramanian & Sharma 2010b). A little after midnight on Friday morning October 3, Wachovia's board agreed to a purchase deal for about $15 billion worth of shares in Wells Fargo. Citigroup's 'exclusivity agreement' with Wachovia was anulled by the Federal Deposit Insurance Corporation chairwoman, Sheila Bair, who effectively 'married' Wells Fargo and Wachovia. The decision stunned Citigroup. *The Wall Street Journal* reported that a tax provision had been inserted into the bailout bill by the FDIC at about the same time that Wachovia was informed by the FDIC officials that they were taking charge of finding a buyer (Enrich, Fitzpatrick & Paletta 2008, October 6; Subramanian & Sharma 2010b: 7). This tax provision aligned with a surreptitious IRS notice of Tuesday September 30, that allowed big banks to offset the net operating losses of newly bought banks in the same year (Subramanian & Sharma 2010b: 6).[91]

On Friday October 3, the House of Representatives passed the bailout bill by 263 votes to 171 and it was signed into law as the Emergency Economic Stabilization Act (EESA) by president Bush in the late afternoon (Subramanian & Sharma 2010b: 8). With the power of this Act, at least 30 new facilities, guarantee agreements and asset vehicles were created by the Federal Reserve, Treasury and the Federal Deposit Insurance Corporation (Prins & Ugrin 2010). Although the American public knew they would end up paying for the bailouts through taxes, they did not understand how deceptive the bailout process was. The popular understanding promoted in the media was that the Federal Reserve turned on its printing press and created $700 billion in new money as cash (Coy 2008b: 38; von Drehle 2008: 19).

More precisely, Treasury issued 'promise-to-pay' notes, or IOUs, in the form of US Treasury bonds (or securities), which were swapped with the Federal Reserve System, who issued Federal Reserve cheques in the form of electronic Fed wire transfers to the US Treasury's Bureau of Public Debt, in order to purchase the debt (Brown 2008: 171-177; Federal Reserve Bank of Chicago 1994; Griffin 2008: 193-

200, Grignon 2009). The Federal Government, in effect, 'monetized' US Treasury bonds (or securities) and deposited the newly created Federal Reserve System's currency in a government account(s) at a Federal Reserve Bank(s) (Bullard 2009: 7; Griffin 2008: 201).[92] Since the Federal Reserve is a cartel jointly-owned by private banks, these new funds came into existence as public debt for private interests. From this point, the money was allocated to the numerous recipient banks, and to financial firms deemed 'too-big-to-fail' through various facilities created by the Federal Reserve, the Treasury and the Federal Deposit Insurance Company (Johnson & Kwak 2010; Prins & Ugrin 2010). The recipient commercial banks and financial firms balanced their books by recording the deposits as assets to offset their liabilities (Grignon 2009; Rothbard 2008). Then the trickery of fractional reserve banking came into play.

Fractional reserve banking allows banks to count loans as assets or deposits and make new loans on top of the deposit base. In other words, banks need only hold reserves that equate to a fraction of the actual deposit claims on their books. As Brown (2008), Griffin (2008), Grignon (2009) and Rowbotham (1998) argue, there still persists a widespread belief that banks loan out the cash of other savers. This 'belief' makes it into the literature of industry professionals, academics, the media, and is one that central banks actively promote through the use of common banking terms such as 'loans,' 'borrowers' and 'lenders.'[93] However, if banks were to only loan out the money that is deposited with their branches, there would be no increase in the quantity of money in circulation (Federal Reserve Bank of Chicago 1994: 6; Rowbotham 1998).

As Mack Ott (1982) of the Federal Reserve of St. Louis pointed out, "Credit is not money, but the promise of future money to the lender in return for the current temporary use of purchasing power – goods or money – extended to the borrower" (Ott 1982: 24). A workbook published by the Federal Reserve Bank of Chicago, entitled *Modern Money Mechanics*, explains that a loan contract is simply a promissory note that a borrower signs in exchange for *credit* transferred into the borrower's account (Federal Reserve Bank of Chicago 1994).[94] At the time a bank makes a 'loan,' a 'loan' officer electronically creates new credit and sends the new funds to either a new chequing account created for the purpose, or uses an existing cheque account, rather than a savings account (Hafer 2005). Therefore, money as credit is *borrowed into existence* and is the primary way that money is created in a fractional reserve banking system (Brown 2008; Federal Reserve Bank of Chicago 1994; Griffin 2008; Grignon 2009; Rothbard 2008; Rowbotham 1998; 2000: 90).[95]

Limits on the quantity of new money that could be created in fractional reserve banking systems were removed with financial 'deregulation.'[96] Through a series of legal changes, major banks gained the ability to set their own leverage levels – called a 'capital adequacy' ratio – according to their in-house risk models (Gowan 2009: 106-107; Ferguson 2011; Rowbotham 1998: 25).[97] But the sleight of hand did not stop there. Banks use most of the money they receive to buy interest-bearing treasury securities,

corporate bonds and other financial instruments (Rowbotham 1998: 4, 26). In addition to earning profits off income-generating financial instruments, banks build up reserves by using some of the proceeds from the interest they charge for 'loans' (Rowbothman 1998: 26). In this way, interest is not "the price of money" – since no money that previously existed is lent. Rather, interest represents a *rent* on the amount of funds 'loaned' (Ott 1982: 25). Therefore, the term 'borrowing' is a euphemism for the 'privilege' to receive purchasing power in the present due to a structural alliance among ruling classes to maintain debt-based financial systems, which are characterized by scarce debt-free cash and abundant debt (Brown 2008; Griffin 2008; Grignon 2009; Ott 1982; Rowbotham 1998).

By not explaining fractional reserve banking to their respective citizenries, the US government and the UK government were able to downplay the cost of 'rescuing' Wall Street and the City of London (Prins 2009; Tett 2010; Wearden 2008).[98] Through the 30 or so new mechanisms created under the auspices of the Emergency Economic Stablization Act, banks and financial houses could access funds to 'lend' to the various entities within their transnational operations. Numerous studies and news reports offer different figures on the extent of the American monetary authorities' support to the financial system (Adding up the government's total bailout tab 2011; Federal Deposit Insurance Corporation 2009; Government Accountability Office 2011; Ivry, Keoun & Kuntz 2011; Pittman & Ivry 2009; Plender 2008; Prins & Urgin 2011).[99] Among these investigations, the studies by the Government Accountability Office (2011), James Felkerson (2011), and Nomi Prins and Krisztina Ugrin (2011) are the most comprehensive.

Between December 1 2007 and November 10, 2011, the combined support of the Federal Reserve, the Treasury and the Federal Deposit Insurance Corporation through loans, asset purchases and guarantees to financial institutions and support of capital markets was a total cumulative sum of $46.613 trillion (an equivalent value of just over three quarters of the world's total annual economic output) (Felkerson 2011: 31-32; GAO 2011: 131, 205; Prins & Ugrin 2011 2-3).[100] These cumulative figures represent the scale of the financial interventions. The figures also reveal a narrative in the sense that various programs were developed as the financial crisis worsened; that debt-based financial systems are by design dependent on the constant roll-over of new debt servicing old debt; and how assets in the 'real economy' are appropriated by the creation of myriad paper claims to wealth, such as derivatives, private credit and public debt (Brown 2010: 368-369; Chossudovsky 2010a: 12; Felkerson 2011: 7).

In debt-based monetary systems the early receivers of new money are banks and their investors, who have great capacity to magnify their purchasing power and make super-profits by exploiting the technologies of the financial system. These technologies include the privilege of creating private credit/debt and derivatives to speculate against various asset classes – including food and oil (Chossudovsky 2010b; Institute for Agriculture and Trade Policy 2009; Jones 2010; Kaufman 2011; Pollin 2010; Wray 2008). By being able to exploit the money multiplier effect of fractional reserve

banking, several of the surviving global banks got bigger (Ivry, Keoun & Kuntz 2011, November 28; Johnson & Kwak 2010: 180). After acquiring Countrywide and Merrill Lynch, Bank of America swelled from an asset size of $1.7 trillion at the end of 2007 to $2.22 trillion at the end of 2009. JPMorgan Chase's acquisitions of Bear Stearns and Washington Mutual saw its assets expand from $1.7 trillion to $2 trillion. Wells Fargo's assets grew from $575 billion to $1.24 trillion after aquiring Wachovia (Johnson & Kwak 2010: 180; National Information Centre 2010).

Meanwhile, the 'common' people and businesses who are late receivers of the 'new money,' lost spending power because the early receivers caused asset prices and costs of goods and services to rise.[101] Indeed, it is the creation of debt 'out of nothing,' the attached interest (which is not created when 'loans' are made) and derivatives-based speculative bubbles that are the primary causes of inflation (Brown 2008: 30-31; 2010: 369; Grignon 2009; Ferguson 2011; Rowbotham 1998: 292).[102] Thus, the inflation that resulted from the bailouts was an indirect hidden tax and represents part of the real cost of the 'rescue' (Griffin 2008; Rothbard 2008).

At 3p.m. on October the 13th, the CEOs of nine major American banks met with the heads of four regulatory institutions at the Department of the Treasury in Washington (Sorkin 2009: 516-517). The intention of the monetary officials from the Treasury, Federal Reserve, the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency was to coerce the banks into signing agreements that would allow the Treasury to purchase preferred stock with a 5 per cent per annum interest rate (Johnson & Kwak 2010: 154; Sorkin 2009: 521-526).[103] The US Treasury allocated $125 billion in capital to the nine US-based banks (and a further $125 billion in capital to other financial firms) through its Capital Purchase Program (Johnson & Kwak 2010: 164; Wilson & Yan Wu 2009).[104] These funds allowed the banks to seek profits as they saw fit and since it was capital it would be out of reach of creditors.[105] Once all nine banks had signed up for this initial bailout capital and had left, Treasury's assistant secretary of financial institutions, David Nason, reflected to his colleagues, "We just crossed the Rubicon" (Sorkin 2009: 523, 525, 528).[106] Indeed, this event signalled to their British counterparts the willingness of the American financial elites to take this game of collusion to the next stage.[107]

On October 21 2008, the Federal Reserve opened the Money Market Investor Funding Facility, in which the Federal Reserve Bank of New York supplied $540 billion to money market mutual funds. The Money Market Investor Funding Facility funded five Special Purpose Vehicles, which were named after the Roman emperors, Hadrian, Trajan, Aurelius, Antoninus and Nerva, whom were said to have "ruled in harmony with the senate" (Burns, Lerner & Meacham 1980: 187; GAO 2011: 210). These five Special Purpose Vehicles in turn provided funding to 50 financial institutions in numerous countries. Six days later, on October 27 2008, the Federal Reserve's Commerical Paper Funding Facility became fully operational. This facility was designed as a mechanism to purchase yield-bearing corporate bonds or commercial paper, because the commercial paper market became severely dysfunctional following the

collapse of Lehman Brothers (GAO 2011: 192-193).[108] The Commerical Paper Funding Facility made loans totalling $1.157 trillion and was closed on February 1 2010 (GAO 2011: 192).[109]

On November 23 2008, the Federal Reserve's board of governors authorized a 'rescue' package for Citigroup (GAO 2011: 188-190). This package included "guarantees, liquidity access, and capital" from the Federal Reserve Bank of New York, the Treasury and the Federal Deposit Insurance Corporation (Federal Reserve Bank of St. Louis n.d.).[110] James Felkerson stated that Citigroup received loans totalling $2.654 trillion from the Federal Reserve's emergency programs between December 20 2007 and November 2011 (2011: 33).[111] On January 1 2009, Bank of America sealed its deal with Merrill Lynch and in the following weeks also gained bailouts.[112] Bank of America received loans totalling $1.017 trillion from the Federal Reserve's emergency programs between December 20 2007 and November 2011.[113]

On February 17, 2009, the American Recovery and Reinvestment Act of 2009 again routinely and "permanently increased" the statutory limit on US public debt; this time to $12.104 trillion (Bureau of Public Debt 2009).[114] The following day, the US Treasury removed the cap on its stake of preferred stock in the Fannie Mae and Freddie Mac and replaced the limit with a time window set to run-out at the end of 2012. The US Treasury raised their stake in preferred stock of the Fannie Mae and Freddie Mac to $200 billion (Federal Reserve Bank of St. Louis n.d.). In effect, Treasury gave an explicit government guarantee for a debt total of $5.5 trillion, which is equivalent to 38 percent of the United States' annual gross output (Financial Crisis Inquiry Commission 2011: 309, 320; Fratianni and Marchionne 2010: 8; GAO 2011: 149; Brown 2008; Prins & Ugrin 2011: 3).

In March 2009, the Agency Mortgage-Backed Securities Program (announced on November 25 2008) was expanded from $500 billion to $1.25 trillion (GAO 2011: 148). The mortgage-backed securities were purchased by the Federal Reserve Bank of New York and was adminstered by five 'vendors': Goldman Sachs Asset Management, Pacific Investment Management Company (PIMCO), Wellington Management Company, BlackRock and JPMorgan Chase & Co. (GAO 2011: 153). Meanwhile, AIG had received $181 billion in federal credit between October 8 2008 and March 2 2009 (Federal Deposit Insurance Corporation 2009: 10; Prins & Ugrin 2011: 4). In the United Kingdom on March 5 2009, the 'Quantitative Easing' measure was announced, in which the Bank of England 'lent' £125bn to banks, financial firms and other corporations (Morse 2009, Appendice Two: 45).[115]

On March 27 2009, US president Barack Obama hosted a meeting with 13 CEO's from the largest American banks (Johnson & Kwak 2010: 3-4).[116] In light of the widespread public anger toward Wall Street, Obama reportedly stated, "Help me help you. My administration is the only thing between you and the pitchforks" (Javers 2009, April 3; Johnson & Kwak, 2010: 4). Following the meeting, a press secretary for the White House, Robert Gibbs stated, "Everyone has to pitch in. We're all in this

together." In their book, *13 Bankers: The Wall Street Takeover and the Next Financial Meltdown*, Simon Johnson and James Kwak (2010) stated the line, "we're all in this together" was repeated by at least two of the CEOs present, Wells Fargo's John Stumpf and Citigroup's Vikram Pandit, as though it were a sacred chant (2010: 4). Johnson and Kwak argue that this refrain meant that Wall Street's financial dominance had delivered control of the government (2010: 5-6). In addition to occupying many of the top government posts and their substantial lobbying power and campaign contributions (p.92-104), Wall Street had succeeded in normalizing their ideology. This ideology promoted the assumption "that unfettered innovation and unregulated financial markets were good for America and the world" (p.5). However, this ideology was used as a cover by key insiders.

Conclusion

The Washington-Wall Street-City Complex exerts a hierarchical power over their respective societies, in league with networked financial elites that shape the order of a ranked class system. The real worth of money backed by the debt 'owed' to the global banks derives not so much from profits, but from control over the value of assets. This control is most acutely felt during financial crises, particularly as business enterprises fail, which means they can be bought cheaply. Banking cartels control debt-based money systems that force whole societies to compete for artificially scarce cash, and through their lack of purchasing power, households and industry resort to 'borrowing.' The 'loans' advanced are not the savings of others, as is commonly thought, but is credit money created from nothing but a privilege conferred to the financial sector through laws including statutes. Since the super-rich control the manufacture of money as cash, credit and derivatives, this strengthens their economic capacity to control politics, legislation and policy deployment (Rothbard 2008; Quigley 1966: 324).

From the 1970s, the Washington-Wall Street-City Complex has systematically restructured national political economies according to 'free market' criteria. Financial innovations such as derivatives technology were employed to leverage privately created debt-money and inflate asset prices, and thereby create lucrative bubbles that continuously threaten to collapse the financial system. Indeed, the global credit boom illustrates 'conscious parallel business behaviour' by the global banking cartel to engineer a global market bust.[117] The actions taken to 'save the financial system' meant that capital's core risk management strategy was accomplished, while the "household sector" played its part as "shock absorber of last resort" (International Monetary Fund 2005: 5, 89). Taxpayer exposure to the national debt grew during the bailouts, because the US and UK treasuries could pass on the debts created by their central bank cartels, through the 'legal' enforcement of tax policy. In short, the financial collapses, 'rescues' and bailouts of 2007-09 demonstrate that US and UK governments are part of the apparatus of the dominant capitalist group: the Anglo-American financial oligarchy.

Chapter 3: Financialized Capitalism and the News Media

In order to understand the role of the news media in the political economy of financialized capitalism, this chapter begins with an account of Herman and Chomsky's Propaganda Model. The workings of business and financial news media is then explored with respect to how it became enmeshed within the US and UK financial oligarchies. I will outline how news media coverage of major financial events and crises throughout the 1980s, 1990s and early 2000s, alternated between a 'business as usual' role and an 'innocent bystander' persona. In the final section, academic investigations into the media coverage are analyzed to see what was emphasized, what was omitted and how the unfolding events were framed, prior to the system-wide bailouts that started in October 2008.

Political Economy of the News Media

Edward S. Herman and Noam Chomsky (2008) argued in their book *Manufacturing Consent: The Political Economy of the Mass Media* that the news media's construction of the world served to buttress elite power. In societies with formal democracy, a propagandist system of communication is required because the state cannot openly intimidate and suppress 'free' populations without losing the legitimacy to rule. Herman and Chomsky observed that because mass media systems are owned privately and that there is an absence of obvious state censorship in a commercial media environment, it was hard to detect a propaganda system, even though economic wealth was highly concentrated. Their *Propaganda Model* is comprised of five filters through which news is processed for mass consumption: size, ownership and profit orientation; advertising; expert sources; flak and the enforcers; and ideology (Herman & Chomsky 2008 [1988]: 1-33).

Propaganda here means the mass deployment of persuasive techniques by dominant coalitions in order to gain society's acquiescence (Jowett & O'Donnell 1999: 3).[118] The model positions the mass media as corporate entities within an overarching 'economic system' and theorizes the factors that influence the media (Herman & Chomsky 2008: XIII). A political economy approach is taken which investigates how media communications systems within capitalist economies reproduce unequal political power (McChesney 2008; Murdock & Golding 2005). The Propaganda Model's first filter - *size, ownership and profit orientation* – points to the expense of establishing new mass media organizations. Media conglomerates are linked to the rest of the corporate community by common boards of directors, social links through institutions such as think tanks, and by lines of credit with large banks. This networked structure of vested interests means that media corporations are central for communicating views acceptable to financial oligarchs. This filter also limits the public's access to mass media technologies and distribution systems (See Appendix II, Figure 1).

Traditionally, media outlets were dominated by family-owned interests or state-controlled enterprises (Djankov et al. 2003). Over time, media enterprises pursued a rivalrous drive to reach national audiences and this required the employment of communications technologies that advanced exponentially (Herman & McChesney 1997). To downplay concerns that media enterprises were merging and acquiring other media outlets, media elites claimed that they had to exploit 'economies of scale' to stay competitive.[119] In reality however, media elites were colluding to create media conglomerates. The term *media conglomerates* here means corporations that merge their interests in media outlets with one or more other media interests such as newspapers, television networks, radio stations, publishing, advertising and public relations (Bunce 1977 as cited in Golding & Murdock 1997: 230; McChesney 2008).

The transformation of the American and British mediascapes into more concentrated, tiered systems of ownership required the collusion of their governments, regulatory authorities and international rule-setting institutions. These institutions incrementally lifted restrictions on cross-ownership stakes within the same markets, across national territorities and between media outlets and non-media firms, including telecommunications companies. This also facilitated the corporatization and privatization of state media systems and made it possible for vast transnational media conglomerates to form (Arsenault & Castells 2008: 708, 709; Cowhey 1990; Herman & Chomsky 2008; McChesney et al. 1999).[120] From the perspective of stockholders, and performance-tied directors, every media organization was a business (Herman & Chomsky 2008). Measures such as cost cutting, expanded advertising space and shorter stories initiated by news outlets to keep profitability up, encouraged investors to pursue amalgamations (Bagdikian 2004).[121]

By 2001, the convergence between media platforms and telecommunications carriers through mergers, acquisitions, joint ventures, direct investments and partnerships had created seven massive transnational media conglomerates that dominated the global media system (Chan-Olmsted & Chang 2003: 221; McChesney 2004: 14). Of these seven global media conglomerates – Time Warner, Disney, NewsCorp, Bertelsmann, NBC Universal, CBS and Viacom – six controlled more than half of media properties in the United States and owned substantial news holdings (as of early 2008) (Arsenault & Castells 2008: 711, 715). These 'big 7' sit atop a three-tiered global media system. The second tier is comprised of about 60 to 70 firms and a third tier, comprised of thousands of firms, produces media either for the larger companies, repackages the content for resale or reinterpretation or works more independently (McChesney 2004: 14).[122] The giant media corporations and second-tier media groups created 'economies of synergy' to mass-produce an apparent 'diversity' of content that could be delivered across multiple communication platforms as a means to reduce costs and maximize revenues (Arsenault & Castells 2008: 710; Herman & McChesney 1997; Pappas 2004).[123]

This concentrated media system projected an appearance of dispersed control through the complexity of syndication, affiliation, inter-medium synergies and merchandizing licenses. However, big media corporations constantly buy and sell smaller competitor media businesses and new market entities as control strategies (Crain 2009: 230; Olmsted & Chang 2003: 223). Although wealthy individuals and family dynasties owned large stakes in some corporations at the beginning of 2008, shareholdings by institutional investors have been on the rise (Arsenault & Castells 2008: 738; Noam 2009: 387).[124] Institutional investors force media enterprises to become more market-driven and therefore more sensitive to the trajectory set by such investors (Crain 2009). This is especially so because the mergers and acquisitions were often financed, either by shares, whose prices were over-inflated, especially in the case of mergers; or by debt (Crain 2009).[125] Institutional investors are able to leverage their collective interests as a transnational investment class through their shareholding stakes, board presence, and networked power in media cartels. This enables the monitoring of political, legal and technological developments, issues and oligarchic-elite networks (An & Jin 2004: 578; Arsenault & Castells 2008; McChesney 2008).[126]

Media firms are unique among all industries for their dependence on advertising revenues. As such, the second news filter - *advertising* – works as an ever present influence over media outlets (Herman & McChesney 1997). Since advertisements target people as consumers, their design is prejudiced to favour the more financially privileged. In turn, advertisements exert a psychological pressure to spend which normalizes a consumer culture and the aspiration to be materially wealthy, even among the poor (Applbaum 2000; Sklair 2002). As huge firms are the biggest spenders on the media, they exert pressure as primary consumers by shopping for program and print content that is politically and culturally conservative (Herman & Chomsky 2008; McChesney 2004a). This in turn delivers more favourable coverage for advertisers and sponsors (Herman & Chomsky 2008; McChesney 2008).

Within finance capitalism, transnational conglomerates need an integrated media structure to advertise their product 'efficiently' (McChesney 2004a: 12; 2008: 317).[127] To this end, the boom in corporate takeovers drove competitive pressure to achieve high advertising revenues in order to help keep stock-prices up and therefore investors happy. Therefore, the influence on the news by advertisers is an important consideration when exploring the neoliberal paradigm and financialized capitalism.[128] The *sales effort* underpinning the neoliberal 'free-market' project also relied on the promotion of financial products and corporate stocks so that their targeted audiences would become financially dependent on what was good for Wall Street and the City. This would help inflate share prices to assist with takeovers (Johnson & Kwak 2010; McChesney 2008: 317-18). As such, some leading US financial institutions were among the top 100 US advertising spenders in 2006, and also had representation on the corporate boards of leading US-based media conglomerates that owned news outlets at the beginning of 2008 – just prior to the Bear Stearns bailout-takeover (Arsenault & Castells 2008).[129]

Filter three of the Propaganda Model for mass media news is *sourcing*. Herman and Chomsky argued that the mass media has a "bureaucratic affinity" to official sources and large public and private institutions (Fishman 1980: 143 as cited in Herman & Chomsky 2008: 18). The mass media gives official sources considerable weight and this entails a strategic ritual of 'objectivity,' whereby what is reported can be taken as "presumptively accurate" (Herman & Chomsky 1998: 18).[130] This symbiotic relationship occurs out of economic necessity, reciprocity of interest and perceptions about credibility arising from the status of recognizable people, institutions and their symbols. Since the production of news requires new material everyday and because official sources organize a steady flow of managed material to fill this need, news organizations are stationed at the centres of power.[131] By maintaining a bureaucratic affinity to either official government or corporate sources, journalists and news outlets stay safely within the boundaries of a consensus frame.[132] In effect, expert sources "subsidise the news" because government and private sector contacts provide ready-made copy that are assumed to be true (Herman & Chomsky 2008: 21).

News outlets exploit their syndication and affiliation arrangements and reprint or replay other news producers' stories to lend the coverage of an important event an air of legitimacy (Arsenault & Castells 2008; Davies 2009; Golan 2006). What is presented as a scoop, objective reporting, and a salient matter for general public and elite attention, is usually a carefully orchestrated story passed along the news production-distribution chain. Furthermore, in both the United States and the United Kingdom, academics have been reluctant to criticize commercial media ownership itself and the legitimacy of capitalism as a political system (McChesney 1997 as cited in Golding & Murdock 1997: 114-120). The Propaganda Model allows for dissent, but the benchmark for salient criticism is high because oppositional sources have less credibility and their views require time-consuming and costly fact-checking. There is also the risk of repercussions from powerful interests invoked by the fourth news filter - *flak and the enforcers*.

Flak incorporates the negative reactions to a media statement, story or program. This might take the form of a heated phone call, lawsuits, threats of imprisonment, legislative changes or other punitive actions such as withdrawal of advertising. The mass media produces safe programming, and self-censors to avoid flak from well resourced elites. In their argument for the Propaganda Model, Herman and Chomsky state that corporate America has sponsored a proliferation of institutions, such as think-tanks and foundations, whose primary purpose is to produce flak. Herman and Chomsky call such vested interests *flak machines* that frequently attack so-called 'left-wing' groups for being 'anti-business.' The authors also note that the media is respectful to elite flak-makers by not critiquing their links to institutional power. Those enforcers or expert sources that manufacture flak strengthen the news filters and serve to protect political and economic power from serious, sustained investigation.

Flak is not a one-way street; the Propaganda Model predicts that state managers and corporations themselves periodically become the targets of corporate news-generated criticism.[133] However, this occurs in limited and fleeting ways that do not prevent the ruling class from maintaining their extreme claims to property, privilege and power (Chomsky 1989: 149; Herman & McChesney 2008: 1). By deploying news frames that lie within the boundaries of the permissible, the news media reinforce elite power and allow governments to get away with making symbolic responses rather than meaningful changes (Entman & Rojecki 1993).

This is where the fifth news filter - *ideology* - becomes necessary. Herman and Chomsky regarded ideology as a 'control mechanism' against anyone who held 'radical' attitudes about property relations in the political system. However, they did not provide a cohesive account of how the ideological processes worked.[134] The carrying strength of a dominant ideology is to act simultaneously as a parameter or boundary, and as a tool to impair critical thinking.

Antonio Gramsci (1994) stated that an ideology becomes *hegemonic* when it achieves coverage so pervasive that a dominated population finds it hard to imagine or believe that alternatives are possible. The dominant class induces consent by manipulating the subordinated classes into internalizing the moral and cultural values, norms and the worldview projected onto them (Gramsci 1994; Achbar 1994: 40-41, 170). William Page (1991) observed that ideology provides a "coherent perception" that can be deployed as a political tool with biases entwined (p.10). In other words, ideology fixes what a regime can and cannot do; it thus facilitates inclusion and exclusion, simultaneously. In summary, ideology here means a set of beliefs or ideas that are fused together by symbols into a formalized coherent framework or world picture, whose design frames boundaries of acceptable thought that reflect the prejudices and preferences of the dominant ruling groups, in order to mask systemic contradictions (Page 1991: 10).[135] Absent clarity, citizens submit to the paradigm set forth by the dominant class.

Herbert Schiller (1973) wrote that manipulation works best when "evidence of its presence" is concealed (p.415). This purpose of keeping manipulation hidden is so target populations will assume the accounts are true, natural and impossible to avoid. Once manipulation has occurred, it follows that a duplicate reality is created that requires constant maintenance and this necessitates the rejection of truth. Manipulation is so widespread, observed Schiller that a "myth of neutrality" pervades society, in which manipulated populations think that the core institutions – "government, the media, education and science" – function without being overly compromised by vested interests. This media ritual cements an authenticity of media institutions to legitimize ideologically constructed news frames with a "common sense" façade that, as Fairclough (1995) observes, renders the underlying worldview invisible (p.42).

As the discussion in chapter two outlined, Anglo-American financial oligarchs and an inner web of elites set a course to advance their interests under neoliberal regimes (Klein 2007; Shoup & Minter 1977). The

forgoing discussion implies that the major media outlets in the United Kingdom and the United States shape the boundaries of economic discussion and limit the kinds of ideas that are expressible.[136] How then can one investigate and evaluate this general process? Peter Thompson (2009) has argued in "Market manipulation? Applying the Propaganda Model to financial media reporting" that content analysis which shows omissions from news reports will not explain "*which* of the filters were operative" and "whether *any* of the filters" can be correlated to the content observations (p.75). Thompson argued that it was necessary to provide empirical evidence regarding "how the *filters* are manifested in institutional processes of news production, rather than just the *content*." He pointed out that content analysis by itself would be insufficient to determine whether the structural filters of Herman and Chomsky's Propaganda Model had shaped media output. Thompson advocated investigation of the power relations between five structural news filters and the "independent variable" by which he meant an instrumental filtering mechanism that involved collusion or conspiracy. He referred to Oliver Boyd Barrett's suggestion of a new sixth filter.

Boyd Barrett (2004) defined his sixth filter as "the direct purchase of media influence by powerful sources, or the "buying out" of individual journalists or their media by government agencies and authorities" (p.436). Barrett assumes that such actions are departures from the routine of journalistic practices. In contrast, James Williams (2008) argued in "The lessons of 'Enron'" that 'media accounts' of financial markets actively construct a depoliticized view that renders financial power relations as natural, normal and even something to valorize (p.479, 489). This means that when corporate and financial scandals arise, the news media frames them as anomalies and deploys sophisticated narratives that mask the systemic criminality involved (p.479). Williams' asserted in his article, which appeared in the journal of *Theoretical Criminology*, that the news media conveyed attitudes that were complicit with white-collar crime by describing regulation as an ineffective tool, and by assuming that market crashes were beneficial for fixing exuberant speculation (p.478).

Rather than news reportage and commentary being simply ideological expressions of elite views, Williams argued that the media were sites for what Michel Foucault called "discursive formations" (Foucault 1989 as cited in Williams 2008: 488). These are discussions, texts and narratives which define truths, delimit what can be spoken and shown, and demarcate that which is 'unimaginable' and therefore impossible (Fuchs & Graf 2010: 8; Williams 2008: 488). William's argument supported the finding of Clark et al (2004) who stated that the financial media had become "a new form of discursive power in the financial markets" (p.290). In this way, Williams viewed markets as "cultural and symbolic spaces" (2008: 493), which are constantly reconfigured with the complicity of major media outlets (p.474).

One important way that the print media masks discursive formations is by frequent use of anonymous sources from the government and financial industry (Sorkin 2009).[137] Consequently, during the reporting

of the 'financial crisis,' the general and specialist news press attributed their sources in a generic 'off-the-record' fashion, such as "these sources spoke on the condition of anonymity because they either were not authorized to speak or described private conversations," "one banker involved in the talks," "people familiar with the situation," "one banker in London," "one Fed insider," and "in a private meeting with lawmakers, according to one person present" (Cho & Irwin 2008, September 16; Dash & Sorkin 2008, September 18; Guerrera, MacIntosh, Sender & Scholtes 2008, September 18; Hosking & Kennedy 2008, September 17; Jagger, 2008, September 16; Solomon, Rappaport, Paletta & Hilsenrath 2008, September 20). The normality of this practice is but one indicator that capitalism is a private political system.

This routine practice of quoting elite sources 'off-the-record' also shows that for many journalists' within corporate media, elite source dependency was endemic. This creates an immediate problem for readers because they cannot discern who is saying what and therefore they are positioned as spectators, who cannot see the behind-the-scenes game strategies. It also means that the news media is unable and unobligated to investigate events because their sources' vested interests, career trajectories and place in the financial oligarchy's web of power are rendered 'invisible.'[138]

The failure to conduct sustained, serious investigations into the root cause of crises is also indicative of buying-out at the editorial and executive level (especially when widespread wrongdoing becomes obvious). Thus, 'buying-out' is detectable by deliberate decisions to omit vital pieces of information, to disperse them across articles and to eschew critical interpretations of published material. The buying-out filter leaves elite sources free to use the news as a means to manipulate public perceptions in regard to matters of acute public concern. Therefore, *buying out* here means those routine journalistic practices that result from conscious decisions to go along with the social norms of the elite milieu (See Appendix II, Figure 2).[139] In other words, some journalists may internalize a deep institutional frame that reflects the collusive milieu in which they work, socialize and live.

Stuart Allan has argued that the drawback with the Propaganda Model was that it could be seen to oversimplify the news media as "ideological machines" such that journalists are unwitting puppets, whose strings are being pulled by forces beyond a stage so big they cannot perceive its enormity, complexity and deviousness (Allan 1999).[140] However, in response to these and other criticisms, Edward Herman (1998) noted that due to the strictures of professionalism – journalists can be oblivious to the broader, networked structures of power (Herman as cited in McChesney 1998). That said, not all journalists are 'cut from the same cloth.' Another important criticism of the Propaganda Model concerns the working of the news filters. Schlesinger (1989) complained that no theoretical basis was offered and noted that the model was not specific about whether all the filters work in combination or not. While a theoretical grounding would have strengthened their argument, Herman and Chomsky did provide extensive contextualization in their case studies of the US media's coverage of American military

interventions in Central America and Indochina. Others have said that the model lacks wide applicability because it focuses upon the US-based mass media system (Corner 2003; Schlesinger 1989), but these criticisms ignore the impact of global media ownership on news coverage in different countries, the globalization of 'free market' discipline, including the corporatization of state-funded media outlets, and the universal stratification of wealth (Keating et al 2011; Davies 2009; Herman & McChesney 1997; McChesney 2004a; 2008; Mullen & Klaehn 2010).

The forgoing explication of the political economy of the American and British media systems is pertinent to Herman and Chomsky's observation that censorship in a propaganda system is particularly hard to detect. They argued that because the news media from time to time investigates wrongdoing inside the state apparatus and in the corporate world, it is not readily apparent that such exposés are usually tightly constrained (2008: 1). Herman and Chomsky noted that the limits of permissible discussion were difficult to see, rarely acknowledged and created a mediascape in which other ideas were "hardly imaginable" (p.2). Herman and Chomsky argued that the propaganda system was so effective at promoting the appearance of objectivity, that journalists often believed the illusion. Herman argued that the American media's propaganda system was effective at generating agreement among the ruling class, creating perceptions of popular support, and propagating an environment of powerlessness, confusion and ignorance among the general population (1998: 19). One might realistically expect, therefore, to find evidence of this pattern in the media's treatment of financial news, financial institutions and the relevant regulatory authorities.

Financial Oligarchy and the Anglo-American Business-Financial Media: 1980s to mid-1990s

The promotion of neo-liberal policies to justify the transformation of the financial system required the alignment of news media institutions with the dominant capitalist coalitions, which took shape amidst the economic and political crises of the 1970s and 1980s. At that time there was critical discussion in the news media about the criminal activities of large corporations (Tumber 1993). Consequently, the image of capitalism required a makeover. This task required a concerted *sales effort* with buy-in from academia, advertisers and a cottage public relations industry.[141] Key to selling a positive image of corporate capitalism to society, couched in 'free market' rhetoric, was the employment of public relations to promote the global interests of financial capitalists (Burton 2007: 3; Davis 2000: 283; Miller & Dinian 2000: 8).[142]

During this time think-tanks, foundations, and other global policy-shaping groups and American universities also played major roles in the proliferation of financial capitalism. These organizations occupy the terrain between government organizations and universities (James 1993; Jarecki 2006), and have important symbolic power due to their history-shaping activities. Their status-conscious members

often move between the top posts in government and corporations and therefore perform a constitutive role in elite communications networks (Estulin 2009; Perloff 2008; Quigley 1966). Their research and publications steer government policy by informing specialist conferences, sponsored material and lobbying practices for favourable regulations (Estulin 2009; Ferguson 2011; Klein 2007; Perloff 2008; Schlesinger 2009: 7). Important global or supranational policy groups include: the Carnegie Endowment for International Peace (1910), the Rockefeller Foundation (1913); the International Chamber of Commerce (1919); the Royal Institute for International Affairs (1919); the Council on Foreign Relations (1921); the Ford Foundation (1936), the Bilderberg Foundation (1954); the World Economic Forum (1971); the Trilateral Commission (1973); the World Business Council for Sustainable Development (1995) and the World Trade Organisation (1995) (Abelson 1998; Carroll & Carson 2003; Denham & Garnett 1998; Estulin 2009; Lundberg 1968; Wormser 1958).[143] In the US, the Financial Services Roundtable lobbies on behalf of Wall Street (Ferguson 2011), while in London, the City of London Corporation, a privately-owned municipal authority and tax-secrecy haven, is a powerful private lobby group for the interests of the financial district (Shaxson 2011: 74). Such policy-shaping and game strategy institutions are among the primary sources that frame the news.

Academics from the business schools of America's prestigious universities, such as Harvard, Columbia, Stanford and Princeton availed themselves as experts for the business-financial media (Ferguson 2011; Peet 2003: 204).[144] These universities provided the intellectual arguments and the look of scientific rigour for economic strategies that were in essence subjective, ideologically driven expressions of oligarchic power systems (Ferguson 2011; Klein 2007: 56; Peet 2003: 203, 209). However, their embedded connections with the banking and finance sector were seldom disclosed. Consequently, academic participation in promoting the financialization of capitalism gave an air of independence and objectivity to the 'sales effort.'

This was especially 'necessary' because the increasing frequency of financial crises threatened the commercial interests of the super-rich (market crashes have an inherent tendency to scare people away from investing). Indeed, this 'sales effort' captured the 1992 American presidential campaign. William Jefferson Clinton's provocative campaign slogan – "It's the Economy, Stupid" – promoted the idea that economic salvation amid a recession lay with a reinvestment in the market, even though this meant generating monies out of the manufacture of government and corporate bonds and securities (Anderson & Jackson 2005; Grignon 2009). To this end, the ideology of financial capitalism developed through the convergence of new media and financial data technologies, and the supply of more 'personalized finance' stories (Clark, Thrift & Tickell 2004; Hope 2010; Parker 1999; Starkman 2009; Thompson 2003; 2009; Tumber 1993).[145]

Mass media, business-financial media and financial volatility: 1995-2007

During the credit boom and high-tech stock bubble of the mid-to-late 1990s, finance became a ubiquitous commodity form packaged as news and entertainment on television channels (Clark et al. 2004). Where before, the financial press had maintained a close symbiosis with important financial sector institutions, television media shifted the ground to connect consumer-investors to the media conglomerates (Clark et al. 2004). In their paper "Performing finance: The industry, the media and its image," Gordon Clark, Nigel Thrift and Adam Tickell (2004) found the financial media worked to lure unsophisticated retail-level investors, or consumers, into capital markets by implying that information and communication technologies would equip them with enough understanding to compete with large financial firms (p.304).[146] Paul Langley (2006) argued that the media actively participated in the 'sales effort' to normalize "the financialization of daily life" (Langley 2007: 75), as Randy Martin observed (2002: 3).[147] The idea was to create an 'investor' "consciousness and the production of the *desiring* financial subject" among ordinary people (Kenway & Fahey 2010: 721). Thus, 'retail investors' became attracted to 'markets' by the chance to become rich (Clark et al. 2004).

However, it was difficult to discern what information had integrity, since the money and finance programs broadcast on television were filled with advice from experts who did not disclose their vested interests.[148] They either appeared as guests, were used as sources or had themselves become celebrities (Clark et al. 2004; Layton 2003). By building emotion into the programmes, viewers would be manipulated into 'exurberant behaviour' for ready exploitation by fund managers (Clark et al. 2004: 295). In this way, both the press and the television media hyped the "new economy" ethos in the 1990s with CEO 'valorization' stories. Examples included regular *BusinessWeek* cover stories on "The Top 25 Managers of the Year"; and *Fortune*'s annual roll-call of "The World's Most Admired Companies" (Davis 2007; Layton 2003: 22). Popular media also promoted bubble-boosting books that claimed trading indexes would keep soaring, such as David Elias' *Dow 40,000*, which received widespread coverage (Augar 2005: 159; Layton 2003: 23).[149]

Despite the best efforts of some business journalists to uncover wrongdoings on Wall Street and corporate America, their stories were "lost in a cacophony of naïve reportage" (Layton 2003: 21). This "naïve reportage" occurred in part because Wall Street investment banks had become central players in brokering first and second-tier media mergers and acquisitions (Augar 2005: 74-77; Layton 2003: 22). Indeed, *The Wall Street Journal* reported on "a new breed of Wall Street analyst" from investment banks whose job was to bias their opinions about the value of company stocks, and therefore move the markets to favour their merger and acquisitions deals (Layton 2003). Thus, the American financial and business media relied on 'expert analysts' whose connections to the stocks they were promoting

actually blurred the boundaries between providing analysis and product advocacy (Augar 2005: 159; Layton 2003: 26).

Furthermore, the public did not know that many of the stocks issued internally had "lock-up agreements," which meant the initial inside buyer could not on-sell the stock until a specified date (Ofek & Richardson 2003). The time-locked stocks, underwritten by major banks that often worked as syndicates, were frequently sold to firm insiders such as directors, executives and employees as well as institutional investors in direct share programs (DSPs).[150] The time-locked insider stocks placed the universal banks and other institutional investors in a central position to exploit the asymmetrical information they held about these stocks (Griffin, Harris & Topaloglu 2006: 2, 25; Wilmarth 2009: 997-1002).[151]

On March 13 2000, America's second largest stock exchange, the NASDAQ, dropped 4% (Engdahl 2009: 321). Exactly, one week later, on March 20th, the dotcom-telecom bubble burst following large volume trading in US internet-tech stocks when the "lock-up" dates on huge blocks of internet stocks had expired and new shares entered the market (Ofek & Richardson 2003: 1132; Wilmarth 2007).[152] Insiders from the major banks were able to move the stock prices, and then withdraw by selling the tech stocks to retail investors before the market peaked. Numerous online companies failed through 2000 to March 2001 because they had relied on inflated stock values to support their fast growth, but lacked revenues high enough to sustain operational costs and repayments on debts (Augar 2005: 13-14). The news media were complicit in this boom and bust because they did not disclose their own ties to Wall Street, corporate America and large advertisers (An & Jin 2004; Clark et al. 2003). And, instead of disclosing the vested interests of their sources, the news media produced the "fawning CEO profile" and scapegoat stories.[153]

Ironically, five days before the tech-stock bubble burst, a news story conducted as a co-assignment between *The New York Times* and *ABC News* revealed the unscrupulous financial engineering of banks and financial houses. This *New York Times* story, titled "Mortgaged lives: Profiting from the fine print with Wall Street's help," revealed the predatory behaviour of subprime lender First Alliance Corporation and those Wall Street firms who financed their business, including the now defunct Lehman Brothers (Henriques & Bergman 2000, March 15; Starkman 2009a).[154] However, such warning stories of another bubble in formation were overshadowed by the drama of dotcom-telecom bankruptcies (Starkman 2009a: 27).[155]

Reportage on growing bankruptcies through 2000 and 2001, widened criticisms of the financial system. Bethamy McLean's piece entitled "Is Enron over-priced?" in *Fortune* magazine on March 5, 2001, focussed on the Houston-based energy trader – Enron. At that time its stock price was climbing fast while most other tech stocks were plummeting. The article asked, "How exactly does Enron make its

money?" Despite the energy derivatives trader being ranked by *Fortune* as the 'most innovative company in America' for six consecutive years from 1995 to 2000, Wall Street credit analysts from Standard & Poors and Fitch admitted whimsically that they did not know either (Q & A: The Enron case 2006, July 5; McLean & Eklind 2006, July 5). Enron's chief financial officer Andrew Fastow did know, but stated that Enron did not want people to figure out its 1,217 trading books (McLean 2001, March 5).[156] Enron used a 'Mark to Market' accounting scheme, with initial limited approval from the Securities and Exchange Commission, that claimed income ahead of actual receipts. This created a false cash flow in expected earnings. Its self-generated energy based futures contracts effectively made Enron a "gas-bank" (Wilmarth 2007: 101). Under the weight of federal investigations and litigations, Enron filed for Chapter 11 bankruptcy on 2 December 2001, with a book value of $64 billion (p.99).[157]

Layton's (2003) assessment of the American business media coverage amid the tech-stock crash of 2000 to 2002 was that the news media switched from their "cacophony of naïve reportage" to a more sceptical tone as the crash unfolded (p.22).[158] In "Making the world go round?" Thompson (2003) made the observation that a news media outlet's reputation had become more about its ability to move markets through deployment of unique information, rather than its portrayal of underlying market circumstances (p.28).[159] Thus, the Enron and WorldCom scandals demonstrated that share values had become the focus of a company's worth, and that this criteria was used as a means to exploit investors (p.24, 26). Crucially, Thompson noted that the financial media typically reported shifts in prices and statistical values as though 'the markets' were a "force of nature" (2009: 85). This treatment of market data presumed objectivity, while the power relations and technological advantages that maintained informational asymmetries remained the untold story.

Meanwhile, in the City of London, Aeron Davis found that the media were implicated in the creation of bubbles and busts (2005: 320). Davis stated that fund managers working for banks and other financial firms worked to detailed instructions and parameters that could potentially trigger 'herd-like' buying and selling (p.318). By using media publicity to exploit sizeable market movements, they magnified the regularity and magnitude of market volatility (p.304). The so-called 'smart money' traded both according to "consensus" views on perceptions about the way the market was likely to move and on retail investors perceptions about a stock's fortunes (p.315). The UK news media's culpability was obscured because although financial journalists criticized corporate activities, pro-capitalist ideological parameters were maintained, as James Williams found in the American media (Doyle 2006: 445-446).

Thus, the Anglo-American news media played a powerful role in the construction and strengthening of market bubbles. When those bubbles burst, the media ritually repositioned itself among the innocent bystanders, like an arsonist, as the FIRE (finance, insurance, real estate) sector metaphorically exploded (Clark et al. 2004: 291). Except, the blaze was typically started by numerous criminal actors

embedded in the financial system. While the court case coverage of culpable actors from Enron and WorldCom were emphasized, the most-connected financial elites were not scrutinized.

As the book *The Smartest Guys in the Room: The Amazing Rise and Scandalous Fall of Enron* (Mclean & Elkind 2003) and the film, *Enron: The Smartest Guys in the Room* (Gibney 2005) demonstrated, senior executives and their accountancy firm Arthur Anderson were not the only ones implicated in corporate scandals. Thirteen major banks were involved in the scandals of Enron and the large telecom conglomerate, WorldCom, and they were forced to pay $17 billion in fines, and settlements following a probe led by New York State attorney general Eliot Spitzer (Ferguson 2011; Wilmarth 2009: 1000-1001). But, their part in creating a dangerous speculative bubble, by keeping debts off the balance sheets, was not sufficiently addressed by the regulatory institutions (Chittum 2008; 2010a; Starkman 2009a; Wilmarth 2009: 1002). Nor did the news media investigate the systemic causes underpinning the tech-stock bubble (Layton 2003; Starkman 2009a).

In "The lessons of 'Enron': Media accounts, corporate crimes and financial markets," which appeared in *Theoretical Criminology*, James Williams detected in his study of the Enron-WorldCom era of corporate scandals a "veiled and subterranean cluster of cultural narratives and discourses bearing on the nature, operation, and attributes of financial markets" (2008: 472).[160] Thus, he found that markets were bestowed with "the status of a type of discursive object" which created a means to project the focus of discussion away from the criminality underpinning the scandals (p.489). Ironically, *The Economist* acknowledged the media's "dishonorable part in helping to inflate the bubble," but then deflected blame back to the callousness of Wall Street for "preach[ing] the gospel of the new economy and its productivity miracle" (The wickedness of Wall Street 2008: 11). By arguing in the June 8th 2002 edition that it was "time to praise the equity culture, not to bury it under laws and lawsuits," the magazine was, in effect, signalling that the moment had come for the return of 'business as usual' reporting (p.12).

Indeed, the financial reporting during the Enron-WorldCom era conveyed the idea that major corporate collapses resulted from aberrant capital market behaviour as encapsulated by the term 'irrational exuberance' (Williams 2008: 488). On this view, "moments of irrationality and madness" provided a conceptual referent upon which to anchor the idea that markets are rational in the absence of scandals and crises (de Goede as cited in Williams 2008: 489). In turn, market data was drawn upon to discuss impacts and solutions, wherein the right to speak was "heavily circumscribed" (490-491).[161] This 'privilege' was bestowed upon experts who could be trusted to enunciate on behalf of 'the investor' and 'market confidence.' Such a treatment is ideological because it naturalizes 'the markets' and objectifies market-sourced data. Conspicuously, the prevalent news-frame attached blame to a few 'bad apples' with the assumption that speculative excesses were to be expected (Williams 2008: 477).[162] The 'bad apples' metaphor assumed that once the rot was removed, 'market confidence' could return and investors could 'trust' again (Achbar, Abbott & Bakan 2005; Gibney 2005; Williams 2008).

Although it was evident that white-collar crime extended beyond Enron, WorldCom, and the other tech-stock firms to the banking conglomerates, US news media outlets continued to valorize the American market economy (Williams 2008: 472, 480). The US citizenry's blindness to the presence of an oligarchy ruling the political arena is due in no small part to the respectful treatment of highly-networked corporate elites by mainstream media institutions (Herman & Chomsky 2008; Johnson and Kwak 2010; Schechter 2009b). Amidst such blindness, it was possible for *The New York Times* to publish an article in 2002 that employed a 'market reinvestment' news frame:

> Only a restoration of the system of checks and balances that once protected the American investor – and that has seriously deteriorated over the past 10 years – can restore the confidence that makes financial markets work … What is at risk is the trust that investors, employees and all Americans have in our markets and, by extension, in the country's future. (*The New York Times* 2002, 8 July as cited in Williams 2008: 484)

In his article "Power Problem," Starkman (2009a,b) and Ryan Chittum (2008, 2010a), from *Columbia Journalism Review's* media research team called 'The Audit,' cited instances of the American financial press reporting on what amounted to 'cognitive regulatory capture.' One notable example from 2002 was *The Wall Street Journal*'s "Friendly watchdog: Federal regulator often helps banks fighting consumers" (Bravin & Beckett 2002, January 28). However, Starkman and Chittum also found that in 2003, the press "folded" when the federal regulators blocked state regulators efforts to gain stronger oversight of predatory lending practices (2009a: 30). The press downplayed or ignored the "story" that the federal regulators were colluding with the finance industry and returned to writing mostly consumer and investor oriented stories during the critical period of 2004 to 2006 (p.26). Consistent with previous bubbles, there was some reporting that was critical of dubious activities in Wall Street, but they were not the norm.

During 2004 to 2006, Starkman (2009a,b) and The Audit team found that the nine prominent press outlets in their study failed to conduct critical investigations of key firms – New Century, Countrywide, Bear Stearns, Indymac, Lehman Brothers, Merrill Lynch and Citigroup – that subsequently faced bankruptcy, and/or were rescued with help of bail-out monies in 2007-2009 (Starkman 2009a: 28).[163] By turning a wilful blind eye, Starkman argued, news heads "set the tone" and "set the frames" for predatory lending to make a comeback, despite the best efforts of many state officials to bring evidence of fraud to the attention of federal authorities and Congress (Starkman 2009a: 25, 30). Some stories warned that the housing bubble would not last. In June 2004, for example a headline in *The Wall Street Journal* warned, "Boom vs. bust: The housing-price run-up can't last" (Carlton 2004, June 14).[164]

Then, in 2005, certain stories covered cases of criminal and unethical activity by Wall Street and home-buyer financiers. *The Los Angeles Times* investigated the criminal activity of mortgage lenders such as Ameriquest and others in 2005, and, importantly, revealed that more than 20 per cent of 'credit-worthy borrowers' were being tricked into accepting subprime loans (Starkman 2009a: 29).[165] *The Wall Street Journal* published a story in June 2005 on proprietary trading, which occurs when securities firms use

inside information to bet in the markets. This 'tip of the iceberg' story involved Goldman Sachs, who evidently had learned their lesson when one of its trading units was disbanded (Raghavan 2005). This naïve story treatment left the reader to think that the global bank would behave more ethically in the future.[166]

In the news media during 2005-2006 there was debate as to whether a house market bubble existed in the US, and if it did exist, what might happen if it burst (Glynn et al. 2008: 3). One "bubble-denier" was a columnist from *The Wall Street Journal*, Neil Barsky, who claimed in mid-2005 that there was no housing bubble (Barsky 2005, July 28; Glynn et al. 2008; Barsky 2005; Oberlin College 2010).[167] Economists such as Paul Krugman from *The New York Times* countered the "bubble deniers" with the succinct observation that bubbles burst when the belief that inflates them – ever rising prices - deflates (Krugman 2005, August 8). Another economist, Robert J. Shiller, who had studied housing bubbles in various places going back four centuries, told *The New York Times* that housing bubbles usually ended badly, and a recession would likely follow (Leonhardt 2005, August 21). Subsequent investigations did show that there was a housing market bubble (Bonner & Wiggin 2006; Ferguson, 2011; Hudson 2007).[168]

From 2005 to 2007, some journalists wrote stories that either warned of dubious financial practices, its complicated products and the dangerous bubble of debt perceived as 'growth.'[169] Accordingly Gillian Tett, writing for the *Financial Times*, conveyed her assessment of the financial industry and in particular credit derivatives from early 2005 through 2007.[170] However, like other journalists, her criticisms were partial rather than fundamental.[171] For instance, in "No turning back the revolution," Tett (2007, May 25) interviewed Robert Merton, the co-inventor of a model that theorized a way to price derivatives, who emphasized the key features of derivatives - efficient risk transference, customized contracts and embedded policy implementation (Johnson & Kwak 2010). But, Tett underplayed the fact that global banks, as the leading underwriters of derivatives, were able to extend their economic power and influence.

Absent from financial reporting were the crucial investigations of the institutionalized criminal activity of Wall Street, which is what was needed to galvanize public action (Schechter 2009b; Starkman 2009a,b). Typically, the news media focussed on surface happenings with a short-shelf life, and overlooked the underlying causes that would have explained bubble formation before the crises actually arrived (as financial historians have observed) (Curran 2002: 138 as cited in Cooper 2003: 89; Kunczik 2001: 4). They highlighted the most obvious unsound mortgage contracts, and their warnings about the housing bubble lacked contextualization. While individual journalists were obviously concerned, their warning stories reflected a bi-polar-like oscillation between a 'business as usual' assumption and a 'neutral bystander' posture (toward bad financial activities). At this time, all major news outlets were still

promoting the financial sector; a stance which was maintained until the near-collapse of Northern Rock in mid-September 2007.[172]

The forgoing lack of critique of the growing housing bubble happened, in part, because such stories did not fit with neoliberal ideology, whereby owning a home was both a 'consumer identity project' and a means of economic advancement. Middle and upper middle class home owners were encouraged to take out equity to invest in real estate. Real estate advertising and home improvement marketing via reality TV programming, print and radio media together created a landlord investment culture in the United States and the United Kingdom (Langley 2006: 291). Since the means by which investors accumulate profit is through risk, researchers explored the idea that media and communications systems were being used as mediums and carriers of risk (Thomson 2003; Williams 2008). Researchers found that the news media was implicated in moving markets (Davis 2005; Starkman 2009; Thompson 2010a). Additionally, the news media operated to magnify information asymmetries between insider institutional investors and their targeted audiences for personal finance news (Clark et al. 2004; Hope 2010; Langley 2004; Saxton 2008; Thompson 2003; 2010b; Williams 2008). Indeed, major media outlets were 'performing the news' (Clark et al. 2004).

There were warnings from others, including British economist Michael Rowbotham in 2000 with his book *Goodbye America! Globalisation, Debt and the Dollar Empire*, 'literary economists' Bill Bonner and Addison Wiggin on their *The Daily Reckoning* website, Danny Schechter with his 2006 documentary *In Debt We Trust* and Ann Pettifor's book *The Coming First World Debt Crisis* (2006). Bill Bonner and Addison Wiggin, who saw the "rise of an epic financial crisis," observed in their book *Empire of Debt* that people were buying houses in the expectation that they could sell them and make 'profit' on the margin. "Houses have become like futures contracts," they wrote, before the US housing market bubble eventually burst (2006: 278). But, such voices were barely heard because, as the Propaganda Model would predict, they either lacked the 'source-worthiness' that is automatically conferred to elite institutional voices or they were ridiculed as nay-sayers on the business and financial channels (Ferguson 2011; Schechter 2009b).

As the financial markets became more volatile in late June 2007, attention centred upon elite financial sources, albeit with highly constrained news frame deployment. When two investor conferences occurred simultaneously, one in New York and the other in London, the reporters who covered the events failed to investigate the veracity of the claims made by two elite figures who spoke at the events; Goldman Sachs' CEO, Lloyd Blankfein and Merrill Lynch's CEO, Stanley O'Neal (Harper & Keoun 2007, June 27).[173] Speaking at the Euromoney Institutional Investors London conference, O'Neal stated that he did not see much risk of major credit market contagion (Boyd & Keoun 2007, June 27; Harper & Keoun 2007, June 27). Meanwhile, from New York, Goldman Sachs CEO Lloyd Blankfein was widely reported to have said that if perceptions were to change dramatically, the risk of a credit crisis could

intensify swiftly (Bawden 2007, June 28; Cimilluca & Lucchetti 2007, June 28; Evans-Pritchard 2007, June 29; Ng, Lauricella & Aneiro 2007, June 28).[174] Less quoted was Blankfein's remark "we are organising ourselves like the market is undervaluing risk" (Kouwe 2007, 28 June).[175] In *The Times*, *The Wall Street Journal* and *Bloomberg* Blankfein was quoted that he did not think the takeover boom, funded by private equity firms and major banks, had peaked (Bawden 2007, June 28; Cimilluca & Lucchetti 2007, June 28; Harper 2007, June 27).

On the whole, from 2000 to 2007, the complex array of financial products were promoted as safe investments even though their central feature – uncertainty – was built into the technologies (de Goede 2005 as cited in Langley 2006: 291-292). Financial reporting portrayed data as though they were hard scientific facts, when in reality they were symbolically embedded representations of financial communities' perceptions about the future. Moreover, these perceptions were based on subjective judgments relating to power-specific strategies that attempted to shape the future, while many of the professionals involved did not have a full grasp of the big picture. These shortcomings of news coverage occur in part because a conventional wisdom prevails that finance is a rational, technical field within the science of macro-economics (Nitzan & Bichler 2009; Williams 2008). The reported activities of 'market actors' are thereby severed from politics, ethics and reality itself as they watch the screens, read reports and react to the news (Langley 2006; Thomson 2010a). Less reported upon, however, is the fact that key financial, regulatory and monetary policy actors work collusively to shape events toward the next 'crisis.'

News media representations of financial collapse 2007-2010: Academic research findings

As the financial crisis deepened throughout 2007, 2008, 2009 and 2010 numerous academic studies of the media's behaviour and performance emerged. These critical studies of major news outlets and political debate ranged in their focus. Some pointed out the switch from pre-crisis "intellectual paradigms" to crisis 'knowledge tools' (Fisher & Malde 2011; Gowan 2009: 113); or the use of rhetorical language and ideological statements to anchor a new financial regime (Fuchs & Graf 2010). Others critiqued the use of fear to spread an emotional-financial contagion (Kenway & Fahey 2010; 2011); or observed the expectation promoted by the news media that the $700 billion US bailout was a requirement rather than a choice (Thompson 2009). Eric Wilson (2009; 2010; 2011) argued that a network of politically and economically powerful elites had constructed a financial-political-legal criminal arrangement that exploited the speed of unfolding events.

An 'accidents theory' had characterized "mainstream debate", wherein it was inferred that the crisis was due to the chance outcomes of decisions taken by institutions including regulatory authorities, such as the Federal Reserve, ratings agencies and banks (Gowan 2009: 109).[176] However, Peter Gowan (2009)

essentially outlined a Wall Street-Washington Complex, wherein there was an established alignment between Wall Street and Washington, which signalled a "well-integrated project" (p.109). Gowan stated that key figures in Wall Street and Washington did not believe the 'free market' ideology. Rather they recognized its utility as a vehicle for legitimacy (p.110). Meanwhile, in the City of London, bankers had simply picked up a different set of knowledge instruments or heuristics tools from the ones that had led to the bust, and then resumed with the pre-crisis instruments once the urgency had passed (Fisher & Malde 2011). Heuristics here means knowledge instruments employed for reasoning that can be applied to tasks (Fisher & Malde 2011: 156).

Indeed, sophisticated actors use rhetorical language and ideological statements to influence other elites. Importantly, such statements are also deployed to sway public opinion so that the proposed actions become "sufficiently consensual" (Fuchs & Graf 2010: 8). The term 'sufficiently consensual' here means those activities that seek to 'anchor' a value or norm within the social matrix so that the proposed actions become possible and understandable. In their paper entitled "The Financial Crisis in Discourse," Doris Fuchs and Antonia Graf (2010) argued "[t]he re-signification of established norms goes hand in hand with their enlargement" (p.10).[177] They 'mapped' the patterns of discourse in the reportage of one of Germany's newspapers, *Die Zeit* during the crisis period from October 2007 to December 2009. Fuchs and Graf observed that the core assumptions underpinning the financial, economic and political systems of the big countries in the news were not explored in a systematic way. They found that there was no "re-signification of discourse" in regard to how Europe's societies and the economic system were organized (p.27). This finding infers that the expectation of bailouts was already an established norm among European elites.

Importantly, Gowan makes the astute observation that "financial regimes" are more the result of "power relations" than they are "products of intellectual paradigms" (2009: 113). For my purposes this observation is significant. It supports the view that ideological symbols and meanings within news frames are there to manipulate news audiences for the benefit of the Anglo-American financial oligarchy. Indeed, policy transformation during market volatility could not happen without the news media performing their function as "vectors" in the transmission of *emotional contagion* (Gibbs 2001; Kenway & Fahey 2010: 718). Kenway and Fahey (2010) proposed the idea of *global emoscapes* in their study of the financial crisis (p.718).[178] In the process, beliefs and concepts are "smuggled" in with media frames. The sudden system-wide re-classification of 'debt' as an 'asset' in 2007 is a concise example of packaging fear as a toxic emotion (Kenway & Fahey 2010; Wilson 2010: 4).[179] This meant that financial elites and oligarchs passed on their problems – debts – to others, by re-categorizing them as 'toxic assets.' Wilson argues that this re-classification represents a replacement of the 'real' for the 'virtual' (2011). Then, at the moment the market collapse occurred an "atmosphere of catastrophe" was created

in news stories, which spread a global emoscape of fear and anger (Kenway & Fahey 2011: 172). In effect, this means the public were treated as a means of magnifying a financial contagion.

A key omission in the US and UK financial news media's coverage of the financial crisis was credit/debt creation by private banks (Thompson 2009: 82).[180] Peter Thompson argued that this was possibly due to the "complexity" and restrictions of mass media news formats, rather than the influence of news filters (as described by the Propaganda Model). However, he added this omission fitted the Propaganda Model's prediction that the news media limits the public's knowledge of issues by making news conform to dominant ideologies. Here, there are additional considerations to bear in mind.

Derivatives as commodity money travel digitally at light speed between public exchanges, the payments systems of the City, Manhattan and other financial business districts and through offshore financial secrecy jurisdictions. A lack of transparency, or informational asymmetries, inherent to these almost invisible flows is structured into 21st century finance (Shaxson 2011; Wilson 2010: 3, 23-24, 26-27; 2011). Indeed, asymmetric financial environments allow elite and oligarch criminals to pursue their 'power crimes' with impunity. Such environments are termed 'criminogenic' (Wilson 2009: 414; 2010: 27; 2011). "Elite criminals" who practice fraud and corruption, Eric Wilson argues, "optimize" their power and prestige through the construction of networks that work to minimize the risks of detection and maximize the payoffs (Wilson 2009: 414).[181] Because transactions that occur at light-speed combine with the instantaneity of global communications – an "optical disappearance" of the power crime involved is achieved (p.414). In other words, the 'crime' becomes an 'invisible non-event' defined in terms of an 'accident' (Gowan 2009; Wilson 2011).

Crucially, in terms of this study, Wilson argued that "the essence of power crime is the control over definitions, perceptions, and appearances" (2009: 414; 2010: 21). The result is like an optical effect because it is difficult to pinpoint even basic details such as location and time. Therefore, the detection of patterns, identities and institutional connections over time becomes problematic. By exploiting speed, criminal elites and oligarchs are able distort perceptions about the facts of events and why they occur. Thus, "low velocity political deliberation and public accountability" is subsumed by high-velocity "market forces" and highly-networked private interests (Wilson 2009: 419). It is in this way, that "politics '*disappears into aesthetics*' " – as Eric Wilson puts it (2009: 418; 2010: 11). In this process, the splicing of space and time and kinetic image sequences mask "speed-politics" with a copy of reality (2010: 6, 8, 11-12). Thus, it would appear that the news media, acting as 'vectors' of 'emotional contagion' assisted the 'speed-politics' that underpinned the 'crisis,' amid an 'atmosphere of catastrophe.'

Conclusion

As the Anglo-American financial oligarchy used their power to shape macro-economic and banking legislation during the 1980s, 1990s and 2000s they gained further control over communications and media systems. The financial oligarchs could, for example, create credit/debt financial derivatives to 'fund' the buy-outs of media outlets and concentrate media ownership. Through their formidable scale, prestige, linkages and reach the 'big 7' media conglomerates that emerged in 2001 were in a position to dominate news content and restrict the diversity of ideas and discourses to those that supported 'free-market' ideology. As these conglomerates were controlled by oligarchic-elite networks that connected banking, advertising, public relations, academia, think-tanks, foundations, global policy-shaping groups and the executive state, oppositional voices were largely excluded. Other second tier media groups with significant news outlets also retained their influence to deliver oligarchic-elite propaganda.

In the first phase of free-market deployment, corporate public relations grew in importance during the 1980s in order to combat damaging investigative reportage in the 1970s and to promote neoliberal policy transformations. During the 1990s, or second phase, a massive 'sales effort' was undertaken to position American and British populations as financial subjects of a global investor class. Numerous researchers found that journalists and news outlets were implicated in actively promoting an exuberant 'investment' culture without disclosing conflicts of interests involving expert financial sources. When the tech-stock bubble burst in March 2000, the major media outlets became 'neutral bystanders.' Because they were implicated in causing the market boom, the major media outlets failed to investigate the systemic causes of the tech-stock bubble and therefore the collusive power relations of the Wall Street-Washington-City Casino Complex were censored by 'unofficial means' (Doyle 2006; Ferguson 2011; Layton 2003; Starkman 2009a; Williams 2008).

Once prosecutions of the Enron-WorldCom era were underway, the news media shifted from a 'neutral bystander' posture to that of a 'business as usual' role. This coincided with the growing tempo of US real estate speculation. During this period, news audiences were strongly encouraged to borrow against their homes to 'invest' in more houses and buy-into the 'financialization of daily life.' The news stories that did serve as warnings of a dangerous speculative bubble, systemic fraud and a growing debt crisis were out-numbered and given less prominence, resources and time than stories encouraging market participation (Gowan 2009; Starkman 2009a,b).

As the Propaganda Model could predict, the news media was biased toward elite sources, failed to show the networked ties between key financial actors and institutions, and denied sufficient space to non-establishment sources so that other narratives could be articulated. Because financial news had become a performance, consumer-investors were once again manipulated into an exuberant participation through reassuring stories that the financial system was robust, oversight was sound and

that the boom was ongoing (Clark et al. 2004; Layton 2003; Starkman 2009). These depictions precluded radical critiques of the Anglo-American financial oligarchy. Once the financial crisis emerged in early August 2007, the news media obscured its root causes. The news media contributed to the crisis by creating a global-scale 'emotional contagion' or 'emoscape' that transformed uncertainty into fear. This fear subsequently spread throughout financial markets and created a feed-back loop into the coverage of the crisis. Since the financial oligarchs and elites occupying key posts in the Wall Street-Washington-City Complex controlled criminogenic environments, they were well-positioned to construct, manage and escalate the crisis in accordance with their objectives.

Chapter 4 : Mass media, business financial media and the financial crisis of 2007-2008

This chapter explores the Anglo-American news media's coverage of the financial crisis starting with the bank-run on Northern Rock of mid-September 2007 and ending with the imminent collapse of Lehman Brothers on the Sunday evening of September 14 2008. The news coverage is examined with regard to the collusive abilities of financial oligarchs and the major media conglomerates to construct a 'crisis' narrative. As crisis management expert Paul 't Hart observed, 'crises' can be contrived and manoeuvred by actors within and external to the state apparatus (1993: 37), and provided they can control the ritualized symbolic actions, they can also constrain the meanings (p.41). In an atmosphere of calamity and urgency, those who control perceptions about what caused the crisis and what might resolve it, will tend to gain politically ('t Hart 1993: 40). Therefore, the construction of events under the rubric of a 'crisis' "creates a self-binding dynamic," since the act of characterization is rhetorical and lends itself to semantic descriptions ('t Hart 1993: 42).[182] As such, during the emerging 'global financial crisis,' the 'neutral bystander' posture was adopted in order to construct a 'rescue' master frame that would be used to position the unfolding events (See Appendix III, Figure 3: 'Rescue' Master Frame).

During crises, the news media drop their routines in order to maintain their position at the centre of the action as a legitimizer of 'truth' (Riegart & Olsson 2007: 147). However, if the threat is deemed dire enough the news media will maintain a 'respectful distance' from those conferred with authority to deal with the 'crisis' ('t Hart 1993: 46). In financial crises, the 'neutral bystander' posture is adopted to mask the fact that news outlets have dispensed with the 'business as usual' role until the 'crisis' is perceived to have passed.[183] In other words, the 'neutral bystander' posture is a strategy to deflect attention from the media's own culpability in downplaying the emergence of the crisis. The 'rescue' master frame omits, denies or ridicules the idea that the crisis in question is itself a construction of financial oligarchs. To this end, the 'rescue' frames are filled with obvious and subtle inconsistencies that require deliberate masking efforts and crisis rituals to obscure the power relations at stake. Therefore, each news story contributes to a 'crisis' picture which forms, over time, a narrative arc.

In the following pages, key events in the 'crisis' narrative arc, their significance to the financial oligarchs, and to public understandings will be outlined (Frensham 2003). The events include: the bank-run and 'rescue' of the British retail bank Northern Rock in September 2007 and February 2008, respectively; the simultaneous take-downs of Bear Stearns and Wall Street 'arch-enemy,' Eliot Spitzer, the governor of New York. Other events are the Senate Banking Committee hearing into the demise and takeover of Bear Stearns in mid-March 2008. It also outlines the Treasury's "Break the Glass" 'contingency plan' to 'rescue' the financial system, written in March and April 2008. Also covered are two speeches, one

given by a former vice-chairman of the Federal Reserve, Alan Blinder, and the other by the current chairman Ben Bernanke, to central bankers at Jackson Hole, Wyoming in August 2008; and the 'rescue' of the American home finance giants, Freddie Mac and Fannie Mae in early September 2008. It finishes with the weekend 'crisis' meeting of September 12 to 14 2008 at the Federal Reserve Bank of New York, ostensibly an attempt to 'rescue' Lehman Brothers.

Northern Rock

Throughout the northern summer of 2007, United Kingdom investors assumed that destabilizing financial markets would only affect the shadow banking system and American home-mortgage lenders, such as Countrywide (Tett 2010: 228). However, that assumption was soon to be shattered. Northern Rock informed the UK Financial Services Authority on August 13 2007 that it was in financial trouble. On September 13, 2007, Her Majesty's Treasury, the Bank of England and the Financial Services Authority reached agreement to finance a 'rescue' of Northern Rock (Yorulmazer 2009: 4). That evening, a *BBC* business editor, Robert Peston announced that Northern Rock had gone "cap in hand" to the Bank of England (Northern Rock gets bank bailout 2007, September 13; Tett 2010: 228). This news was beamed to global markets near-instantaneously. Northern Rock's website allegedly crashed soon after as savers attempted to withdraw their deposits én masse. The following morning, images of the inevitable bank-run, depicting worried customers queuing at various Northern Rock branches around the United Kingdom, were beamed live around the world (Hosking, Seib, Leroux & Gilmore 2007, September 15; Reed 2007, September 14; Tett 2010: 229).

The pictures of 'the common people' behaving in an extraordinary manner grabbed the attention of news audiences.[184] The coverage also reflected a sudden change from the news media's prior 'business-as-usual' role to the 'neutral bystander' posture (Tett 2010: 228). The event was conveyed as an unexpected shock and therefore Northern Rock could be deemed as worthy of a 'rescue' (Hosking et al. 2007, September 15; Larsen & Giles 2007, September 14; Seagar 2007, September 14).

But, the news media and particularly the financial media had been complicit by framing financial sector activities as 'innovative,' instead of questioning the changing relationships between 'lenders' and 'borrowers.' Northern Rock had been deeply enmeshed in selling subprime mortgage-backed securities with Lehman Brothers (Engdahl 2009: 365; Tett 2010: 229). As the Northern Rock crisis became public, their "innovative business model" was re-framed as a "dangerous business model" (The Bank that failed 2007, September 20; Reed 2007, September 14). This was apparent in an article headlined "Run on the Bank" in *The Times*' wherein reporters stated that the bank "risk[ed] being accused of over-aggressive lending" (Hosking, Seib, Leroux & Gilmore 2007, September 15). In "Crisis at Northern Rock,"

Bloomberg reported that the bank financed its activities mostly by raising funds in capital markets, while just under a quarter of its funds were raised through deposits (Reed 2007, September 14). None of the articles that covered Northern Rock's bank run explained how debt leverage and private credit creation worked.

Instead, the news coverage focussed on the 'rescue' with references to the capacity of central banks to be a 'lender of last resort.' Numerous newspapers noted that Mervyn King, the governor of the Bank of England, had sent a communique to the House of Commons' Treasury Committee on September 12, that bank bailouts were a "moral hazard."[185] Moral hazard in banking and finance allows institutions to undertake risky activities in the belief that their solvency is government guaranteed (Kostovetsky 2009). Bailouts are therefore a form of contrived wealth transfer from the public to the rich (Tollison 1982). The news media dutifully reported King's stance widely on September 13. The British press failed to examine whether King's claim that "moral hazard … was no abstract concept" matched up with a possible covert central bank strategy (Giles & Daneshkhu 2007, September 12). Political actors, whether they work in government institutions or in private enterprises, have incentives to smooth over concerns during crises, either because they do not want to make them worse, or because they are acting collusively to set a course toward a climax, from which they expect to gain in its resolution ('t hart 1993: 37, 41; Winters & Page 2009). In this way, King signalled to astute financial actors that a new norm was being anchored – the 'rescue' master frame – involving a 'moral hazard' activity or bailout (Fuchs & Graf 2010).[186]

The British financial authorities let the bank-run continue for four days before they formally announced a bailout (Preston 2007, October 16; Tett 2010: 230). By making his white paper entitled "Turmoil in financial markets: What can central banks do?" public the day before the three British monetary authorities covertly agreed to bailout Northern Rock, King ensured that the news media was primed for an intentisification of the financial 'crisis' (King 2007). Thus, when the *BBC* 'leaked' Northern Rock's plea for help on the evening of September 13, the ensuing spectacle of a 'traditional' bank-run was intended to divert attention from the bank-run Northern Rock had already endured in the shadow banking system (Buiter 2008a: 42; Reed 2007, September 14; Tett 2010: 229).[187] The public's participation was also necessary to intensify anxiety and fear in order to manufacture their 'consent' for a bailout. The appearance of a reactive 'rescue' approach obscured the City of London Corporation's position – a municipal authority that owns London's square mile financial district – as a closely networked tax-secrecy haven for financial oligarchs and assorted ruling elites (Palan et al. 2010: 39, 135; Shaxson 2011: 67-74, 86-87). In this regard, Northern Rock's use of the United Kingdom-protected tax-haven – Jersey – was obscured not only by the 'rescue' frame, but by reportage suggesting that the troubled building society was based in Newcastle (The bank that failed 2007, September 20; Seagar 2007, September 14).

An *Economist* editorial entitled "The bank that failed" that appeared on the same day that King was due to appear before the Treasury Committee – September 20 2007 – referred euphemistically to Northern Rock's "dangerous business model." *The Economist* editor explained that the troubled retail bank grew "too fast by raising most of its funds from the money markets rather than branch deposits" (The bank that failed 2007, September 20). By doing so, *The Economist* was deploying a personalized scapegoat frame in which Northern Rock was being held culpable, while other British-domiciled banks were not. *The Economist* avoided revealing how the City-Tax Haven Complex was structurally entwined within the United Kingdom's political economy and the global financial system.

The Telegraph carried a crucial statement from a former Bank of England official, stating, "Don't expect the Treasury to place civil servants at the helm" of Northern Rock (Aldrick & Dey 2007, September 21). This maritime-imbued metaphor is important because when HM Treasury announced on February 17, 2008 that it was going to nationalize Northern Rock, news outlets reported that some changes would occurr in executive positions. The news media reported upon the appointment of Ron Sandler and praised him for having "rescued" Lloyd's Bank from collapse in a previous financial crisis.[188] Less reported was the appointment of Ann Godbehere, formerly chief financial officer at a Swiss bank (Desai & Jones 2008, February 17; Scan 2008, February 17). She would take charge of finance and treasury duties at a time when the funds of Northern Rock's accounts were still passing through the Channel Islands' tax-secrecy haven of Jersey (Kellaway 2009: 18-22).[189]

Northern Rock's "dangerous business model" was actually a sophisticated accumulation strategy embedded in the assumption that certain financial institutions had become 'too big to fail.' This matter was addressed by the United Kingdom's National Audit Office, albeit in an esoteric style. It described Northern Rock as a holding company legally owned by trust companies registered in Jersey (Kellaway 2009). The National Audit Office's "Public sector interventions in the financial crisis" report claimed that the profits of the holding company, Northern Rock plc went to a charity (p.21). However, the charity in question, Northern Rock Foundation, stated on its website that it only received 1% of Northern Rock's pre-tax profits (Northern Rock Foundation n.d.). The mortgage payments received by Northern Rock were paid into mortgage trusts that were incorporated in Jersey and managed by four directors from Northern Rock plc's legal firm (Kellaway 2009: 21; Palan et al. 2010: 1). But because Northern Rock also raised around three quarters of its financing from capital markets, the financial interests in the mortgage trusts included Special Purpose Vehicles which were not legally owned by Northern Rock plc, (they were subsidiaries of Granite Master Issue plc). Therefore, the beneficiaries were investors in Northern Rock plc, the bond-holders who bought corporate bonds from the Special Purpose Vehicles, and the investors in Granite Master Issue plc (Kellaway 2009: 20-22).

In light of this finding, Godbehere's appointment by Her Majesty's Treasury meant that as Northern Rock's CFO and treasurer, she was in the contradictory position of having to remedy the bank's

difficulties while generating profit to meet financial contracts owned by the trustees of Special Purpose Vehicles domiciled in a Crown-dependent tax-secrecy haven. However, public news outlets and the financial press overlooked this conflict of interest and bought into the government's claims that United Kingdom taxpayers would, somehow have their exposure as 'insurers of last resort' recouped.

As 't Hart described (1993), powerful groups use the media to relay information to "crisis stakeholders" (p.44). The 'leak' of Northern Rock's dire financial situation on September 13 to the *BBC* signalled to heads of major news outlets that they should not investigate the criminogenic network of the City. Rather, the 'leak' conveyed the coded message that the Anglo-American financial oligarchy had made a decision to 'go live' with the 'financial crisis.' Indeed, the choice of Godbehere to save Northern Rock was symbolic too, since her name lent this exercise in wealth defence a '*deux ex machina*' metaphor to signal that a 'rescue' master frame had been established.[190] It was crucial that the crisis journalism stricture of a 'respectful distance' be obeyed since the contradictions that might enter the daily 'rescue' frames were *the* major vulnerability of the Anglo-American financial oligarchy.

Bear Stearns

What did receive considerable attention on both sides of the Atlantic was a character assassination piece that appeared on the front-page of *The Wall Street Journal* on November 1, 2007 (Kelly 2007, November 1). The article alleged that the CEO of Wall Street's fifth largest investment bank Bear Stearns was unreachablely located at a bridge tournament, while two of its hedge funds collapsed in June 2007 (Burrough 2008: 79). While the story was picked up by the news wires, TV stations and press - and carried James Cayne's rebuttal - what was largely avoided was critical scrutiny concerning the *professional* lives of Wall Street's other CEOs, CFOs and directors, along with federal regulatory officials.[191] Furthermore, no one asked why it was that Bear Stearns' CEO was being singled out, when it would have been easy to find fault with all the leading players. This matter is addressed in Charles Ferguson's documentary *Inside Job* (2011). Nor did any story investigate Wall Streets' institutional ties to the major news outlets. In terms of the 'crisis' narrative, this news event was a 'hook' constructed to catch the attention of American news audiences. It relayed an account of an extraordinary person doing an ordinary thing at a time when all was not well (Frensham 2003: 111-112). This news was also a 'ritual of animosity' that served the important function of stigmatizing Bear Stearns in the public's mind, so that it could be effectively scapegoated when the time came to take it down ('t Hart 1993: 44. See Appendix IV, Fig. 4).

On March 5, an investment analyst Ben Sedacca posted on his website a warning that Bear Stearns and Lehman Brothers were vulnerable to increasingly expensive short-term funding costs (Cohan 2009: 3-4, 12-13). The overnight loan markets that banks, brokerages and other financial institutions utilize as a borrowing resource (through the issuance of very short-term 'commercial paper'), were becoming

more risky. Borrowers were using credit default swaps and collateralised debt obligations as hedges against their trades.[192] The annual cost of credit default insurance against $10 million of Bear Stearns' debt had gone from below $100,000 a year previously, to over $600,000 on March 10. Credit default swaps however were not simply a mechanism to insure debt exposures (Tett 2010: 255). They also work as a means to speculate on the likelihood that a firm will go into default, since buyers in credit default swaps do not need to own the underlying debt (Brown 2010: 368; Johnson & Kwak 2010: 82, 173). These high fees and premiums represent 'sunk costs' that are suggestive of collusion – as cartel theory predicts (Ayres 1987; Marks 1986). In "How cartels punish: A structural theory of self-enforcing collusion," Ian Ayres (1987) argued companies that comprise a cartel create sunk costs for themselves. They can do this by "posting bonds" which are in effect "hostage exchanges" designed to deter rivals from breaching the cartels' agreement (p.310). 'Sunk costs' here means investing money in financial products that would lose value if the other cartel members breached the collusive agreement. In other words, their bets were "irreversible or "sunk" " (Ayres 1987: 310).

In this context, the spikes in credit default swaps constitute "economic evidence" of "parallel behaviour" which is a crucial test to prove collusion (Marks 1986: 396, 403). Parallel behaviour must reveal "conscious parallelism" which means commercial behaviour that displays the same pattern, wherein rivals are aware of their competitors' activities, and that the content of this awareness is factored into their actions. Neal Katyal has argued that a "sunk cost trap" dynamic is created when people commit to a specific course of action that binds them and "escalates previous behaviour" (2002: 1337). Consequently, corrective action by colluding players to serve their secret goals, or "enjoinable conduct," can be expected to surface in the news (Marks 1986: 396). Enjoinable conduct can take the form of direct communications such as meetings and conference calls, systematized processes such as price lists (and their exchange) and contractual clauses that favour specific parties (p.397). As the financial progressed, vignettes of private meetings and conference calls between 'government' officials, bankers and financiers, the sharing of financial data among rivals and the insertion of clauses into the bailout legislation to favour key insiders did surface in the news reports. However, such evidence of collusion were presented as innocent institutional cooperation.

At this time Bears' cash position, at least on paper, was $18.3 billion (Cohan 2009: 92; Tett 2010: 255). However, Bear Stearns had loaned to three hedge funds, Peloton, Thornburg and Carlyle Capital Corporation (15% owned by the Carlyle Group) that had quickly imploded in late February and early March 2008 (Cohan 2009: 10, 17).[193] Despite Bear's limited risk to the hedge funds' collapse, several other hedge funds surreptitiously withdrew their assets from the investment bank (Boyd 2008: 57; Tett 2010: 254).[194] Sedacca's website posting gained traction with the market as it was rapidly transmitted all over the financial 'blogosphere' of the internet and on mainstream television news websites (Cohan

2009: 12, 16). Nor did it help that public postings on Bear Stearns' *Yahoo!* Messages' page gleefully announced that the firm was insolvent.

On the Monday morning of March 10, the ratings agency Moody's downgraded one category of Bear Stearns mortgage-backed securities (Curran 2008, March 11, C7; Swedberg 2009: 13).[195] Also that morning, *CNBC*, the 24-hour cable channel that focuses on money and finance, publicized a rumour (attributed to "what one guys says") that Bear Stearns lacked cash-flow (Burrough 2008: 80). A *CNBC* reporter called former CEO Carl "Ace" Greenberg at Bear Stearns for comment. He 'bit on the bait' – and *CNBC* ran a looped graphic over lunch-hour that quoted Greenberg as saying that the rumours were "totally ridiculous" (Burrough 2008: 80; Cohan 2009: 21). As the situation unfolded, the print news media often quoted Ace Greenberg's "totally ridiculous" soundbite without mentioning what he had said to *CNBC*. When they did, they gave no indication that *CNBC* had focussed upon Bear Stearns without comparing its numbers to other financial institutions.[196]

Also on Monday March 10, a rumour spread through Wall Street that the Office of the Comptroller of the Currency had been calling nationally chartered banks under its supervision regarding their exposure to Bear Stearns (Cohan 2009: 22). In his book *House of Cards* (2009), William Cohan stated that bets were made on Bear Stearns' stock price falling dramatically (p.23). The Chicago Board of Options guidelines precluded it from facilitating 'strike prices,' if they were at great variance to the prevailing stock price. Speculators can nominate a strike price at which their bet will trigger a trade if the market price matches it at a later time. 'Investors' insisted that the Chicago Board of Options issue a series of March and April options to buy Bear Stearns' stock at $25 and $22 a share, respectively. This was despite the fact that on Monday March 10, Bear Stearns' stock closed at $62.50 a share (after starting the day $70). Cohan stated that the Chicago Board of Options, who issued a new series the next day, would not disclose who was behind the bets (2009: 23).[197]

The same Monday, *The New York Times* broke a story headlined "Spitzer is linked to prostitution ring" about Eliot Spitzer, the Democrat New York governor who had allegedly been a frequent client (Burrough 2008: 119; Cohan 2009: 41; Ferguson 2011; Hakim & Rashbaum 2008, March 10). The removal of Spitzer was crucial for the financial oligarchy because of his track record in investigating Wall Street.[198] Furthermore, in mid-February he publicly blamed the Office of the Comptroller of the Currency for blocking his efforts to investigate predatory lending, criticized the bailout of Wall Street thus far, and had also lobbied in Washington for an investigation (Engdahl 2008; 2009: 374-375; Ferguson 2011; Ferguson & Johnson 2009b: 15). The timing was significant, for it corresponded with the beginning of Bear Stearns' takedown (Keren & Raub 1993: 434). As the story unfolded, Spitzer faced an impeachment vote over his ties to the prostitution ring, and it was this pressure that forced him to resign on the 444th day of his tenure ("After Eliot Spitzer" 2008, March 13).

But, while *The Washington Post*, *The Wall Street Journal* and *The New York Times* parsimoniously acknowledged that Spitzer was the bane of Wall Street (as mentioned in chapter three), they omitted to question why he was singled out.[199] In the documentary *Inside Job*, the operator of the prostitution ring, Kirsten Davis stated that the staff and senior executives of all major Wall Street banks were regular clients (Ferguson 2011).[200] Despite the fact that the bankers were fraudulently billing the 'services' of the prostitution ring to their firms, Davis said that the federal investigators "were not interested in my records." Since it was inherently obvious that a large prostitution ring meant the sex business had a long list of clients, the news media, in effect, reinforced the federal investigators' myopic focus – by scapegoating Spitzer too.[201]

In a *New York Times*' article headlined "A day that shook the state, and hinted at a resolution to come," the reporters *hinted* at Spitzer's tenure ending on day 444. The reporters opened with the hook, "On day 442, everything changes. Again." This referred to the news on Monday March 10 about Spitzer's involvement with the prostitution ring, which was 442 days after the governor's inauguration, and to words from his inauguration day speech: "Day 1, everything changes" (Confessore & Peters 2008, March 13).[202] The significance in coercing Spitzer to announce his resignation after 444 days in office, with the threat of an impeachment, was symbolic, since America's most famous hostage case, the 'Iranian hostage crisis,' also lasted for exactly 444 days (Aslan 2004, November 24, Parry 2011; Scott 2007: 93-113).[203] In game theory, hostage postings can take many forms, but the underlying logic is always the same. 'Posting a hostage' is a mechanism "for producing and stabilizing cooperation" in social circumstances that require "collective action" (Keren & Raub 1993: 430). The takedown of Spitzer – who was cast as the hostage – signalled that the US Treasury and two of its agencies, the IRS and the Financial Crimes Enforcement Network (FinCEn), were on board to assist other parts of the Wall Street-Washington Complex to achieve their collective goals.

The act of posting a hostage signifies a provisional "*promise* to cooperate if the other actor also posts a hostage." The game requires an implied threat, which amounts to defection on the next move if the other player does not post a hostage too (Keren & Raub 1993: 434). In their paper, "Resolving social conflicts through hostage posting: theoretical and empirical considerations," Gideon Keren and Werner Raub noted that "tacit communications of threats and promises are two major message strategies used to influence the behaviours of others" (1993: 434). Therefore, during a crisis it is these threats and promises that can be expected to occur regularly as key players manoeuvre to advance their positions in the transforming power structure.[204] Thus, *The New York Times*, *The Wall Street Journal* and *The Washington Post* were complicit in communicating these threats and promises, since they did not bother to press the federal investigators regarding the extent of the ring's clients and the motives behind the Spitzer takedown.

These publications also undermined Bear Stearns' situation and obscured the fact that the firm's

impending demise represented a hostage posting by the Federal Reserve's side of the cartel. As mentioned in chapter two, on Tuesday March 11 2008, the president of the New York Federal Reserve Timothy Geithner and the chairman of Board of Governors of the Federal Reserve System, Ben Bernanke hosted a luncheon for prominent bankers and financiers at the Federal Reserve's New York headquarters.[205] The exclusion of Bear Stearns' new CEO, Alan Schwartz, signalled that as one of Wall Street's 'big-five' investment banks its days were numbered, despite the fact that Bear Stearns was one of the Federal Reserve Bank of New York's 19 primary dealers of Treasury securities (Cohan 2009: 30; Federal Reserve Bank of New York 2007; 2008c; Lanman 2008, May 12).[206]

The timing of the crisis for Bear Stearns was very bad. Its chairman James Cayne was at another bridge tournament. Alan Schwartz was in Palm Beach Florida hosting the firm's annual media conference; attended by the heads of four of the world's major conglomerates – Newscorp, Viacom, Times Warner and Disney (Burrough 2008: 120; Cohan 2009: 21, 24, 30).[207] Not surprisingly, Schwartz's appearance on *CNBC* on Wednesday March 12 made him the centre of attention. Moreover, given the CEO he replaced was widely stigmatized for attending a bridge tournament immediately following the collapse of two of the firm's hedge funds, his appearance at Palm Springs did not give a positive impression (Burrough 2008: 120). *CNBC*'s correspondent David Faber claimed that a trader had told him that one Wall Street firm had worries about Bear Stearns' financial position. Apparently, the trader was made to wait by the firm's credit department before approving a Bear Stearns' trade. Burrough reported in *Vanity Fair* that Faber had later disclosed in the *CNBC* interview that the trade in question actually went through; by then however, the damage to 'market confidence' in Bear Stearns was done (Burrough 2008: 120; Cohan 2009: 32, 35; 40-42). The media replicated *CNBC*'s 'neutral bystander' posture without questioning whether or not Bear Stearns' bonds were any worse than the bonds from other Wall Street financial houses (Cohan 2009).[208]

As Hope pointed out (2010), since online financial communications technologies had fully merged with public news mediums, the capacity was created for jittery market participants to act on information in real-time. This fusion between information dissemination and news distribution meant that even if the information was known to be dubious by market professionals, it could still move markets (Thompson 2010a). As Thompson has noted, when financial models which track core market referents no longer work, then markets switch to assigning values based on perceptions about opinions and volatility (2010a: 13). The rumours spreading about Bear Stearns' solvency, added to the momentum of perception that *all* of the firm's businesses were in danger of collapse (Cohan 2009: 34-35, 46, 62; Tett 2010: 254-255). The market was now learning – in the midst of the 'credit crunch' – how the opacity, speed and complexity of the financial system made everyone, even the 'too big to fail' – vulnerable. Crucially, uncertainty still lingered in the markets about who exactly was deemed 'too big to fail.' Bear Stearns' executives could be counted on for thinking their bank was, because Geithner and Bernanke arranged

for the Fereral Reserve to loan the beleagured investment bank $13 billion on Friday 14 March (Lanman, 2008, May 12). Bear's board misread this thirteen billion dollar loan as a sign of unity among the fraternal cartel of Wall Street, instead of as a signal of impending betrayal.

Given the oligarchic-elite affiliations of the major news outlets, journalists continued to report as 'neutral bystanders' when the inevitable collapse of Bear Stearns' share price ensued.[209] During the Bear Stearns 'crisis' weekend of March 15 and 16, key American monetary officials conferred over the price to pay for Bear Stearns' stock. Between Paulson, Geithner and Bernanke, they agreed to $2 per share.[210] JPMorgan Chase was duly informed about how the American monetary authorities would finance JPMorgan Chase's takeover (Prins 2009: 104; Tett 2010: 258). The initial agreement of $2 a share equated to a buy-out value of $236 million, which represented a devaluation of 93.3 per cent from the firm's stock market value at the close of trading the previous Friday. In financial lingo, when stockholders get even less than market value in the event of a hostile takeover, it is known as a 'take-under' (Karnitschnig, Mollenkamp, Craig & Lobb 2008, September 12; La Monica 2008, September 10). In his book *On the Brink*, Henry Paulson downplayed the involvement of the Federal Reserve, the Treasury Department and himself when he claimed it was JPMorgan Chase's decision "to offer $2 a share" (Paulson 2011: 112).

None of the news accounts challenged the US monetary authorities or JPMorgan Chase about their noble claims regarding a 'rescue' of Bear Stearns.[211] Since the Federal Reserve and Treasury had blatantly propagandized the financial liberalization that had fomented the 'financial crisis,' their deployment of the 'rescue' news frame was a self-justification strategem. For their part, the news media obscured the fact that the Federal Reserve had announced on March 11 that it would provide 'the markets' with $200 billion liquidity through the Term Securities Lending Facility (Board of Governors of the Federal Reserve System 2010b).[212] The collusion underpinning the delay to open this facility until *after* Bear Stearns' demise was a key omission in the major news outlets' coverage (Clark 2008, March 18; Lanman 2008, March 11; Sidel, Berman & Kelly 2008, March 17; Nutting & Robb 2008, March 16; Sorkin & Thomas 2008, March 16).[213] Only a few accounts mentioned that JPMorgan Chase had expressed their intention to acquire a primary dealer securities firm, and none openly asked whether JPMorgan Chase was implicated in Bear Stearns' deteriorating position prior to the 'crisis' weekend (Bruce 2008, March 16; Ellis & Luhby 2008, March 17; Sorkin 2008, March 16; Sorkin 2008, March 17).[214]

Several news outlets deployed personalized frames that valorized JPMorgan Chase's CEO, Jamie Dimon. Examples include, *The Wall Street Journal* with, "In a crisis, it's Dimon once again" (Sidel 2008, March 17); *The New York Times*' headline "Rallying the House of Morgan" (Dash 2008, March 18); *Barron's* led a story with "All hail Jamie Dimon!" (Bary 2008, March 24; Sorkin 2009: 71); and elsewhere he was extolled as "The contender" and "Wunderkind!" (Tett 2010: 260-261).[215] The use of these

valorizing personalized frames meant that the news outlets avoided more serious investigation. In particular, they failed to reveal that Jamie Dimon was at the time a Class A director on the board of the Federal Reserve Bank of New York (Board of Governors of the Federal Reserve System 2008a: 375).[216] The news media omitted to examine the price paid for Bear Stearns in their reportage of JPMorgan Chase's media release and simply reproduced ritualized crisis management statements attributed to Dimon (J.P.Morgan 2008, March 16).[217] Therefore, the news media's focus on the drama of the actions to 'save' Bear Stearns deflected attention from the fact that what had occurred over the weekend was a hostile takeover by JPMorgan Chase. This Fed-Treasury brokered takeover reflected Paulson & Co.'s alignment with the Anglo-American financial oligarchy to punish common stockholders, including Bear Stearns' staff (whose remuneration packages included time-locked company stock) and reward preferred clients on the winning side of opaque derivatives contracts and key creditors with a bailout (Cohan 2009; Johnson & Kwak 2010; Prins 2009). It was behind vague terms such as a 'crisis of confidence' that the financial oligarchs' shared 'need' to defend their wealth could be obscured. The subtext signalled that the 'crisis of confidence' was really about 'trust' and 'faith' or a willingness to collude (Ayres 1987; Marks 1986: 395).[218]

Numerous accounts recalled that Bear Stearns' Alan Schwartz had refused to participate in the 1998 bailout of Long Term Capital Management (LTCM).[219] Lehman Brothers' Richard Fuld was remembered for not offering up as much capital as others thought he should have during the LTCM derivatives counterparties crisis.[220] As the media widely reported, both Lehman Brothers and Bear Stearns were the leading underwriters in subprime mortgages. But, this situation was not explained in terms of a collusive oligopoly market (Ayres 1987; Marks 1986: 395). From the cartel's perspective, Wall Street's fourth and fifth biggest investment banks had expanded their market share by originating 'loans' that were initially set at low interest rates.[221] However, so had Goldman Sachs, Morgan Stanley and Merrill Lynch. The difference between these three investment banks and the other two was a matter of 'trust.' Bear Stearns and Lehman Brothers were not good cartel members, as the heads of their firms were too independent-minded (Tett 2010: 253; Sorkin 2009: 302-303). In collusive arrangements, trust is the key and is "the glue" that binds oligarchies together (Katyal 2002: 1346).

The scapegoating of Bear Stearns represented an inciting incident in the crisis narrative, which involved the contrived spectacle of a hastily constructed 'rescue' (See Appendix IV, Fig. 4). According to screenplay expert Ray Frensham (2003), in a three-Act story structure, the inciting incident occurs when an event presents a challenge to the story's protagonist (Frensham 2003: 117). Usually, in a fictional story, the protagonist is compelled to make a choice because the inciting incident represents "the worst thing" or "the best possible thing" that could happen to the protagonist. It is this decision that either alters the character, the narrative, or both. As noted in chapter three, not even the super-wealthy can control all events. They do, however, wear a mask to hide their deeds, intentions and alliances. In this

way, what appeared to be the 'worst thing' that could happen to 'Wall Street' was in fact the 'best thing.' Under the cover of the Bear Stearns' 'rescue,' the financial authorities could justify the advancement of bailout facilities.

The creation of the two Federal Reserve lending facilities represented an intermediate goal of the financial oligarchs. But, like in the classic three-Act structure that dominates story-telling, a narrative arc requires "two major turning points" (Frensham 2003: 118). Turning points occur prior the end of Act I and II, at a moment when the story's protagonist appears to have won, just as a crisis occurs. Ray Frensham (2003) likens a story structure to a bridge over a river and the two major columns that keep a "bridge from collapsing" represent the turning points. The first turning point came when Bear Stearns' workers, representing a 40 per cent block of the investment bank's stockholders, threatened to vote against the takeover (Cohan 2009: 154). Already angry that their firm had been undermined, Bear Stearns' employees were livid at the news that they were only going to receive $2 per share (Burrough 2008; Cohan 2009). At this point in the crisis narrative, the financial oligarchs were faced with a crisis that was broader than it appeared. If this situation dragged on, Bear Stearns employees could become more informed and use their collective power to extract a much higher price.

In the press coverage, accusations were slung back and forth between JPMorgan Chase and their law firm, Wachtell, Lipton, Rosen and Katz, over guarantee and merger agreements which, in effect, gave Bear Stearns' the power to keep trading with the benefit of "JPMorgan's balance sheet" for a full year (Cohan 2009: 150; 166).[222] Therefore, the first turning point in the financial crisis' narrative arc occurred at the moment that the financial oligarchs and their professional elites realised that the takeover-bailout deal left JPMorgan Chase in a vulnerable position. Turning points serve several functions in a story. They change the course of the story by elevating the risk for the protagonist. This makes the character commit to a course of action that increases the uncertainty. It is this decision that propels the story onward at a quickened pace as the protagonist seeks some measure of control through the fulfilment of a goal (Frensham 2003: 118-119).

Thus, in a bid to win over Bear Stearns' executives Dimon addressed them directly at their headquarters. Dimon said, "No one on Wall Street could have anticipated this. I feel terrible sometimes when people think we took advantage" (Cohan 2009: 159).[223] After much negotiation, a revised deal was signed on March 24 in which JPMorgan & Chase paid $10 a share and the Federal Reserve would provide finance of $29 billion. JPMorgan Chase would 'guarantee' for the first $1 billion in losses, if that were to occur (Prins 2009: 105; Sorkin 2008, March 24).[224] This deal also involved Henry Paulson, who later confided to former Goldman Sachs colleagues that he ought to have been harder on Bear Stearns' stockholders (Teitelbaum 2011, November 30). The climax to 'Act I' was therefore detectable by the stress released in the news media coverage, which occurred because the financial oligarchs' weakened position lowered the prospect that they would reach their objectives. This meant that the 'resolution' to Bear

Stearns takeover-bailout heightened the conflict that would propel the crisis narrative toward its climax in 'Act III' (See Appendix IV, Fig. 4).

At the beginning of April 2008, the media continued to position itself as the 'neutral bystander' in its coverage of the Senate Banking Committee. For the most part, the news outlets accepted the statements and rehearsed answers from the key players involved in the Bear Stearns takeover (Sorkin 2009: 66).[225] A *New York Times* report on the Senate Banking Committee hearing quoted JPMorgan's Jamie Dimon, who used a pyrological metaphor to explain the low price 'paid' for Bear Stearns. Dimon anticipated the question and remarked, "Buying a house is not the same as buying a house on fire" (Labaton 2008, April 4; Sorkin 2009: 71). Because the reporter, Stephen Labaton used it as the 'punch-line' at the end of the story, he was 'off-the-hook' to investigate the collusion between the Class A director of the Federal Reserve of Bank of New York, and Paulson, Geithner & Bernanke & Co (Board of Governors of the Federal Reserve System 2008a: 375; Estulin 2009: ix-xi, 372-374; JPMorgan Chase & Co n.d.; Perloff 2008: 257, 259, 266). Tellingly, the news reports relied heavily on the transcripts of prepared statements along with questions and answers published by the Houses of Congress and video coverage from its in-house TV broadcaster, *C-Span* (Bear's market 2008, April 4; Turmoil in U.S. credit markets 2008, April 3; U.S. financial markets 2008, April 3).

All the leading reports of the Senate Banking Committee hearings reproduced the official consensus view wherein Bear Stearns was 'saved' from collapse and that this averted the possibility of a contagion effect throughout the financial system and the American economy (Irwin 2008, April 4; Labaton 2008, April 4; Politi 2008, April 3; Rucker & Wutkowski 2008, April 3; Scannell & Reddy 2008, April 4). The only person who provided a counter-story was Alan Schwartz who argued that his firm was attacked, while Jamie Dimon said a probe was warranted (Politi & White 2008, April 4).[226] This superficial treatment suggests that the news outlets either did not send reporters, or if they were present, they were playing the role of 'neutral bystanders' very passively.[227] The place that the Senate Banking Committee hearings occupies in the 'crisis' narrative is that of "a pause moment" that provides the 'audience' with a chance to integrate the climax to Act I with all the events in the story thus far (Frensham 2003: 121. See Appendix IV, Fig. 4).[228]

At the time when Bear Stearns was borrowing billions from the Federal Reserve after it was taken over by JPMorgan Chase, two Treasury officials – Neel Kashkari and Philip Swagel – were researching and writing a proposal at Paulson's request that outlined how the Treasury Department would handle "a total financial meltdown" (as Andrew Sorkin, a *New York Times* reporter and author of *Too Big to Fail*, described it) (2009: 83). The result was a 10-page blueprint entitled "Break the Glass: Bank Recapitalization Plan," for swapping $500 billion worth of mortgage-backed securities for new Treasury securities (Kashkari & Swagel 2008: 2). Kashkari, a former Goldman Sachs banker and Swagel, a former economist with the Federal Reserve Board, the International Monetary Fund and the White

House Council of Economic Advisors, proposed that "private sector asset managers" would manage the mortgage-related debt (Phillip Swagel n.d.; Kashkari & Swagel 2008: 2; Sorkin 2009: 53, 83-84, 90-92).

On April 15 2008, Kashkari and Swagel presented their 10-page outline to the chairman of the Federal Reserve, with Henry Paulson and Robert Steel in attendance, exactly five months before the "financial meltdown" of September 15 2008 (Sorkin 2009: 83, 90-92). As the title "Break the Glass" symbolically suggested, the "Bank Recapitalization Plan" was intended to be shelved and only used in the event that the FIRE sector needed to be 'rescued.'[229] In *Too Big to Fail* (Sorkin 2009), Kashkari opened his presentation by saying,

> I think we all understand the calculus here, the limits of what we can legally do. How do you get the authority to prevent a collapse? (Kashkari as cited in Sorkin 2009: 90)

According to Sorkin, "Bernanke nodded in agreement" (2009: 90). In the course of arguing the case for the "Break the Glass" 'contingency' plan, Kashkari stated that it was important "to be mindful of the optics" (p.92).[230] By this term Kashkari meant it was crucial to construct the crisis well and manage perceptions.

Although the 'contingency' plan had been developed with the inclusion of Federal Reserve officials, the five men agreed to tacitly shelve the plan. As Peter F. Cowhey observed in 1990, in his study of state-market power, when a regime is shifting direction it suits the interests of dominant power groups to formulate no clear policy or legislation, at least in the public arena. Rather, the former bureau chief of Federal Communications Commission and Council on Foreign Relations member stated "a pattern of controlled conflict between institutions" is opted for, whereby the issue gets 'decided' in the 'market place' rather than by politicians (Cowhey 1990: 197; Perloff 2008: 257; Ross 2002: 105).[231] In this way, the Treasury and the Federal Reserve had opted to work with the key financial oligarchs to manage the crisis by employing various strategies whereby those players with the greatest 'economies of scale' would make themselves 'too systemically important to fail.'

This collusive arrangement was in effect the first focus point in the 'crisis' narrative. In story architecture with a three-Act structure, it is the scene that often foreshadows what will culminate at the second focus point, which occurs halfway between the point of no return and the climax of Act II (Frensham 2003: 109, 122; See Appendix IV, Fig. 4). The first focus point "tightens the storyline action," informs the 'audience' of the central issue and often communicates that the protagonist(s) is starting to change and is making an important decision to seek their goal. The 'audience' for this scene was of course those privy to the collusion occuring.

Freddie Mac, Fannie Mae and Jackson Hole

On July 10, 2008, when a former president of the St. Louis Federal Reserve, William Poole was reported by *Bloomberg* as saying that the mortgage finance companies, the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation were insolvent, investors in all government-sponsored enterprises became concerned (Ferguson & Johnson 2009: 17; Kopecki 2008, July 10).[232] The news caused panic selling of Fannie Mae and Freddie Mac shares, especially after the Federal Deposit Insurance Company seized control of another large GSE mortgage institution, IndyMac in July 2008 (Hamilton & Reynolds 2008, July, 11; Hilzenrath & Birnbaum 2008, July 11; Kamalakaran 2008, July 10; Labaton & Weisman, 2008, July 11; Politi, Scholtes & White 2008, July 11).[233] At this time, so many home lending companies had failed that Freddie Mac and Fannie Mae were two of the few big institutions still in the subprime home mortgage business (Ferguson & Johnson 2009: 7, 17).[234] The day after *Bloomberg* broke Poole's insolvency statement, *The Los Angeles Times*, *The New York Times* and the *Financial Times* were the only major Anglo-American papers to carry quotes from either Paulson or Bernanke saying that Freddie and Fannie were "adequately capitalized" or "well-capitalized."[235] The *Financial Times* USA Edition conveyed the point in a headline, "Paulson tries to soothe concerns over agencies" for an article buried deep within the inside pages (Shellock 2008, July 11: 22).

Importantly also, none of the news outlets, including *Bloomberg*, challenged Poole on his insolvency claim, given that the standard he offered for scrutiny, fair value accounting, rendered all banks and financial institutions as technically insolvent (since the cartel they operate - the financial system – manufactures debt and debt-based contracts) (Rothbard 2007; 2008; Griffin 2008).[236] The news outlets failed to point out the irony in Poole's claim that Congress was allowing the home finance GSEs to exist as "bastions of privilege, financed by the taxpayer;" since he had been head of one of the Federal Reserve System's regional banks. The Federal Reserve System's member banks were designed to construct credit-based market bubbles inflated out of consumer and commercial loans and the national debt. However, under the cover of a media constructed 'rescue' frame, Poole's carefully chosen remarks were sure to provoke panic stock selling.

On the 14th of July, the major news outlets reported that the Federal Reserve and Treasury had stepped in to help the giant mortgage finance companies on July 13 (Barr 2008, July 14; Fannie, Freddie rescue 2008, July 14; Kirchhoff & Waggoner n.d.; Labaton 2008c, July 14; The muddle-through approach 2008, July 14; Politi & Guha 2008, July 14; Robb 2008, July 13; Seagar & Inman 2008, July 14). Far less mentioned was the plummet in Freddie and Fannie's stock prices after emerging concerns during the week prior about their solvency (Hirschfield Davis 2008, July 15; Murray & Kopecki 2008, July 14; Sasseen 2008, July 16). All news outlets failed to explore the political connections and economic background to the insolvency claim. This failure reflected another pattern as the financial 'crisis' narrative advanced – the return of former officials from crises-past. Here, the former president of the St.

Louis Federal Reserve, William Poole, was symbolically selected to signal the 'solution' since his name and position within the financial oligarchy's web foreshadowed a tax-funded *bill* to 'rescue' financial institutions that held 'toxic' *pools* of mortgages. Poole, who had been head of the St. Louis Federal Reserve during the tech-stock boom and bust, was mentored by University of Chicago professor Milton Friedman (Poole 2007: 2; Wessel 2009: 115). The use of former officials provided flexibility to steer the financial crisis in a direction favourable to the Anglo-American financial oligarchy because they appeared to be independent of the 'government' power structure.

No news outlets questioned the Fed-Treasury move in terms of what it really meant (Birnbaum & Hilzenrath 2008, July 16; Reddy & Crittenden 2008, July 16; Sasseen 2008, July 16; Watson 2008, July 17). Instead, the media focussed on the drama of Paulson and Bernanke's appearance before the Senate Banking Committee the following day, July 15. Paulson encouraged the Senators to approve the capacity to increase public debt, by famously saying:

> If you are not used to thinking about these issues, it seems counterintuitive. But if you're used to thinking about the issues, it is very intuitive…. [I]f you've got a squirt gun in your pocket, you may have to take it out. If you have a bazooka and people know you've got it, you may not have to take it out…. By increasing confidence, it will greatly reduce the likelihood it will ever be used. (Paulson as cited in Wessel 2009: 183)

Paulson's statements were designed for maximum quotation, and the media's use of the bazooka phrase was widespread (Birnbaum & Hilzenrath 2008, July 16; Reddy & Crittenden 2008, July 16; Sasseen 2008, July 16; Watson 2008, July 17). During the Senate meeting, the Treasury Secretary had claimed that raising the limit on federal funds would calm the markets, and that would be enough to avert bailouts of the GSEs. The media reported that the senators were not buying Paulson's logic, but the widespread employment of the 'rescue' frame obscured the actual political purpose of the Treasury-Federal Reserve alliance (Labaton & Herszenhorn 2008, July, 16).[237] A *Financial Times* editorial tacitly explained the modus operandi that underpinned their strategy when it wrote "political will for reform can often be achieved only in a crisis," by which the anonymous editor meant 'privatisation,' after a time on the "public balance sheet" (Anonymous 2008, July 15).

In his book *On the Brink*, Paulson stated that at the time that he and Bernanke made the appeal to Congress, they were in effect asking for an "unlimited" sum (2011: 151-155). This naturally irked some congressional members who gave him stiff rebukes. Paulson spent the next two days listening and negotiating with members of Congress.[238] Effectively, the Fed-Treasury plan was a hostile take-over of a rival financial cartel that had been scapegoated as financially unstable. While it was financially shaky, so was the Federal Reserve System-US Treasury cartel, as the national debt limit shows. The comparative advantage that the Fed-Treasury-Wall Street Complex had over the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation cartels was its political power, not least the power to control the creation of credit/debt and the generation of debt-backed derivatives.

And, vitally, the Fed-Treasury-Wall Street cartel had the power to commandeer the 'funds' of its underwriters: taxpayers.

Toward the end of July, when the two houses of Congress were voting on the Housing and Economic Recovery Act of 2008, the general and financial press framed the passage of the bill as a rescue package for lenders and borrowers.[239] The media reported the view of Paulson and the Congressional Budget Office (CBO) that the key provision in the 700-page long "housing bill" – an 800 billion dollar expansion of the national debt – would not be activated (Crittenden & Paletta 2008, July 23; Montgomery 2008, July 24; Montgomery & Kane 2008a, July 27).[240] While the press coverage carried criticism of this view, less mentioned was the $800 billion figure, or that the Statutory Debt Limit would be raised to $10.615 trillion.[241] According to Paulson, in his book *On the Brink* (2011), the legislation gave him broad authority to intervene in the GSEs – Fannie Mae and Freddie Mac. Importantly, the news media 'missed' the significance of Paulson's 'bazooka' speech.

As Ferguson and Johnson point out, foreign investors and, in particular, sovereign wealth funds from rival powers, such as China, were large investors in the GSEs securities (Ferguson & Johnson 2009b: 17; Patalon III 2008, September 11). The publicity given to William Poole's claims that Freddie Mac and Fannie Mae were insolvent raised the anxiety of foreign investors in the GSEs. The 'bazooka' speech represented an effort on behalf of the oligarchy to keep control of a crucial component of America's financial architecture, which underpins its permanent war economy (Hudson 2010; Jarecki 2006). If confidence was lost in the GSEs before they had the tax-backed funds in place, a serious run on all government sponsored enterprises and the US dollar would have become very likely (Ferguson & Johnson 2009b: 17; Hudson 2010: 212-218). Thus, Paulson's deployment of the 'bazooka' military metaphor represented the half-way point in the 'crisis' narrative. At this 'point of no return,' something occurs that makes the protagonists rethink their actions and contemplate giving up (Frensham 2003: 123-124. See Appendix IV, Fig. 4). The protagonist(s) gain clarity about what obstacles they face, particularly in regard to story's main characters. The protagonist(s) then make a total "commitment." Paulson's actions following his 'bazooka' speech to gain the $800 billion in federal funds signalled a renewed commitment in a manner that the financial oligarch's could not 'back out of.'

At a conference of central bankers, elite economists and oligarchic bankers – held from the 22nd to 25th of August, 2008 at Jackson Hole, Wyoming, the political economy of the 'rescue' was the key theme (Ferguson & Johnson 2009b: 23; Sorkin 2009: 220-221).[242] In a brief *Wall Street Journal* web blog entitled "A misguided Federal Reserve, or one that saved the day?" journalist Sudeep Reddy reported that former Federal Reserve vice-chairman, Alan Blinder related two reversions of the widely-known children's tale of 'the little Dutch Boy' at the Jackson Hole conference. Blinder, who was also a former Princeton professor, had co-written a paper with Ben Bernanke about the effects of central bank policy shocks on the 'real economy' such as tightening credit (Bernanke & Blinder 1992).[243] Blinder explained

to those gathered that the Federal Reserve had a strategy to deal with the financial 'crisis.' In particular, he mocked a former policy advisor from the Bank of England Monetary Policy Committee, professor William Buiter from the London of School of Economics, who presented a lengthy paper that was critical of the Federal Reserve and other central banks (Let them drown? 2008, August 25; Reddy 2008, August 23). Blinder adapted 'the little Dutch Boy' story wherein he implied that Buiter was the Dutch Boy (since his birth place was Holland) who had to make a 'moral hazard' choice about whether to save the houses from a flood by sticking his finger in the dike.

In the first version, the Dutch Boy opts not to plug the hole, but before he can get himself to safety, he drowns along with the whole town. According to this retelling, Blinder stated that 'the Little Dutch Boy' thought the townspeople were unworthy of a bailout because "the dumb people who live there should never have built their homes on a flood plain." Then Blinder told the Fed's "kinder, gentler version," wherein the Fed, cast as 'the little Dutch Boy' rescued the town (Sorkin 2009: 220).[244] In effect, Blinder was defining the narrative development of the financial crisis through metaphor. The town built upon a flood plain symbolized that fact that the largest bank's had a pooled lien over towns everywhere, through their exposure to mortgage-backed credit derivatives and their dependency on a debt-based monetary system more generally.[245]

As just 17 major banks together controlled the markets for over-the-counter derivatives contracts, syndicated loans and underwriting shares and bonds (Wimarth 2009: 994-995), Blinder signalled to his audience that the Federal Reserve's strategy was to formulate an 'ad-hoc rescue' approach followed by system-wide bailouts. But, in order for their adjusted 'rescue' frame to work, they needed to be "mindful of the optics" as Neel Kashkari had put it on April 15 (Sorkin 2009: 92). In other words, there needed to be *evidence* of 'disaster.' And in their selling of the 'disaster,' they would try to convince 'the American people' that 'saving' the financial system was vital to the economy, in order to obscure the fact that the Wall-Street-Washington Casino Complex had colluded to 'fund' a housing boom located on a metaphorical 'flood plain.' Blinder was in effect signalling to the news media outlets, elite academics, economists and bankers in attendance that metaphors could be skilfully used to obscure the political economy of the 'rescue.'[246] Therefore, the deployment of 'the little Dutch Boy' story was in fact an act of 'anchoring a new norm' – metaphors in place of truthful, clear explanations.[247]

On Sunday September 7, the US Treasury took over America's two largest mortgage finance companies, Freddie Mac and the Fannie Mae, whose combined portfolio of debt amounted to $5.5 trillion (Farhi & Cintra 2009: 7; Financial Crisis Inquiry Commission 2011: 309, 320; Fratianni and Marchionne 2010: 8; GAO 2011: 149; Prins & Ugrin 2011: 3).[248] The news media widely reported Paulson's justification that the move was in the interest of taxpayers (Ellis 2008, September, 7; Labaton & Andrews 2008a, September 7; Newmark 2008, September 7; Paulson 2008, September 7).[249] While news stories about the two GSEs emphasized the government's ownership stake of 79.9 per cent, they

failed to mention that the US Treasury surreptitiously created a credit line for the Federal Home Loan Banking System (Gilani, 2009). This cartel of 12 regional banks held $1.6 trillion in outstanding debt at the time (da Costa 2008, September 8; Somerville 2008, September 7). This fact was entirely omitted from Paulson's press statement (Paulson 2008, September 7). The Federal Home Loan System was a good cartel because it did not exclude Wall Street banks in their time of 'need.'[250]

A *New York Times* story entitled "In rescue to stabilize lending, U.S. takes over mortgage finance titans" reported that a special trading session occurred on Sunday afternoon, in which Freddie and Fannie's stocks lost over a fifth of their value (Labaton & Andrews 2008b, September 8). Hence, only stockholders privileged enough to know what was happening had an opportunity to dump their stock. *The New York Times* reporters did not raise any questions about how this preferential treatment might impact on household wealth. Neither did they evaluate these developments against Paulson's claim that, "Market discipline is best served when shareholders bear both the risk and the reward of their investment," which he made at a Federal Housing Finance Agency press conference to announce the takeover of the GSEs (Labaton & Andrews 2008, September 8).[251] The subtextual meaning here was that key market insiders had learned from their mistakes in the Bear Stearns takedown. But the media also failed to reflect upon what the special trading session meant. The Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) were given access to the Federal Reserve's 'discount window,' which was a privilege reserved to commercial banks (Buiter 2008a: 596). In other words, the Board of Governors of the Federal Reserve System had exercised its rule-making power to make loans to Fannie Mae and the Freddie Mac. This was not 'deprivatization' (Austin & Levit 2011: 15), but a takeover of one financial cartel by another.[252]

Lehman Brothers

Despite a brief rally in the stock market following the 'rescue' of the GSEs on Monday, Lehman Brothers' stock dropped 13 per cent Monday 8 September. Its position worsened on Tuesday 9 September as a result of several key events. By 2 a.m. every newswire was carrying the story that the Korea Development Bank had pulled out of buying Lehman Brothers (Jacobs 2010: 53; Sorkin 2009: 231). The news media also reported that several other major potential buyers – Bank of America, BNP Paribas, Deutsche Bank, HSBC, Barclays, Royal Bank of Canada and Japan's Nomura Securities - had all pulled out too (Anderson, Sorkin & White 2008b, September 12; Bel Bruno 2008, September 11; Sender 2008, September 8). In the week prior to the Lehman Brothers' bankruptcy, news stories emphasized the eroding confidence in the fourth largest of Wall Street's 'independent investment banks' and suggested that unfavourable perceptions could be fatally damaging. Whilst the media made much of Lehman's plummeting stock price – a "bone-rattling" drop of 45 per cent on Tuesday – and the skyrocketing cost of the credit derivatives default 'insurance' - credit default swaps - reporters generally

neglected to explain how the Federal Reserve's 'bailout' of the GSEs undermined Lehman Brothers (Eavis 2008, September 10; Hamilton 2008, September 10; Tennille 2008, September 10).[253]

Indeed, *BusinessWeek*'s coverage scapegoated Lehman Brothers by questioning its viability in three places across its September 22 2008 edition.[254] The magazine foreshadowed the financial turmoil in a feature article "Back on track – or off the rails?" written in the aftermath of GSEs' rescue (Fannie Mae and Freddie Mac), with the use of an industrial metaphor that suggested "a train of catastrophes" was likely (Coy 2008a: 22).[255] Only two articles that appeared on Friday September 12 – one in *The Wall Street Journal* and the other in *The New York Times* - articulated clearly why it was that Lehman's stock price was cascading after the GSEs 'bailout' (Hilsenrath, Enrich & Solomon 2008, September 12; Norris 2008, September 12). The Treasury and Federal Reserve had tacitly supported a destruction of GSEs share equity. This pattern of destruction, established with the American monetary authorities' *take-under* of Bear Stearns, meant that whichever financial institution was deemed to be the weakest by 'the market' and the media would also face a collapse of stock values.

The press implicitly deployed the 'rescue' frame in stories about Lehman Brothers, by frequently using words such as "collapse," "survival" and "embattled." They also used phrases like "crash protection," "end game," "financial lifeline," and "race against time;" reporters also recruited industry experts who spoke of "fire sale prices," "deck of cards" and "take-under."[256] Instead of conducting a systematic appraisal of all investment and commercial banks using official data, most articles emphasized Lehman Brothers similarities with Bear Stearns. Some articles stated that where Lehman differed from Bear was that it had the benefit of "emergency financing" from the Federal Reserve's new facilities (Anderson & White 2008, September 10; Craig, Smith, Ng & Karnitschnig 2008, September 10; Landy 2008, September 11; White 2008, September 11).[257]

The merits of the 'rescue' frame were implicitly associated with the 'moral hazard' of saving an institution perceived as 'too big to fail.' The reporters argued that Lehman Brothers' stockholders, creditors and counterparties had had a longer time to adjust to market conditions. Yet, the media failed to see that the $800 billion increase in the US public debt limit authorized by Congress at the end of July, in effect, signalled that Lehman Brothers was the tip of the 'debt-berg.' During this time, the 'credit crunch' was simultaneously referred to as a "credit crisis," "financial crisis," "credit and housing meltdown," "credit contagion," "global credit crunch," and a "financial crunch." Such terms were often used to compare prevailing events with the Great Depression.[258]

Richard Fuld – the CEO of Lehman Brothers – and his executives, held a conference call with the heads of the American monetary authorities and other major banks on Wednesday September 10 (Sorkin 2009: 252-256). This call, made under the pressure of having to lure a buyer in order to stave off the collapse of his firm, was widely reported in the news media. Not surprisingly, Lehman's efforts to entice investors

and restore confidence were futile, as 'the market' remained unconvinced of its plans to split the company into a "good bank" and a "bad bank."[259] Yet, the reports failed to acknowledge the bigger picture. All the major investment and commercial banks were battling to stay solvent by financing their huge debt exposures via the shadow banking system and the Federal Reserve's shadow bailouts.[260] Indeed, absent from public view was the fact that the Federal Reserve was regularly loaning billions to 13 major banks through its Term Securities Lending Facility, right up to September 11 (when Lehman Brothers was forced to say it was available at essentially a fire sale price) (Board of Governors of the Federal Reserve System 2010b).

On Friday September 12, the news media added to the confusion as to whether or not the Federal Reserve and the Treasury were prepared to bailout out Lehman Brothers.[261] It was only during Friday that some news outlets began carrying the unequivocal message, with headlines such as that on *The New York Times*' *DealBook* webpage "No government help in a Lehman bailout, reports say" (Sorkin 2008f, September 12). For the most part, however, the reportage was open to interpretation that the monetary authorities were adamant about a bailout. A report on *The Wall Street Journal* website of the same day stated "[s]ources familiar with the matter tell *The Washington Post* … the Lehman solution shouldn't involve public money" (Schuman 2008, September 12).

In their reports, the press invoked the 1998 demise of Long Term Capital Management (LTCM), which also took place at the New York Federal Reserve's headquarters, wherein 13 bankers participated (Dash 2008 September 12; Paletta, Craig, Solomon, Mollenkamp & Karnitschnig 2008, September 13; Mollenkamp, Solomon, Lucchetti, Hilsenrath & Reddy 2008, September 13). However, journalists failed to report that the crisis that led to the LTCM private bailout was in large part created by the Wall Street-Washington Complex itself (Johnson & Kwak 2010; Klein 2007). *The Wall Street Journal* reported that approximately "30 banks" attended the "emergency meeting" at the New York Fed on Friday September 12 2008, but named only 13 bankers or banks (Mollenkamp et al. 2008, September 13).[262] Ironically, reporters mostly waited outside the New York Federal Reserve at 33 Liberty Street like passive bystander extras, while a 'financial tsunami' was in formation (Osborne 2009, September 13). Not only did the irony of being excluded from witnessing the meeting - given the street name - go unmentioned by the news media, they also failed to comprehend that those inside could control the definitions and framing, according to crisis management strictures ('t Hart 1993: 41).[263]

In effect, this 'being there live' media ritual lent a high degree of seriousness to a constructed event and it also legitimated the projected image of media outlets' that they are "at the centre of society" (Riegert & Olsson 2007: 146). But, the 'respectful distance' they kept from the key players meant that the crisis actors were free to collude ('t Hart 1993: 42, 46). The president of the Federal Reserve Bank of New York, Timothy Geithner identified three scenarios which different groups of bankers had to address (Sorkin 2009: 303). One group would do a valuation of Lehman Brothers 'toxic assets' and explore the

feasibility of isolating them into an entity that the banks gathered might underwrite (Sorkin 2009: 303; Tett 2010: 273). Geithner instructed the second group to work out a way to make a Lehman's takeover deal work for Barclays and Bank of America (Tett 2010: 273). In the third "lights-out scenario," Geithner stated that the banks would need to "net down their positions," by which he meant that if bankruptcy was chosen, the bankers would need to do trades ahead of the markets (Sorkin 2009: 303). This was a clear admission that American government officials knew that a collapse of Lehman Brothers would pose a major systemic threat to the financial system.[264]

The New York Federal Reserve's president also told assembled CEOs that if they did not find a 'private market solution,' their bank might be next to fall. The smartest bankers in the room could not fail to read the subtext. Allegedly, bankers privately thought the government was playing a "game of chicken" (Dash 2008, September 13), in "the world's biggest game of poker," and contemplated numerous "doomsday scenarios" (Solomon et al. 2008, September 15).[265] In effect, they were being given the opportunity to examine their collective exposure to Lehman Brothers liabilities, including its derivatives trades, in order to devise their post-crisis survival strategy.

With 'all' resources deployed to Liberty Street, the news media failed to ask anyone from Lehman Brothers whether a private sector solution to 'rescue' their bank was really the intent, given that they were excluded from discussions (Dash 2008, September 13; Prins 2009: 21). Headlines that were a crucial part of the 'rescue' master frames' construction during the Lehman Brothers' crisis weekend included; "US gives banks urgent warning to solve crisis," in *The New York Times* (Dash 2008, September 13); "N.Y. Fed holds emergency talks on Lehman future…" in *The Washington Post* (Landy & Irwin 2008a, September 13); and Lehman deal could come soon as high-level talks continue" in *The Wall Street Journal* (Mollenkamp et al. 2008, September 13). These headlines of Saturday September 13 primed 'the market' for a panic on Monday September 15.[266] In one respect, the week ended as it began. Lehman Brothers' stock fell 13 per cent on Friday, as it had on Monday (Goldstein & Henry 2008, September 12; Jacobs 2010: 53; Spence 2008, September 12).

The logic of the American monetary officials choice to defer major financial decisions to the 'uncertain' outcome of a "private-market solution" (Sorkin 2009: 302), was that they could escalate the crisis while staying within the cover of the dominant 'rescue' news frame.[267] In turn, the media could be counted on to uphold the 'rescue' master frame, even though the context of this 'rescue' would change as the financial conditions worsened. On the Sunday evening of September 14, every television news programme broadcast pictures of Lehman's staff exiting their headquarters with cardboard boxes containing belongings (Osborne 2009, September 13; Schechter 2009b). At this moment, the world's public learned that the 'credit crunch' or 'housing correction,' was without doubt a financial crisis. These pictures foreshadowed the 'meltdown' that was to follow when stockmarkets re-opened on Monday morning.

Conclusion

During the first thirteen months of the financial crisis, the Anglo-American monetary authorities *appeared* to adopt an 'ad-hoc' approach (Hilsenrath Ng & Paletta 2008, September 18: A1). Thus, the subsequent 'rescue' of Northern Rock following the bank-run that began over the internet as a consequence of the *BBC*'s breaking story, appeared to provoke the British government into assuring the public that their deposits were safe. Meanwhile, HM Treasury and the Bank of England coordinated a bailout they had already agreed to. News outlets worldwide repositioned themselves from their 'business as usual' posture to the role of 'neutral bystanders.' It was at this stage that the 'rescue' master frame was established and as a news event it served as a hook for British news audiences. This 'neutral bystander' contrivance meant the news media failed to report that Northern Rock's corporate structure was entwined with the Crown-dependent tax-secrecy haven of Jersey. This important ommission protected the United Kingdom's banking cartel from being exposed to the full scrutiny of the British public. The 'nationalization' of Northern Rock in February 2008 was therefore also reported within the precepts of the 'rescue' frame.

The buying out that the British news media displayed was mirrored by the major American news outlets when they scapegoated Bear Stearns chairman and CEO James Cayne in early November 2007 for playing bridge, after two of their hedge funds had collapsed. Far worse details could have been revealed about other Wall Street executives. This event served as a necessary 'hook' for American news audiences in the construction of the 'crisis' narrative. To this end, the US monetary authorities 'went live' in collusion with American news outlets with their simultaneous take-down of Bear Stearns and Wall Street's 'nemisis,' New York governor Eliot Spitzer in the week of March 10 to 14, 2008.

The American news outlets contributed to the takedown of Bear Stearns because they failed to demonstrate with empirical evidence, that all of the major banks were vulnerable to massive debt exposures. Instead, news coverage mimicked the markets' scapegoating of Bear Stearns, failed to investigate who was behind driving down its stock price (and the spikes in costs to 'insure' its debt), and ignored the US monetary authorities refusal to 'lend' directly to Bear Stearns. The takedown of Bear Stearns highlighted the news media's duplicity. Major news outlets were willing to report on rumours about Bear Stearns, but were unwilling to accost JPMorgan Chase about whether the firm could remain solvent when Bear Stearns' had a year long legal right to borrow against the JP Morgan balance sheet.[268]Additionally, American news media outlets failed to exercise scepticism regarding the demise of New York's governor, Eliot Spitzer, given that it was well-known that he was the bane of Wall Street and that a prostitution ring located in Midtown Manhattan implicated a long list of wealthy Wall Street clients. The news media's omission to investigate the rest of the prostitution ring's elite clients, in effect, acted as an aggressive control signal to the political elite and law enforcement agencies. That signal communicated that any 'dirt' on political elites would be exposed and it would be backed up by threat of

imprisonment. The heads of the media conglomerates failed to communicate that their news outlets were a means to facilitate the threats implied by these events. Thus, the Anglo-American financial oligarchy could proceed with confidence given the obedience displayed by news editors, journalists, producers, directors and executives to adhere to crisis journalism strictures.

The news media's reliance on testimony from key insiders and questions from senators during the Senate Banking Committee hearing in early April 2008 did not add to the public's understanding of the Bear Stearns' takedown-bailout. As their wealth claims were inextricably entwined with derivatives and a debt-based financial system that relied on a generalized ignorance, key insiders had a collective interest, prior to the takeover-bailout of Bear Stearns, to bind those claims to a common objective – shadow bailouts. Amid this lack of scrutiny, Treasury and Federal Reserve officials met to discuss the "Break the glass: Bank recapitalization plan" on April 15; a symbolic choice of timing, since it is the annual date on which Americans file their tax returns. As the plan's title symbolically indicated, the assembled officials collusively decided to shelve it until the crisis got so bad Congress would have little choice but to pass a bailout. In the 'crisis' narrative arc, this 'scene' represented the first focus point, which marks a change in the protaganists' behaviour and sees them making a significant commitment to achieve their collective goals (See Appendix IV, Fig. 4).

Major news outlets also failed to investigate William Poole – the former president of Federal Reserve Bank of St. Louis – who was quoted in Bloomberg on July 10 2008 to the effect that Fannie Mae and Freddie Mac were insolvent. His criticisms of these home finance conglomerates were equally applicable to the Federal Reserve and its cartel of member banks. Therefore, the heads of major American news media outlets demonstrated by their silence a tacit collusion with the unfolding 'crisis' narrative, when it would have been obvious to them that the two government sponsored housing finance conglomerates were being set-up for a takeover by the rival cartel. The Senate Banking Committee hearing on July 15 represented the 'point of no return' or the halfway point in the 'crisis' narrative. Following this meeting Paulson realized that his 'bazooka' speech to justify an "unlimited" sum from Congress was a miscalculation. The stiff rebukes he faced tested his resolve to represent the financial oligarchs' that he so fittingly symbolized.

Ben Bernanke's presentation at the meeting of central bankers, economists and bankers in Jackson Hole Wyoming on August 22 signalled that a systematic response to the crisis would soon occur. Blinder's deployment of 'the Little Dutch Boy' story was embedded with the meaning that the Federal Reserve had been complicit in 'funding' the credit boom and housing bubble, as he overtly ridiculed reknowned economist William Buiter. The central bank's strategy had been to allow the crisis to progress (after having incrementally raised its wholesale 'lending' rate from a low of 1 per cent between June 2003 and June 2004). This eventuated with the collapses of mortgage lenders and structured

investment vehicles (SIVs), guided by the Federal Reserve's view that they could manage the bursting of the credit bubble.

The news media 'failed' to investigate the collusion underpinning the takeover of Fannie Mae and Freddie Mac on September 6 2008. Given that it was well known among the major media outlets that there was no clear separation between Wall Street and Washington, the news media demonstrated a contrived ignorance by chosing instead to maintain the 'rescue' master frame. The news media failed to challenge the US monetary authorities for setting in motion a dynamic in which large financial institutions would be undermined. After the 'rescue' of the GSEs, the market metaphoricaly asked 'who's' next?' The news media was complicit in scapegoating Lehman Brothers on Tuesday September 9 after the Korea Development Bank declined to take it over.

Lehman Brothers' demise was unsurprisingly similar to that of Bear Stearns. Major news outlets failed to point out that because Lehman Brothers had been excluded from the Friday September 12 'crisis' meeting at the Federal Reserve's New York headquarters, the official claim that American monetary authorities were attempting to 'rescue' the firm from collapse did not ring true. Instead, they mimicked the federal officials' exclusionary behaviour by keeping Lehman's executives and workers out of the 'rescue' frame. They also failed to disclose the occurrence of a luncheon hosted by Geithner and Bernanke at the New York Federal Reserve for Wall Street's top bankers, three days prior to Bear Stearns' demise, wherein Bear Stearns' executives were excluded. Hence, the 'crisis' weekend of September 12 to 14 at the Federal Reserve was the culmination of 'contingency planning' – a euphemistic term for managing the crisis – so that a market bust triggered by Lehman's collapse could be used as the evidence to justify a system-wide bailout. Because the news media had adopted the 'neutral bystander' posture, they had in effect submitted to the crisis journalism ritual of maintaining a 'respectful distance.' At the same time, they projected a 'being there live' image, which lent the crisis event a sense of dramatic urgency and therefore the necessary element of surprise needed to construct the 'rescue' frame, under the rubric of a 'rescue.'

Although the news media did acknowledge the emergence of a financial 'crisis,' they 'failed' to systematically investigate its deep structural and instrumental causes. This failure to conduct sustained, serious investigations, when it was obvious that the major banks had successfully captured the financial authorities, meant that the Anglo-American news media cartels had opted to produce soft-flak news stories. This soft-flak option meant that the major news outlets did not provide in-depth explications of the power relations that underpinned the Anglo-American oligarchies. They also 'neglected' to illustrate the architecture of the British-American financial systems, including their tax-secrecy haven networks. These 'failures' by the major news outlets were in fact 'necessary' in order to construct 'rescue' frames on a daily basis. This patterned behaviour meant the Anglo-American financial oligarchy and their elite technocrats could continue to perform their unfolding 'crisis' narrative.

Chapter 5: News Media Coverage of the 'Rescues' of the US and UK Financial Systems

In the already vast literature on the 'global financial crisis,' the collapse of Lehman Brothers is now widely acknowledged as the event that triggered the 'Panic of 2008.' As crisis management theory would expect, large crisis events provoke searches to attribute responsibility and when the crisis is human-made, public scapegoating comes to the fore (Coombs 2006; Hale et al. 2005). Much of the investigative work has focused on technical and regulatory issues surrounding the deployment of credit securities, such as pools of mortgage bonds and credit default swaps (Bibow 2010b; Crotty 2008; Gorton 2008; Markose, Giansante & Gatkowski 2009; Mishkin 2008; Shadab 2010); the growth of easy credit (Bank of England 2008b; van Overtveldt 2010); and the unchecked size of financial institutions (Ferguson & Johnson 2009a,b; Johnson & Kwak 2010; Sorkin 2009). Official probes follow a formulaic path of comparing aggregated financial data with speculative practices, sometimes with the aid of seized internal documents and whistle blowers (Ferguson 2011; Financial Crisis Inquiry Commission 2011; Jacoby & Kroft 2011; Morse 2009; Office of the Special Inspector General for the Troubled Asset Relief Program 2010). Various actors involved are respectfully questioned or grilled by journalists and interviewers as 'shocking' details of wrongdoing, greed, and exploitative informational asymmetries come to light. These developments follow a predictable narrative whereby a few individuals go to jail, others are vilified and regulatory changes are advocated (Bill Moyers Journal 2010; Ferguson 2011; Jacoby & Kroft 2011; Parloff 2009: 37-45; Schechter 2009b; Shadab 2010).

But, what seems to get missed in such crisis investigations is an insidious crisis journalism ritual – perception management. As Paul 't Hart has argued, those who control perceptions concerning the causes of a crisis are also in the commanding position to define the available actions to resolve it. Those controlling groups usually become the key beneficiaries in the post-crisis regime (1993: 41). As in prior crises, the sense-making reports and opinion-influencing commentaries framed by elite news sources attributed blame and argued for remedies while dismissing other possibilities, either overtly or tacitly. Few, however, questioned the sanity of tying a political system to an economic system based on debt. Indeed, elite news discourses never framed capitalism as a private political system and thus its role as the dominant political system of our time was overlooked.

Usually, elite discussions are barely noticed by the public, but they surface during periods of crisis when internal conflict becomes evident and the contestation of views carries a sense of urgency. However, the news media rarely revealed the extent to which public debates were the result of carefully crafted or previously learned crisis management strategies (Coombs 2006: 248; Hale et al 2005). The proposition explored in this chapter then, is that during the peak of the 2007-2008 crisis period, the artefacts of discursive power became more visible, but even as they were relayed in the news media, they masked

the extent of covert communications among financial oligarchs.[269] This chapter seeks to show that elite actors were able to use the media as vectors for financial contagion and crisis exploitation. For the most part, the major media outlets worked collusively through intensely networked power structures to serve the financial oligarchs, whom are deeply embedded in the political economies of the United States and the United Kingdom.

Research Method

An event-clustering technique developed to decipher submarine intelligence reports is adapted to reveal the patterns in news frames, crisis journalism rituals and various masking techniques. As indicated in chapter one, four broad event clusters are identified:

(1) Institutional 'meltdowns' and 'fallout': Lehman Brothers, Merrill Lynch, Reserve Primary Fund, AIG and Halifax Bank of Scotland (September 15 to 20);

(2) Bank Holding Companies - Morgan Stanley and Goldman Sachs (September 18 to 25);

(3) Bailout Bill Rejected (September 20 to 30); and,

(4) The Resurrection of the Bailout Bill (September 29 to October 4).

In chapter one, I explained why the elite print media is significant. In this chapter, I will examine media coverage of the four event clusters.

Event Cluster One: Institutional 'meltdowns' and 'fallout'

Monday September 15 to Friday September 19 (EST)[270]

Lehman Brothers, Merrill Lynch, Reserve Primary Fund, AIG, & Halifax Bank of Scotland

Coupled with the disarray early Monday morning September 15 due to the collapse of Lehman Brothers, Bank of America's acquisition of Merrill Lynch for $50 billion in shares was promoted as part of a broader effort to "calm the markets" (Ferguson 2011; Norris & Bajaj 2008, September 15: A1, *NYT*). On Tuesday September 16, news that a large money market fund, the Reserve Primary Fund, was in trouble, caused a run from many money market funds to the perceived safety of government securities. This capital flight from commercial paper triggered banks to stockpile what 'reserves' they had, and a surge in borrowing from the Federal Reserve followed. On Tuesday evening, the US Treasury took a 79.9% stake in American International Group (AIG) and the Federal Reserve 'loaned' the insurance conglomerate $85 billion.

This takeover occurred the same day as UK financial authorities assisted in the takeover of Halifax Bank of Scotland (HBOS) by Lloyds TSB. This intervention triggered questions about the actions of US monetary officials after they refused to help Lehman Brothers stay in business two days prior. Following two more days of market chaos, Henry Paulson and Ben Bernanke met privately with congressional leaders on the Thursday evening of September 18. At this meeting in a conference room adjacent to the office of House of Representatives' speaker, Bernanke and Paulson laid out a grim picture regarding the US financial system. They argued the case for legislation, which was being written concurrently by Treasury staff, to appropriate hundreds of billions of 'tax dollars' to 'save' the 'financial system.' The subsequent news that Treasury had issued a three-page term sheet as a proxy for a bill of $700 billion dollars divided the Congress, ignited the public's anger and triggered the elites into crisis management mode to manipulate perceptions (United States Department of the Treasury 2008c, September 21). My analysis of this first event cluster will reveal how the major news media outlets shifted their positions within the 'rescue' frame as the 'crisis' narrative developed. Overall, the language of financial news contained complex framings, which masked economic power relations and downplayed the severity of the crisis (See Appendix V, Fig. 5).

Daily Newspapers

THE WALL STREET JOURNAL.

MONDAY, SEPTEMBER 15, 2008 · VOL. CCLII NO. 64

LEHMAN BROTHERS 94.4%

Merrill Lynch 68.2%

AIG 79.2%

Crisis on Wall Street as Lehman Totters, Merrill Is Sold, AIG Seeks to Raise Cash

Fed Will Expand Its Lending Arsenal in a Bid to Calm Markets; Moves Cap a Momentous Weekend for American Finance

Ultimatum By Paulson Sparked Frantic End

What's News—

Bank of America to Buy Merrill

The most immediate observation of this first cluster is how the coverage inverts the hypothetical textbook journalism scenario of four reporters covering the story of a blaze that engulfs a building, which occupies a whole city block. Because each journalist witnesses the same event from a different street corner, it is predicted their stories will be different accounts. Figuratively speaking, all accounts of the Lehman Bothers crisis weekend were reported from the corner of Liberty Street and Nassau Street, in lower Manhattan, as though the journalists had witnessed an accidental fire. Despite being implicated in causing the finance, insurance and real estate (FIRE) sector to metaphorically ignite, the FIRE actors coming and going from the Federal Reserve Bank of New York were depicted in ways which masked the collusive economic harm they had inflicted on society.[271] For instance, in a *Wall Street Journal* front-page article headlined "Ultimatum by Paulson Sparked Frantic End" the reporters remained obedient to the invisible forces of power by using valorizing phrases such

as “captains of finance,” “Who’s Who of Wall Street” and “financial titans (Mollenkamp, Craig, Ng, & Lucchetti 2008a, September 15, A1, *WSJ*). Due partly to their proximity to ostentatious symbols of financial wealth, as when the bankers’ parked limousines caused a traffic jam, the journalists from all the news outlets failed to contextualize the unfolding events as ritual displays of power designed to distance outside observers, including the news media.[272] The financiers could have arrived in New York’s famous yellow cabs, or walked. Effectively, the reporters complied with their own exclusion from the Federal Reserve Bank of New York’s “fortress-like” headquarters at 33 Liberty Street by maintaining their ‘neutral bystander’ posture (Sorkin 2008h, September 15: A1, *NYT*; White & Anderson 2008, September 15: C1, *NYT*).

Unsurprisingly, the newspaper coverage on Monday morning, September 15, failed to criticize the US monetary authorities for obvious discrepancies between their actions and the noble claims inherent to the ‘rescue.’[273] The Federal Reserve had announced the previous evening that they would be easing the standards for financial institutions to access loans – when at the same time – Lehman’s was evidently denied federal funds. In place of clear explanations, journalists either justified it with rationalist arguments or relied heavily on the use of metaphors to deflect attention from the deeper power relations.[274] For instance, in a *Financial Times*’ lead story for September 15, headlined “Fight for survival on Wall Street” a pyrological metaphor was used to explain that the biggest banks on the planet had all but given up their attempts to “save Lehman and set out to build a firewall against further chaos” (Farrell, Guerrera & Guha 2008, September 15: 1).[275] The firewall was allegedly a “liquidity pool” created by an apparently new consortium of ‘10’ major banks pledging the funds for emergency use among themselves.[276] All accounts downplayed or ignored the fact that federal credit was used to ‘rescue’ the broader financial system.[277]

The bank consortium resembled a joint-venture already formed called the BIDS trading system, that connected the large financial holding companies, primary securities broker dealers and a private equity firm to the New York Stock Exchange (*AdvanceTrading* 2010). With Lehman Brothers on the way out, the banks needed a mechanism to resolve their complex derivatives trades and to exploit the inevitable market volatility. BIDS is one of only two ‘consortium-based pools’ and is one of 40 US alternative trading systems (ATSs) known as ‘dark pools’ that make stocks ‘liquid’ by providing an anonymous digital space for buyers and sellers to complete trades (Degryse, van Achter & Wuyts 2008; Mittal, 2008: 6). Dark pools differ from the established electronic trading exchanges such as the New York Stock Exchange and the NASDAQ, where quotes, volumes and sellers are publicly displayed (Degryse et al. 2008; McGowan 2010).[278] The ‘consortium-based pools’ are unique in that they are controlled by broker-dealers, who can use their own securities as liquidity to make trades.

As such, the leading headline on the front page of *The New York Times*, “Bids to Halt Financial Crisis Reshape Landscape of Wall St.” on September 15 could be interpreted to mean that the ‘new’ BIDS

consortium was the 'go to secret space' for anonymously settling transactions with Lehman Brothers, while making bets amidst the turmoil (Sorkin 2008h, September 15: A1). Knowing that a sudden asymmetric supply of liquidity matched up with an anonymous stock trading venue was a vital piece of knowledge for those that could decode it, especially given that the original BIDS consortium included Lehman Brothers.[279] For investors and speculators left out in the cold by the weekend's events, reading that a 'consortium' of '10' major banks had constructed a $70 billion 'liquidity pool' at the same time as the Federal Reserve had advanced $70 billion through its emergency lending programs would have been incensing. Their anger and loss of trust can be detected in the events of the following days.

The New York Times

Late Edition

Today, warm, breezy, partly sunny, high 85. Tonight, cooler and partly cloudy, low 62. Tomorrow, partly sunny, light winds, high 74. Weather map appears on Page D6.

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NEW YORK, MONDAY, SEPTEMBER 15, 2008

$1.50

BIDS TO HALT FINANCIAL CRISIS RESHAPE LANDSCAPE OF WALL ST.

NEWS ANALYSIS

Jittery Road For Markets

By FLOYD NORRIS and VIKAS BAJAJ

Wall Street and the federal government played a game of chicken over the weekend, and neither side backed down, pushing Lehman Brothers toward bankruptcy and setting off worries of a worldwide sell-off when markets open on Monday.

While some fear a precipitous decline in the markets, others hoped that Bank of America's surprise announcement Sunday that it was buying Merrill Lynch might provide enough reassurance to calm investors.

"That would be seen as very good news," Liz Ann Sonders, the chief investment strategist for Charles Schwab & Company, said of Bank of America's $50 billion or $29 a share offer, a price far higher than Merrill's close on Friday but less than a third of what the stock was worth early last year, before the mortgage crisis began to damage financial firms.

With major Asian markets closed for a holiday on Monday, the answer regarding investor response could wait until European markets open, and, after that, the American exchanges.

In the Lehman talks on Sunday, the government, worried about the precedents it had set in helping to rescue the investment bank Bear Stearns and the mortgage finance giants, Fannie Mae and Freddie Mac, wanted Wall Street to collectively take on the risk that Lehman's assets were worth far less than the firm

KEVIN WOLF/ASSOCIATED PRESS

FRED R. CONRAD/THE NEW YORK TIMES

DANIEL ACKER/BLOOMBERG NEWS

Clockwise from top left, Richard Fuld Jr. of Lehman, John Thain of Merrill Lynch and Kenneth Lewis of Bank of America.

MERRILL IS SOLD

Failing to Find Buyer, Lehman Bros. Is Set to Wind Down

This article was reported by ***Jenny Anderson, Eric Dash*** *and* ***Andrew Ross Sorkin*** *and was written by Mr. Sorkin.*

In one of the most dramatic days in Wall Street's history, Merrill Lynch agreed to sell itself on Sunday to Bank of America for roughly $50 billion to avert a deepening financial crisis, while another prominent securities firm, Lehman Brothers, hurtled toward liquidation after it failed to find a buyer.

The humbling moves, which reshape the landscape of American finance, mark the latest chapter in a tumultuous year in which once-proud financial institutions have been brought to their knees as a result of hundreds of billions of dollars in losses because of bad mortgage finance and real estate investments.

But even as the fates of Lehman and Merrill hung in the balance, another crisis loomed as the insurance giant American International Group appeared to teeter. Staggered by losses stemming from the credit crisis, A.I.G. sought a $40 billion lifeline from the Federal Reserve, without which the company may have only days to survive.

The stunning series of events culminated a weekend of frantic around-the-clock negotiations, as Wall Street bankers huddled in meetings at the behest of Bush

n Texas, lacking services like lke, were evacuated Sunday.

Storm, Fleeing ated Galveston

much heat or too little food."

Across coastal areas of Texas, officials on Sunday mounted the largest rescue operation in the state's history. [Page A21.]

Five people were found dead in Galveston on Sunday, including one person in a submerged vehi-

On Tuesday September 16, the Reserve Primary Fund, announced that it was 'breaking the buck,' meaning that investors would receive returns below the dollar values they invested (Acharya et al. 2009: 9; Johnson & Kwak 2010: 163).[280] This news triggered a mass sell-off of corporate bonds and other financial claims, with investors redeeming $349 billion from money market funds during the week that Lehman Brothers collapsed (Financial Crisis Inquiry Commission 2011: 357). This capital flight from commercial paper was mirrored by a mass buy-up of Treasury securities (Board of Governors of the Federal Reserve System 2010a,b; GAO 2011: 193; Hosking & Kennedy 2008, September 18: 1, *T*; Johnson & Kwak 2010: 163; Mackenzie 2008, September 16; Shrivastava 2008, September 19 C2, *WSJ*). The run of the money market funds marked the start of the fourth phase of the shadow banking system's rupturing (Acharya et al. 2009: 8).

As reportage of the Lehman Brothers 'crisis' weekend was subsequently enveloped by cascading events, market volatility was framed as though it was mostly due to investors being nervous and fearfully cutting their losses.[281] Because the news media was unwilling to investigate the root causes of the financial 'crisis,' their deference to the spectacle of turmoil magnified anxiety and fear. For example, on Tuesday September 16, *The Wall Street Journal* constructed a live televisual coverage aesthetic utilizing a split-screen effect, in which nine photos captured the emotion in various trading rooms of the world. These were arranged around a graphic of the Dow Jones Industrial Average index of stocks, dropping. The placement of the Dow Jones graphic at the centre of the market panic was self-referential,

because The Dow Jones Company owns both the stock index and *The Wall Street Journal.* Since digital transactions occur at light-speed and combine with the instantaneity of global communications, including mass transmission, *The Wall Street Journal* was playing on the "optical disappearance" of accountability (Wilson 2009: 414). It is in this way that "politics '*disappears into aesthetics*' " – as Eric Wilson put it (2010: 11); space and time are spliced like the frames of a movie storyboard. The effect is that action image sequences construct a copy of reality (p.6, 8, 11-12).

THE WALL STREET JOURNAL.

TUESDAY, SEPTEMBER 16, 2008 · VOL. CCLII NO. 65

AIG, Lehman Shock Hits World Markets

Focus Moves to Fate of Giant Insurer After U.S. Allows Investment Bank to Fail; Barclays in Talks to Buy Core Lehman Unit

AIG Faces Cash Crisis As Stock Dives 61%

By Matthew Karnitschnig, Liam Pleven And Serena Ng

American International Group Inc. was facing a severe cash crunch last night as ratings agencies cut the firm's credit ratings, forcing the giant insurer to raise $14.5 billion to cover its obligations.

With AIG now teetering, serious that began with falling home prices and went on to engulf Wall Street has reached one of the world's largest insurance companies, threatening to intensify the financial storm and greatly complicate the government's efforts to contain it. The company, where stock fell 61% yesterday, is such a big player in insuring risk for institutions around the world that its failure could shake the global financial system.

AIG has been scrambling to raise cash as its $75 billion in securities lending portfolio, which it has to be the company's largest pool of the insurer doesn't unique fresh funding by Wednesday, it may have no choice but to opt for a bankruptcy-court filing.

"The situation is dire," a person close to AIG said.

Many market participants have been anticipating a government rescue of AIG, which has a long-standing relationship with the Federal Reserve Bank of New York. Yesterday, the Fed said it wasn't willing to lend more than it already has to AIG.

Traders around the world reeling to stunning selloffs after one of the most turbulent days in Wall Street's history

What's News—

Old-School Banks Emerge Atop New World of Finance

This observance of the 'rescue' frame meant that as AIG's financial situation rapidly deteriorated, the daily newspapers essentially participated in scapegoating the insurance conglomerate.[282] They failed to investigate why all three of the major credit ratings agencies Standard & Poor's, Moody's and Fitch – left it until Monday to downgrade the insurer. Few journalists bothered to report that insurance costs against AIG defaulting on its debt had spiked dramatically, with a $500,000 yearly premium and an up-front fee of $2.5 million to underwrite $10 million worth of debt (Karnitschnig, Pleven & Ng 2008, September 16: A1, A8, *WSJ*).[283] The five newspapers did not present any market data showing the spikes in credit default swap (CDS) costs across the major financial institutions and failed to investigate who could afford such costly 'insurance' (Bank of England 2009b: 25, Chart 2.4; Jacobs 2010: 74-75; Johnson & Kwak 2010: 172).

Indeed, the newspapers failed to probe whether there was a strategic purpose behind the $441 billion exposure that AIG had in its default insurance portfolio for corporate clients. For the most part, they failed to report that credit default swaps could be used as a betting mechanism to increase the likelihood of a firm defaulting on its debt (Brown 2010: 368; Johnson & Kwak 2010: 82, 173). News outlets thus failed to investigate how widespread this pattern was. This meant that the coverage of the events leading to the takeover-bailout of AIG on the Tuesday evening of September 16 failed to elicit why the the American financial authorities had decided to 'let' Lehman Brothers fail. Instead, all the news outlets rationalized away the discrepancy.[284] Furthermore, the American newspapers failed to disclose that the Federal Reserve had also advanced $138 billion in three loans to Lehman Brothers after it went bankrupt, via a JPMorgan & Chase conduit (*Bloomberg* and *MarketWatch* reported this information early Tuesday evening) (Kary & Scinta 2008, September 16, *B*; Mamudi 2008, September 16, *MW*).

However, a similar hasty 'rescue' in Britain – that of Halifax Bank of Scotland (HBOS) – reveals the Anglo-American monetary authorities' collusive tendencies, even as the British print publications downplayed the significance of the 'rescue.' As with AIG's troubles, Halifax's problems were

complicated by the publication of an unfavourable credit rating report from Standard & Poor's about the bank on Monday September 15 (Hosking & Kennedy 2008, September 17: 1, *T*). Halifax's stock value subsequently tumbled on the FTSE index. On Tuesday September 16, the ratings agencies, Fitch Ratings and Standard & Poor's had both downgraded Halifax Bank of Scotland (Croft 2008, September 17: 1).

THE TIMES

Wednesday September 17 2008 timesonline.co.uk No 69431

80p

Crisis hits home to threaten the Halifax

FINANCIAL TIMES

Wednesday September 17 2008 | £1.50

Wall Street in crisis

Full coverage of the market turbulence: NEWS Pages 2-6, COMMENT Page 15, LEX Page 18, MARKETS Pages 38-40, ONLINE www.ft.com/crisis

AIG

Fed in $85bn AIG rescue deal

The day in summary

The two UK newspapers, the *Financial Times* and *The Times*, failed to explore the fact that two of the three major credit rating agencies that had singled out AIG in America on the Monday September 15, had also downgraded Halifax on Tuesday September 16 (Croft 2008, September 17: 1, *FT*; Hosking & Kennedy 2008, September 17: 1, *T*). Applying game theory, the London offices of the New York-based ratings agencies were, in effect, positioning Halifax Bank of Scotland and AIG as 'hostages' in order to induce and maintain 'cooperation' (Keren & Raub 1993: 430). Since the financial systems of America and Britain – including their tax-secrecy haven networks – were inextricably entwined, both country's oligarchs needed the spectacle of a hastily organized 'rescue' of a large financial conglomerate on the brink of collapse in order to justify the shift from the so-called 'ad hoc approach' to system-wide bailouts.[285]

To this end, establishment elites such as former monetary authority officials, academics and economists from think-tanks either wrote opinion pieces or were frequently interviewed in order to anchor a 'rescue' of the financial system as the new norm. For example, a September 17 opinion article that appeared in *The Wall Street Journal*, "Resurrect the Resolution Trust" was written by three guest columnists Nicholas F. Brady, Eugene A. Ludwig and Paul A. Volcker, who were all former US financial officials (2008, September 17: A27).[286] The crisis was framed by the guest columnists as a "pathology," caused by "toxic real-estate paper" which they likened to "decaying tissue" that needed to be quarantined in a warehouse to prevent further spread of infection. These medical metaphors were deployed to argue that a restoration of the financial system's health lay with the creation of a "new mechanism" modelled on past precedents to clean up after crises.[287] One example given was the Resolution Trust Corporation, created in the late 1980s to 'resolve' the 'savings and loans crisis' (Brady et al. 2008, September 17: A27).[288] Critically, the other example they offered was the Home Owners Loan Corporation, created in the 1930s during the Great Depression. Having opened their guest editorial with the claim that America had not had a financial crisis so severe since the Great Depression, the former American monetary officials were tacitly deploying a threat packaged into this fear frame.

By Thursday September 18, fear had become more prominent as a news theme. As such, headlines in *The New York Times*' such as "New phase as investors run to safety," and "As fear grows, Wall St. Titans see shares fall; *The Washington Post* lead headline, "Markets in disarray as lending locks up;" and *The Wall Street Journal*'s lead headline "Mounting fears shake world markets as banking giants rush to raise capital," worked to induce consent for a systemwide bailout.[289] Meanwhile, in London, the same functional cue was evident, such as the *Financial Times*' September 18 frontpage headline, "Panic grips credit markets (Guha, Mackenzie & Tett 2008, September 18: 1). Indeed, fear itself was personified on the September 18 front-page of *The Times*,' as implied by the headline, "Fear stalks the banks" (Hosking & Kennedy 2008, September 18: 1). An aerial shot of seven bank buildings protruding above a fog bank suggested that 'Fear' was an at-large monster who worked under the cover of the City's miasma.[290] By deploying fear, *The Times* could claim that "financial anarchy" had been narrowly averted by the merger deal between Halifax Bank of Scotland and Lloyds TSB. Reporters Patrick Hosking and Siobhan Kennedy justified the waiver of anti-monopolist rules to facilitate this merger by implying "the national interest" was threatened and that these were no ordinary times. In other words, the oligarchs behind the bank mergers were signalling a threat to defect on the next move if the British monetary authorities breached the tacit 'too big to fail' cartel agreement, as game theory predicts.

Throughout their coverage, *The Times* and the *Financial Times* obscured the collusion that underpinned the merger between Lloyds TSB and Halifax Bank of Scotland even as they revealed more details, albeit not on the front-page. The three British financial authorities involved in this merger were the HM Treasury, the Bank of England and the Financial Services Authority (FSA), while the capitulation of the UK Competition Commission and the Department for Enterprise and Regulatory Reform was largely ignored. This merger process appeared to get under way on Monday September 15 at a "Mayfair cocktail party" hosted by Citigroup at Spencer House in the plush London district. Both newspapers reported that during a conversation between the chairman of Lloyds, sir Victor Blank and Gordon Brown, the British prime minister had assured Blank that he would arrange for legislation to block UK regulatory authorities from involving the Brussels' Competition Commission (Croft 2008 September 20: 16, *FT*; Kennedy & Hosking 2008, September 18: 4, *T*).[291] Crucially, a *Financial Times*' account contained a back-story revealing that back in 2006, Victor Blank as Lloyds TSB's new chairman met over breakfast

with HBOS CEO Andy Hornby (after Blank left his chairmanship at Trinity Mirror newspaper group). Furthermore, Lloyds TSB CEO Eric Daniels and HBOS CEO Andy Hornby met throughout July and August of 2008 to discuss a merger (Croft 2008, September, 20: 16, *FT*; Batchelor 2006, January 26, *FT*). The newspapers missed the intention behind the cocktail party which was to blur vested interests, such as that between the two-long friends sir Victor Blank and Gordon Brown, amid the atmosphere of a social occasion. Furthermore, the timing of the 'Mayfair cocktail party' was impeccable given that the Bank of England's Special Liquidity Scheme was due to expire on October 21 2008, which meant the major banks would no longer be able to swap their 'hard-to trade' mortgage-packaged securities with government bonds or securities (Morse 2009, Appendix Three: 4).[292]

At the meeting with congressional leaders on the evening of Thursday September 18, Treasury secretary Henry Paulson and Federal Reserve chairman Ben Bernanke outlined a bleak scenario that evidently shocked lawmakers.[293] Since all news outlets had observed the crisis journalism ritual of keeping a 'respectful distance,' sanitized versions of the manipulation that took place were dutifully reported by the news media, as though all the actors inside the meeting had sincere intentions to serve the public.[294] However, numerous reports revealed that officials at the US Treasury had, for some time, explored ways to resolve the crisis. But, it was claimed they were hesitant to involve Congress in case their proposal got rejected.[295] This hesitancy was used as both a justification for the apparent delay in switching from an 'ad hoc' to more systemic 'rescue' approach and for holding a private meeting.

In reality, Paulson, Bernanke & Co. were attempting to avoid the flak Paulson endured at the House Republicans Conference following his 'bazooka speech' at the Senate Banking Committee hearing in mid-July (Paulson 2011: 151-155). (Subsequent news coverage of Bernanke and Paulson request for tax funds on September 18 would reveal that many 'rank and file' politicians perceived the coercion inherent in the 'delay'). Indeed, during an 8:30a.m. conference call between American monetary officials earlier the same day, Bernanke had contrived a 'Break the Glass' ritual, which was a culimination of the collusive agreement reached five months prior to shelve the 'contingency plan' to gain hundreds of billions of dollars from Congress under duress (as mentioned in chapter four) (Montgomery, Irwin & Cho 2008, September 20: A1, *WP*; Nocera 2008, October 2: A1, *NYT*; Weisman, Cho & Kane 2008, October 4, A1, A9, *WP*).[296] Then, at the evening meeting with congressional leaders on Thursday September 18, Bernanke stated to the politicians that if the US economy collapsed, their constituents would not be able to access credit, while Paulson was said to be the salesman of the 'bailout' plan.[297] The two financial officials' presentation of this scenario was a ritualistic 'Present the Bill' performance, as mentioned in chapter two.

Numerous headlines framed the measure as an unplanned emergency response to an unexpectedly severe crisis such as:

The Wall Street Journal
U.S. Drafts Sweeping Plan to Fight Crisis As Turmoil Worsens in Credit Markets (2008, September 19: A1)
Shock forced Paulson's hand (2008, September 20: A1)
In turmoil, capitalism in U.S. sets new course (2008, September 20: A1)

The New York Times
Vast Bailout by U.S. Proposed in Bid To Stem Economic Crisis (2008, September 19: A1).

The Washington Post
Citing Grave Financial Threats, Officials Ready Massive Rescue (2008, September 19: A1)

Financial Times
US push to quell the turmoil (2008, September 19: 1)[298]

The front-pages of the American newspapers also carried stock market graphics on their front-pages, and attributed a rebound in stock markets to a 'rumour' prior to the September 18 meeting that the American financial officials were going to seek a bailout. Tellingly, *The New York Times*' lead story "Vast Bailout By U.S. Proposed ..." carried a quote from the vice-chairman of Macroeconomic Advisors, Laurence H. Meyer, who said, "the market's voted and they liked the proposal" (Andrews 2008, September 19: A1). Meyer was a former governor of the Federal Reserve, but *The New York Times*' failed to disclose this fact nor did it state what Macroeconomic Advisors did (Wessell 2009: 107).

On September 20, all three American newspapers carried photos of George Walker Bush leading Paulson, Bernanke and Christopher Cox as they walked along a garden path past pillars at the White House. These shots linked the oligarchs and elites to the architecture, thereby giving the front-pages a

cinematic aesthetic that bespoke power by visually suggesting the subjects exuded the power of state institutions. The political actors were, in effect, performing what I call a 'Power Walk' ritual before a subservient press corp. Because the three American newspapers had failed to probe the root causes of financial crisis, this event was presented at face value. Thus, *The New York Times*' front-page headline read, "Bush officials urge swift action on broad rescue powers" (Andrews 2008, September 20: A1); *The Wall Street Journal*'s lead story opening phrase stated, "The nation's top economic generals pressed Congress to move with extraordinary speed" (Solomon & Paletta 2008, September 20: A1); and *The Washington Post*'s headline read "Historic market bailout set in motion: President cites urgent need for sweeping intervention" (Cho & Appelbaum 2008, September 20: A1). This meant the three US newspapers accentuated the three characteristics that 'free-market' professor Milton Friedman had emphasized to his 'Chicago Boys': "speed, suddenness and scope" (Klein 2007: 7).

The two British newspapers depicted the continued surge in stock values on Friday September 19 as an understandable response, instead of critiquing this collective action as coercion from investors, speculators and financial institutions. Both newspapers superimposed graphics of FTSE stock index price movements from the week over their chosen photos for their Saturday September 20 front-pages to emphasize the jubilant reaction to the 'Present the Bill' ritual (Guha, Guerrera & Mackenzie 2008, September 20: 1, *FT*; Hosking 2008, September 20: 1, *T*).[299] The *Financial Times* used a tightly cropped photo of Henry Paulson pointing his index finger at a dot that marked the close of the stock index's trading on Friday, which had risen since the bailout announcement.[300] The melding of market data and Paulson's open, rounded mouth worked with the headline, "Global markets roar in approval" (Guha, Guerrera & Mackenzie 2008, September 20: 1, *FT*). This imagery implied that Paulson had special fantasy hero powers, emanating from his index finger to save 'global markets.' This 'rescue' frame naturalized the financial market as though it were a wild habitat operating according to the 'laws of the jungle,' with Paulson presiding as its 'king' defending the lion's share of the wealth.

FT WEEKEND

How to Spend It

Warren Buffett

Global markets roar in approval

At this point a "detailed plan" for government intervention still had not been presented to "lawmakers," but it had emerged that Treasury was not intending to create a new federal agency to oversee the "rescue plan" (Andrews 2008, September 20: A1, *NYT*; Broder 2008, September 20: C3, *NYT*). Rather, *The New Yorks Times* reported that the Department of Treasury intended to outsource the oversight of the pools of mortgage bonds to industry professionals (Andrews 2008, September 20: A1, *NYT*).[301] The opinion pieces and rhetoric of political-financial elites that appeared in the American newspapers which had tabled the idea of a new federal agency, like the Resolution Trust Corporation, worked to make the proposition seem possible. They were designed to speed up acceptance of the new norm by describing

not so much the thing being worked on, but an idea that provided "enough continuity" with past crises, as Fuchs and Graf found in their study of financial crisis discourse in the German newspaper, *Die Zeit* (2010: 10). Furthermore, the ideology buttressing "American capitalism" needed resignifying too (Wessel 2008, September 20: A1, *WSJ*).

To this end, numerous articles discussed a shift in ideology emanating from the dire circumstances (Abbamowitz & Eggen 2008, September 20: A1, *WP*; Baker 2008, September 21: A1, *NYT*; Wessel 2008, September 20: A1, *WSJ*). A September 20 front-page article in *The Wall Street Journal* headlined "In turmoil, capitalism in U.S. sets new course," used a maritime-discovery metaphor to naturalize the financial crisis (Wessel 2008, September 20: A1). Economics editor, David Wessel argued that because of "Black September," the ideas underpinning America's financial system were in the hands of "the keeper of the flame of free markets" – the U.S. government. None of the newspapers acknowledged their role as vectors for emotional-financial contagion. Their use of manipulative headlines, metaphors and imagery provided the subjects and objects upon which to fix fear. This enabled the construction of diagnostic framings that in turn justified certain courses of remedial action.[302] The contradiction inherent to the rise in market values on news of a system-wide bailout was that there was obviously spare liquidity in the private sector. The collective decision to coerce Congress to bailout the financial system could only be made to look like the natural phenomenon of 'markets' with the complicity of the major news outlets.

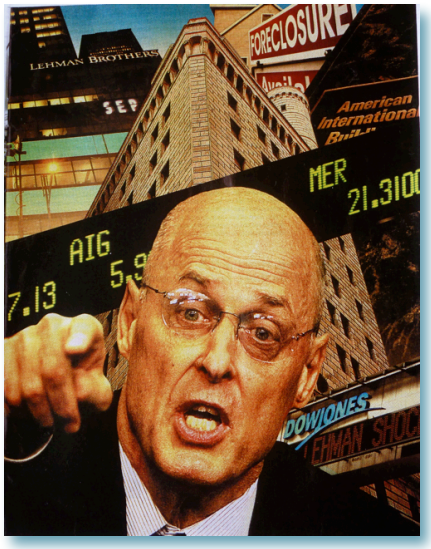
Weekly and Bi-weekly Publications

The weekly and bi-weekly publications are important to this study because they provide a snap-shot of recent events and the accompanying ideological justifications and rituals used to obscure the collusion in the unfolding 'crisis' narrative. The magazines contextualize the events, key players and institutions in relation to their strategic ideological field of influence. Because each publication has an institutional frame that is uniquely constructed out of its organizational history, ownership structures, directorship ties to other institutions and advertising composition, these news outlets frame their stories to influence their target audiences. Those news audiences are comprised of varying mixes from sophisticated elites whose primary interests vary among politics, finance, 'real economy' business investment, to unsophisticated readers whose interests are at the consumer-level of investment, savings, employment, education and retirement.

The Guardian Weekly (2008, September 19) downplayed the significance of many crucial events. Even though the newspaper went to press before AIG was 'rescued,' its summary of events failed to emphasize the discrepancies between the idea that Lehman Brothers apparently did not pose a systemic risk and the fact that major central banks around the world added funds to their banking systems, including the Federal Reserve, in anticipation of a major market meltown that would inevitably

follow (Ferguson 2011; Johnson & Kwak 2010; US bank collapse… 2008: 1).[303] Likewise, *Fortune*, *The Economist*, *Time* and *BusinessWeek* downplayed the inconsistencies created by bailing out the banks (through the Federal Reserve), while refusing to help Lehman Brothers (Barrett 2008: 28-32; "Saving Wall Street: The last resort" 2008: 82; Serwer & Sloan 2008: 32-37; "What Next?" 2008b: 13-14).[304] Instead of investigating the crisis as the result of collusion, *The Economist* (September 20), *Time* (September 29) and *BusinessWeek* (September 29) presented the unfolding events as the consequence of hubris, greed and ignorance (borne of a misguided adherence to a flawed ideology).[305] The magazines used imagery to insert metaphors into their 'rescue' frames. The use of these metaphors had the effect of naturalizing the spectacle of the spreading financial contagion and of deflecting culpability. This meant that the objectives of the Anglo-American oligarchy and their loyal financial technocrats were not investigated in the accompanying articles. They were, however, subtly communicated. Ideological justifications and framing strategies in *Time* and *The Economist* are worthy of analysis here due their audience differences.

For instance, on the cover of *Time*'s September 29 edition, a suited businessman appears to fall headlong into a manhole, but at a deeper level, the image was used to construct a world that had become a "financial horror show," wherein Uncle Sam's experts had dived in and found themselves in "terra incognita" ("How Wall Street sold out America" 2008; Serwer & Sloan 2008: 32).[306] *Time* recruited two *Fortune* magazine editors, Andy Serwer and Allan Sloan, to write the cover story entitled "The price of greed, " which together with a large close-up photo of Henry Paulson cast as Uncle Sam, helped create the illusion that the magazine had gone to extraordinary lengths "to ask the right questions" (2008: 32-33).[307] Since the term 'terra incognita' means "an unexplored or unknown land, region or area for study" (*Collins English Dictionary* 1991: 1592), Serwer and Sloan's discovery metaphor allowed them to claim that the Federal Reserve and U.S. Treasury officials faced the challenge of "getting ahead" of the crisis so that the next president could undertake the "massive job of righting the financial ship" (p.32).



To this end, a fear frame was used which foreshadowed the spookiness of the financial system by informing readers that "going forward" there was "one particularly creepy thing to keep in mind" (Serwer & Sloan 2008: 32). Evidently, "[i]n normal times, problems in the economy cause problems in the financial markets because hard-pressed consumers and businesses have

trouble repaying their loans" (p.32).[308] The 'creepy thing' really was that Serwer and Sloan did not explain why it was *usual* that individuals and companies had difficulty "repaying their loans." Moreover, *Fortune*'s editors – with 65 years business writing experience between them – did not elaborate for "average folks" why it was that *loans* were the dominant means to *fund* ways to make a living or to secure private shelter from the elements (Brown 2008; Griffin 2008; Grignon 2009; Rowbotham 1998; 2000). Instead, *Time*'s readers were told, "financial markets are slowing the economy rather than the other way around" (Serwer & Sloan 2008: 32).

To sell their 'terra incognita' metaphor, the writers added forebodingly that financial markets had not slowed the economy "since the Great Depression."[309] A subtler metalevel meaning was inferred by this historical referent. Historian and legal scholar Steve Newcomb states that a doctrine in international law known as *terra nullius*, derived from Roman law, legalized territorial expansion of 'unihabited' lands by holding that enemies had no rights to land and property (Silver, Pugh & Harry 2003). Newcomb, a Shawnee and Lenapa Native Canadian, argued that the Catholic Church altered this doctrine to *terra nullus* – meaning people living in the New World were deemed too 'primitive' to be considered 'sovereign' because they lacked Christian mythology and therefore had no legitimate legal or political status (Silver et al. 2003; Ivison, Patton & Sanders 2000: 12; Miller, Ruru, Behrendt & Lindberg 2010).[310] The implicit and explicit invocation of 'terra incognita' as a discovery metaphor in the elite discourse during the intensification of the financial crisis suggests that the financial elites were anchoring *terra incognita* as a doctrine for the appropriation of tax funds. The inference was that American citizens had no sovereign rights as a people and therefore the first 10 amendments to the US Constitution, or the Bill of Rights, were null and void (Brobst & Beddoe 1991). As such, this 'terra incognita' metaphor worked within the strictures of the 'rescue' master frame since it abided by its implicit assumption that the financial crisis was not the result of a malevolent plan. Thus, *Time*'s audience were being manipulated to accept the 'boom-bust-bailout' formula by the universal production of 'an atmosphere of catastrophe' as experiential evidence of authenticity.

The Economist's September 20 issue contained exemplarly examples of inter-elite codified communication, replete with ideologically-infused symbolism. *The Economist* cover – entitled "What next?" – used a maritime metaphor in the form of a maelstrom or powerful vortex symbolically sucking in various financial institutions that were taken-down or weakened in the financial crisis, thus far ("What Next?" 2008a September 20). The maelstrom tacitly referenced the off-shore/on-shore divide that underpins the Wall Street-Washington-City-Tax Haven Complex. This divide has a long history dating back to the

oligarchs of the Roman empire (that included wealthy politicians) who underwrote and invested in maritime voyages as a way to avoid land-based taxes (Brobst & Beddoe 1991; Glasman 2005; Palan et al. 2010; Shaxson 2011).[311] The illustration obscured the financial oligarchs manipulation of their criminogenic environments (as though financial events were "a disaster"). This in turn meshed with the expectation of a 'rescue at sea' through public insurance claims or *bailouts* ("What Next?" 2008a; "What Next?" 2008b: 13-14).[312]

The Economist's editorial – also entitled "What next?" – used a neurological metaphor to cleverly avert the issue of culpability. It was suggested that "finance" was "the brain of the economy" (What Next? 2008b, September 20: 14). "The brain" was evidently petulant as it did not like regulation that went against its ideas. According to the editor, its latest idea involved its own "shrinking" so long as it could control how "the economy" would "shrink" too.[313] Thus, oligarchic wealth defence was embedded into the editorial and callous 'austerity measures' were foreshadowed.[314]

The metaphors used across the magazines focussed upon the experiential evidence of the crisis and ignored the substantive evidence. This meant that those among the news audience's who turned to these magazines for a deeper understanding of the crisis were manipulated according the publications' ideological mandate. This meant earnest readers would lack the facts necessary to construct counter arguments that might have challenged the unfolding official 'crisis' narrative. For sophisticated readers, the imagery and articles supplied them with ideological framings that could be used to manipulate others, including political elites, to support system-wide bailouts.

Event Cluster Two: Bank Holding Companies

Tuesday September 16 to Thursday September 25

Goldman Sachs and Morgan Stanley

Amid doubts that Goldman Sachs and Morgan Stanley could withstand the turmoil, the last two of the 'big five' 'independent' investment banks made near-simultaneous moves to achieve new goals, as game theory predicts in order to maintain cartel 'cooperation.' Three phases were distinguishable in event cluster two. These were the 'Attack on the Investment Banks,' which occurred between September 16 and September 21, 2008; the 'End of Wall Street?' that occurred on September 22 and September 23; and the 'Resurrection rituals,' which occurred between September 22 and September 25.

On Sunday September 21, Goldman Sachs and Morgan Stanley, two major broker-dealers in US Treasury securities, gained approval from the Board of Governors of the Federal Reserve System to be conferred with bank holding company status. With this new classification, the news media emphasized

that Goldman Sachs and Morgan Stanley were no longer investment banks because they gained the capacity to become deposit-taking commercial banks. Additionally, this meant that their broker-dealer businesses could access credit from the Federal Reserve using a wide array of assets as collateral. Merrill Lynch & Co. was also granted permission to post a wide range of collateral for credit from the Federal Reserve, but this development received almost no media attention. And, the news media almost totally ignored the development that the London units of all three banking conglomerates had gained access to federal credit.

This event cluster ends on Wednesday, September 24 2008, when the troubles facing these banks appeared to be resolved. The news media conveyed the idea that by being within the Federal Reserve System, Morgan Stanley and Goldman Sachs had gained a more stable funding base, and that they would be subject to tighter regulatory supervision. On Tuesday evening, September 23, Goldman Sachs announced that they had gained an investment of $5 billion from Warren Buffett's Berkshire Hathaway. A Japanese banking conglomerate Mitsubishi UFJ Financial Group also signed a deal to gain a 20 per cent stake in Morgan Stanley (See Appendix V, Fig. 6).

Daily Newspapers

During the 'Attack on the Investment Banks' phase, the newspapers reported that both Goldman Sachs and Morgan Stanley had held conference calls with 'bank analysts' on Tuesday September 16. The newspapers' accounts of this development such as a *New York Times*' story on the business section front-page headlined, "Goldman posts profit, and Morgan follows suit" did not investigate this as a dual move by cartel rivals (Story 2008, September 17: C1). The daily newspaper coverage reported that Goldman Sachs and Morgan Stanley made early profit postings, but this move did little to appease investors/speculators concerns. Coverage of the conference calls were written into the stories in such a way that it was not clear whether the journalists were present at the banks or whether they listened in from their news desks (Baer, Farrell, Sender, Bullock & MacIntosh 2008, September 18: 21, *FT*; Landy 2008, September 17: D1, *WP*; Story 2008, September 17: C1, *NYT*). This passive 'neutral bystander' stance meant the journalists were off-the-hook to challenge the bankers from Goldman Sachs and Morgan Stanley and the 'bank analysts' about their game strategies and 'behind-the-scenes' discussions.[315]

Of the two investment banks, Morgan Stanley became particularly vulnerable (Sorkin 2009: 410-412). To put an end to the third phase of the shadow banking system's rupturing or the 'run on the investment banks' (Acharya et al. 2009: 8), Kevin Warsh, a governor of the Federal Reserve System urged the CEO of Wachovia, Robert Steel, to call the CEO of Morgan Stanley, John Mack, on Wednesday September 17 (Sorkin 2009: 414). The news media reported this conversation about a 'possible' merger

deal at face value, and presented the linkages in their career trajectories as though this connection alone accounted for the phone call. For example, in a front-page *Wall Street Journal* article headlined "Morgan Stanley in talks with Wachovia…" the reporters revealed that both had studied at Duke University and were on the board of trustees (Lucchetti, Smith & Strasburg 2008, September 18: A1).[316] Indeed, Steel and Mack's names lent this exchange symbolic value. The decision behind Steel placing the call (and not any other CEO from a major bank) was to communicate to Mack the need to exude a "steely exterior" as *The Economist* put it, more generally, in an article entitled "On life support" (2008, October 4: 73). Behind the scenes, Mack had been panicking (Sorkin 2009: 410). The personalized framing used to construct the CEO's backstory, therefore, communicated that a *steel*-reinforced 'pillar of the financial community' was having a pep-talk with a *mate*, since in American folksy vernacular, the word 'mack' means mate.

THE WALL STREET JOURNAL.

THURSDAY, SEPTEMBER 18, 2008 · VOL. CCLII NO. 67

Mounting Fears Shake World Markets As Banking Giants Rush to Raise Capital

By Tom Lauricella, Liz Rappaport And Annelena Lobb

Morgan Stanley in Talks With Wachovia, Others

By Aaron Lucchetti, Randall Smith And Jenny Strasburg

Reaching Down

High Anxiety, Low Returns

To market insiders, who were aware that the Treasury and Federal Reserve were running a shadow bailout operation (even though much of it had been exposed), "the preliminary merger talks" symbolically communicated that the financial authorities were busy laying concrete plans for a bailout (Acharya et al. 2009: 10; Enrich, Fitzpatrick & Paletta 2008, October 6: A1; Subramanian & Sharma 2010b: 7). Despite a mention that Morgan Stanley's share price had been affected by rising costs to insure its debt, *The Wall Street Journal*'s article "Morgan Stanley in talks with Wachovia…" failed to reveal who the biggest counterparties of credit default swaps were (Fitch Ratings 2007: 9; 2009: 8; Wilmarth 2009: 993-994).[317]

As trust in financial markets appeared to collapse, news reports attributed the investment banks' plummeting stock prices either to fears about their reliance on short-term borrowing to fund their activities; or to attacks from short sellers. As with the demise of AIG, the daily newspapers failed to investigate the aggressive rivalries that were readily detectable in the market data, particularly the exorbitant costs to 'insure' the investment banks' debt. Instead, soaring costs for credit default swap contracts were widely reported by the newspapers as attributable to institutional investors protecting themselves (Drew et al. 2008, September 21: A1, *WP*; Landy 2008, September 18: D1, *WP*; White & Dash 2008a, September 18: A1, *NYT*).[318] Only one article published prior to the investment banks becoming bank holding companies, on September 18 in *The Wall Street Journal*, explained the betting mechanism function of credit default swaps (Hilsenrath, Ng & Paletta 2008, September 18: A1).[319] However, the article failed to make clear that both investments banks had 'insured' their debt and bets

with AIG Financial Products (Johnson & Kwak 2010; Prins 2009). Consequently, the spikes in credit default swaps were rendered as the flow-on effects of a crisis caused by "the credit boom" (this was, in effect, a variation on the 'natural market forces' theme).[320]

Thus, the significance of the 'rescue' frame during the 'Attack on the Investment Banks' phase was that it disguised oligarchic collusion by naturalizing financial turmoil with ideologically-infused metaphors. The metaphors used in this coverage were medical, legal, solidaristic, psychological, mythological, ecological, evolutionary, meteorological, maritime and military.[321] For instance, numerous accounts used an evolutionary survival metaphor to describe the "last two investment banks" as "an endangered species" upon the Wall Street "landscape" (Drew et al. 2008, September 21: A1, *WP*; Hilsenrath, Ng & Paletta 2008, September 18: A2, *WSJ*; Landy 2008, September 17: D1, *WP*). By portraying 'the markets' as natural forces arising from the tumultuous financial environment, individual actors and institutions were thus merely reacting to survive.[322] Crucial to this obfuscation of oligarchical maneouvring was the deployment of fear. Stories that amplified fear were:

The last two investment banks fight for position – *The Washington Post*
(Landy 2008, September 17: D1)

Could the end be near for the big Wall Street brokerage? – *The Washington Post*
(Landy 2008, September 18: D1)

Mounting fears shake world markets as banking giants rush to raise capital – *The Wall Street Journal*
(Lauricella et al. 2008, September 18: A1)

Worst Crisis Since '30s, With No End Yet in Sight – *The Wall Street Journal*
(Hilsenrath et al. 2008, September 18: A1)

Panic grips credit markets – *Financial Times*
(Guha et al. 2008, September 18: 1)

Shares slump on Wall Street to fuel fears of massive fire sale" – *The Times*
(Bawden et al. 2008, September 18: 44)

As fear grows, Wall St titans see shares fall – *The New York Times*
(White & Dash 2008, September 18: A1)

Cultural and structural shifts rise out of risk-taking Titans' hard fall – *The Washington Post*
(Drew et al. 2008, September 21: A1)

On Monday September 22 and Tuesday September 23, an 'End of Wall Street?' narrative was deployed to mask the actual process whereby Goldman Sachs and Morgan Stanley became bank holding companies. The American newspapers constructed a narrative asserting that the new bank holding companies would become more transparent, less risky and more tightly regulated.[323] These assertions were widely reported as though they were the price the investment banks had paid in return for 'permanent' access to federal credit. By conveying the idea that the Federal Reserve System was a tougher regulator removed from the ideological and commercialized fee-dependency of other regulators, the daily news coverage obscured the vested interests behind the decisions to assign bank holding company status to Morgan Stanley and Goldman Sachs.[324] By emphasizing the drama of the crisis through historical framings, including referents to the Great Depression era, the news media signalled that, finally, the separation between investment and commercial banking – legislated by the Banking Act or Glass-Steagall Act of 1933 – had been overcome.[325] Because the Banking Act of 1933 was passed out of a recognition that wild speculation evidently driven by the credit boom of the so-called 'roaring' 1920s had created the conditions for the economic collapse that followed, this justification was ironic (Engdahl 2009; Ferguson 2011; Johnson & Kwak 2010). In other words, the claim that Morgan Stanley and Goldman Sachs would now be subject to "tighter regulation" was incompatible with the assertion that Wall Street's make-over had returned things to how they were before the Banking Act of 1933.[326] This incompatibility was obscured by a 'Saviour' metaphor that was tacitly applied to the Federal Reserve, such that the US central bank appeared to be acting as a benign rescuer.[327]

THE WALL STREET JOURNAL.

Goldman, Morgan Scrap Wall Street Model, Become Banks in Bid to Ride Out Crisis

End of Traditional Investment Banking, as Storied Firms Face Closer Supervision and Stringent New Capital Requirements

Under the Gun

Lawmakers Battle Over Rescue Plan

The New York Times

Late Edition

NEW YORK, MONDAY, SEPTEMBER 22, 2008

$1.50

Radical Shift For Goldman And Morgan

By ANDREW ROSS SORKIN and VIKAS BAJAJ

Goldman Sachs and Morgan Stanley, the last big independent investment banks on Wall Street, will transform themselves into bank holding companies subject to far greater regulation, the Fed-

DEMOCRATS SET CONDITIONS ON BAILOUT AS 2 FIRMS END INVESTMENT BANKING ERA

OVERSIGHT IS ISSUE

Aid for Homeowners Is Sought — Paulson Seeks 'Clean' Bill

Treasury Secretary Henry M. Paulson on "Face the Nation."

The Washington Post

DISTRICT & MARYLAND FINAL

Monday, September 22, 2008

GOLDMAN SACHS & MORGAN STANLEY

Giant Investment Banks Grasp for Government Safety Net

By Neil Irwin and Binyamin Appelbaum
Washington Post Staff Writers

The Federal Reserve approved the conversion last night of the two remaining investment titans on Wall Street, Goldman Sachs and Morgan Stanley, into bank holding companies, offering them broader tence in jeopardy.

The move, approved by the Fed with unusual haste, gives Goldman Sachs and Morgan Stanley greater latitude to borrow from the Fed and access to stable sources of funding — namely, deposits from ordinary people and businesses. But the firms are also accepting regulation by the Fed that will make it far

As Hill Debates Bailout, Wall St. Shifts Continue

Paulson, GOP Oppose Democrats' Proposal to Limit Executive Pay

Here, the news outlets had a perfect opportunity to argue that Paulson, Bernanke and Geithner & Co.'s decision to 'let' Lehman Brothers fail was not a principled stance, but a blunt strategy to coerce Congress for a bailout. The opportunity arose from damning parts of a press release issued by the Board of Governors of the Federal Reserve System on Sunday September 21 at 9:30 p.m. (Board of Governors of the Federal Reserve System 2008, September 21; Paulson 2011: 247). This press release, which publicized the newest bank holding companies, mentioned that Morgan Stanley, Goldman Sachs and Merrill Lynch's London brokerage units had gained access to federal credit. It also stated that Merrill Lynch in America would also be able to borrow under the same easy terms as the new bank holding

companies (GAO 2011: 27). In this way, the three largest Wall Street investment banks had, in less than a week after the failure of Lehman, by merger and change of regulatory status, become more directly linked to the Federal Reserve System.[328] These moves reveal the real motives behind the attacks on the investment banks.

Investors/speculators had an immediate need for Goldman Sachs, Morgan Stanley and Merrill Lynch to gain greater access to federal credit because this would enable them to swap their unmarketable securities for tax-funded Treasury securities. Furthermore, just five major banks – JPMorgan Chase, Citigroup, Bank of America, Wells Fargo and HSBC Bank USA – were counterparties to 95% of the US credit default swaps market. Since these five bank holding companies were all members of the Federal Reserve System, those banks along with the US central bank, had huge stakes in coercing the two major broker-dealers in Treasury securities to fully merge with the Wall Street-Washington Complex (Gordon & Hall 2009; Markose et al. 2009: 25, 35-36).[329] Unsurprisingly, the news media made no effort to find out how much Goldman Sachs, Morgan Stanley and Merrill Lynch were borrowing from the Federal Reserve.[330]

The near-unanimous omission in the dailies of Merrill Lynch being granted more access to the Federal Reserve's credit is very telling ("The End of Wall Street" 2008, September 23: A28, *WSJ*; Enrich & Paletta 2008, September 23: A6, *WSJ*; Irwin & Appelbaum 2008 September 22: A1, *WP*; Reddy 2008 September 23: A8, *WSJ*; Sorkin & Bajaj 2008, September 22: A1, *NYT*). The exception was *a Wall Street Journal* article headlined "Goldman, Morgan scrap Wall Street model…" which only made brief mention of it on page six (Hilsenrath, Paletta & Lucchetti 2008, September 22: A1, A6). This is because the official narrative regarding the apparent 'failed attempt' to save Lehman Brothers from bankruptcy included the American monetary officials' claim that they had been surprised by their British counterparts' refusal to underwrite potential losses that Barclays' might incur in buying the imploding Wall Street investment bank (on the weekend of September 12 to 14, 2008) (Sorkin 2009; Tett 2010). If it had become widely known that Merrill Lynch had also gained easy access to cheap federal credit, *including* its London brokerage units, the official financial 'crisis' narrative and 'rescue' master frame would have been threatened. This news would have demonstrated that the Federal Reserve did not *need* the UK financial authorities' approval to guarantee a Barclays' takeover of Lehman Brothers. Rather, it demonstrated the American financial authorities' *disdain* for Lehman Brothers because it was a poor cartel member. Hence, their decision to *make* Lehman fail occurred so that news of the collapse could be used to escalate the crisis. This would then justify the deployment of the so-called 'contingency plan' – the system-wide bailout.[331]

With their new bank holding company classification, Morgan Stanley and Goldman Sachs began deal-making with Mitsubishi UFJ and Warren Buffett of Berkshire Hathaway, respectively. On the Tuesday evening of September 23, Goldman Sachs announced that Warren Buffett had invested $5 billion and

Morgan Stanley announced that Mitsubishi UFJ had bought 20 per cent in their firm. The daily newspapers reported this development as a 'vote of confidence,' and mostly focussed on Buffett's investment in Goldman Sachs, who was valorized, often as a "sage" or an "oracle."[332] For example, *The Wall Street Journal* lead story headlined, "Buffet to invest $5 billion in Goldman" and subheaded, "Famed investor's move is seen as a vote of confidence in crisis-stricken banking system" was accompanied by a big close-up of Warren Buffett smirking. This photo created a cinematic aesthetic that symbolized financial power (Craig, Karnitschnig & Lucchetti 2008, September 24: A1).

THE WALL STREET JOURNAL.

WEDNESDAY, SEPTEMBER 24, 2008 · VOL. CCLII NO. 72

Buffett to Invest $5 Billion in Goldman

Famed Investor's Move Is Seen as a Vote of Confidence in Crisis-Stricken Banking System; Old Ties to Firm Paved Way for Deal

By Susanne Craig, Matthew Karnitschnig and Aaron Lucchetti

Goldman Sachs Group Inc. said it will get a $5 billion investment from billionaire Warren Buffett's company, marking one of the biggest expressions of confidence in the financial system since the credit crisis intensified early this month.

The deal is the latest in a series of dramatic events that have reshaped American finance this month, from the federal takeover of Fannie Mae and Freddie Mac to the bankruptcy filing of Lehman Brothers Holdings Inc. to the bailout of American International Group Inc. and steps by Goldman and Morgan Stanley to become commercial banks.

The move by Mr. Buffett's Berkshire Hathaway Inc. capped a day of bruising hearings in Congress over the fate of the Treasury De-

would give Berkshire about a 10% stake in Goldman.

Goldman also will go to the public to raise at least a further $3.5 billion by selling common shares. Once it does, Berkshire's stake—if it has exercised the warrants—would fall to about 7%. Goldman will have the right to repurchase the preferred shares at any time for a 10% premium.

Goldman's plan to raise capital comes just a day after Morgan Stanley announced plans to raise about $8 billion by selling up to a 20% stake to Mitsubishi UFJ Financial Group, a big Japanese commercial bank.

Goldman shares surged after the close of regular-hours trading—up $6.15, or 6.5%, to $133.20. Other financial stocks also rallied to after-hours trade.

As Congress debated the Treasury's broad bailout plan for financial firms, the Berkshire news may rev up Republicans

Rescue Plan Stirs Calls For Deeper Regulation

WASHINGTON—A rapid-fire series of moves Tuesday promised to extend Washington's reach into America's business, illuminating the ways in which

By Aline Sloanwell, Jerad Dwerk, Joann S. Lublin and Elizabeth Williamson

the financial crisis could reshape the relationship between government and the economy.

During a Senate hearing, lead-

On the surface, the announcement that America's allegedly wealthiest financier and a financial conglomerate from the 'cash-rich' economy of Japan had invested in the financial sector constituted new hope. Since the news media was observing crisis media rituals, they did not report that these events were themselves rituals; to do so would have exposed the 'crisis' narrative as an artifice. As such, none of the news stories conceptualized Buffet's investment as coercive on Congress, despite numerous articles reporting that he would not have made the investment if he thought the bailout bill would not pass (Landy & Heath 2008, September 25: D1, *WP*; Pulliam, Kelly and Karnitshnig 2008, September 25: A1, *WSJ*; White 2008, September 24: A1, 25, *NYT*). Nor did they report the 20 per cent stake in Morgan Stanley by Mitsubishi as an arrangement to appease Japanese investors burned by the financial collapse and as a strategem to pressure Congress with the spectre of more foreign ownership of US-based financial firms (if the bailout bill did not pass).[333]

As with the two previous phases in this event cluster, the newspapers obscured the vested interests inherent to these deals by deploying ecological-survival/apocalyptical and mythological metaphors to dramatize the near-death of the last two of a 'financial species,' Goldman Sachs and Morgan Stanley.[334] In effect, the banks had come through a ritual of 'Resurrection,' wherein they had metaphorically undergone a sacrificial market death from which they 'rose back to life' on Sunday September 21, when the Federal Reserve bestowed them with bank holding company status. The synchronized announcements that Goldman Sachs and Morgan Stanley had also received investments from Berkshire Hathaway and Mitsubishi UFJ, three days after the Board of Governors of Federal Reserve System symbolically publicized the end of the 'independent' investment bank, metaphorically symbolized 'Salvation' rituals. By gaining new capital, this development symbolized the fruition of their 'sacrifice' in a broader narrative.[335] Such a 'sacrifice' was made so that other financial firms that had

'sinned' (by taking on too much leverage) might also be saved from a corporate form of mythological damnation: bankruptcy.[336]

Weekly and Bi-weekly Publications

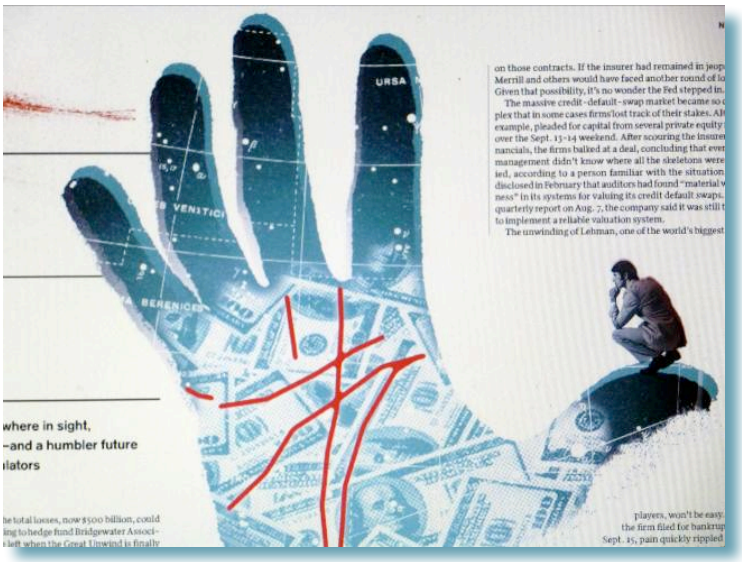
The Guardian Weekly and the magazines' framings shared the ideology that 'the market' was the best and only system for mediating economic activity, despite the acknowledged recurrence of financial crises. To mask the deeper causes that underpinned this pattern of boom, bust and bailout, ideologically infused metaphors were once again used. These metaphors were used to construct pro-market and fear frames within the 'rescue' master frame. They can be summarized as follows:

Publication	Date	Metaphor	Frame
Time	Sep 29	Apocalyptic	fear
		'Saviour'	fear
BusinessWeek	Sep 29	astrological	fear
	Oct 6	ecological-survival	fear
Fortune	Oct 13	'Saviour'	pro-market
		historical/military	fear
The Economist	Sep 20	ecological-survival	fear
		astrological	fear
	Sep 27	aberration/black swan	pro-market
		ecological-survival	pro-market/fear
Guardian Weekly	Sep 26	medical	fear

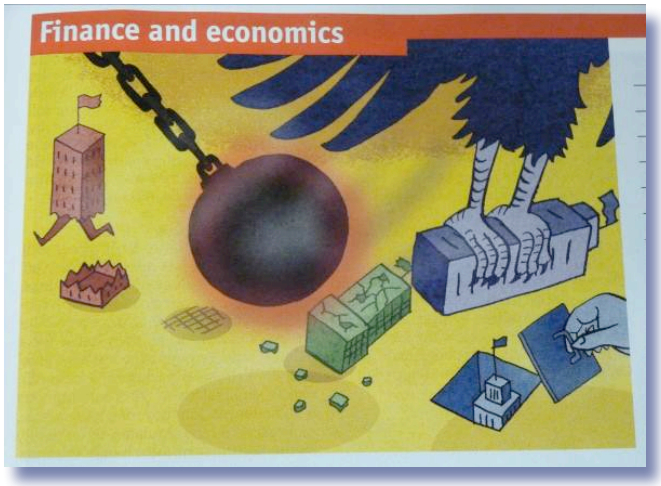
The readers of these publications were not provided with a clear picture of the developments examined in this event cluster. The metaphors listed above were deployed to: merge the interests of ordinary people with those of the oligarchs; legitimate the actions taken by financial authorities; naturalize the crisis while appearing to be informative; and control people through fear (and by luring consumer-investors to keep believing in markets).

Time's brief mention of Morgan Stanley and Goldman Sachs during the 'Attack on the Investment Banks' phase in the September 29 article, "The price of greed" clarified little about the Wall Street-Washington Complex (Serwer & Sloan 2008: 36-37). The writers employed an apocalyptical metaphor when they claimed that many "analysts" thought the two investment banks would "survive the meltdown" (p.37). The mention of Goldman and Morgan served as a control mechanism since *Time*'s depiction of the former Goldman Sachs' CEO Henry Paulson as Uncle Sam, in his role as secretary of the Treasury,

inferred that if the last two investment banks failed, then the entire US financial system would quickly unravel.



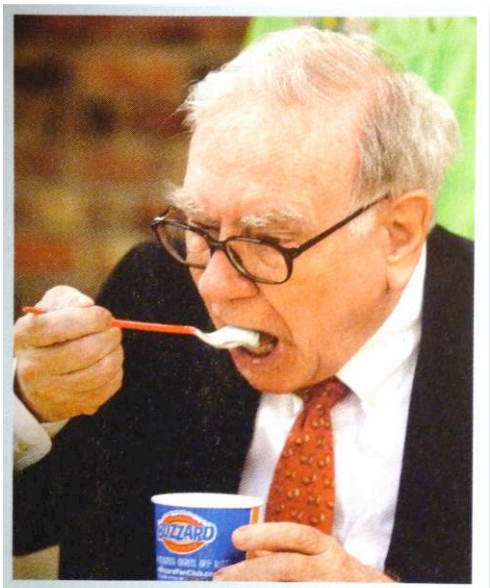
An exemplary case of naturalizing the 'Attack on the Investment Banks' phase in the magazine coverage appeared in *BusinessWeek*'s September 29 edition. An illustration that accompanied an article entitled "More pain ahead," depicted a hand upon whose thumb was a crouched suited businessman, viewing the hand. This 'universal investor' has been bestowed with fortune-telling powers as he is contemplating the palm's red-coloured life-lines. The reporters David Henry and Matthew Goldstein postulated, "that a future without Goldman or Morgan Stanley is no longer inconceivable" (2008: 36). The life-lines in the illustration are superimposed over Federal Reserve $100 bills, while at the edges of the palm, the fingers and wrist reveal star constellations, thereby invoking the status of the Federal Reserve as the world's reserve currency. The red life-lines communicate that credit really is the life-blood of the American economy. This depiction not only conflated the fate of the US financial system with the world, since beyond the palm is the cosmos. It also signified collusion and conspiracy because the universal investor's extra-sensory perception powers allows him to see the 'sacred cow' of 'free-markets' – the 'invisible hand.'[337] Exponents of neoliberal ideology used this supernatural metaphor to claim that in a market economy unencumbered by state regulation, all goods and services would be priced efficiently by 'the market.' However, under the tutelage of the Chicago School of Economics, the Council on Foreign Relations, the Trilateral Commission, the Bilderberg Foundation and other corporate-funded foundations – 'free-market' reformers positioned greed as the guiding ethos, underpinned by a drive to accumulate power for the oligarchic owners of transnationalized banking and industrial cartels (Carroll 2010; Klein 2007). Thus, *BusinessWeek*'s foray into palmistry and astrology served to distort reality by wryly universalizing the fortunes of the American financial oligarchy with its hapless unsophisticated investor readers, while naturalizing the phenomenon.



The Economist September 27 edition deployed cleverly chosen ecological survival and aberration metaphors to communicate to its elite audience. In a whimsical illustration accompanying an article entitled "American finance: And then there were none," the four investment banks that remained after the Bear Stearns take-down were depicted as beleaguered office blocks (2008: 75). A giant wrecking ball has knocked over one building, which represents Lehman Brothers. Another building, which has legs and is running away, signifies Merrill Lynch, who scurries past a factory from the 'real economy,' presumably to find Bank of America. A third building, which symbolizes Morgan Stanley, has taken cover in an underground safe and is about to be covered-up by a hand holding a large steel plate. This hand, which had become more visible in the crisis, represented the usually 'invisible hand' of the Wall Street-Washington Complex, and therefore required the ideological framing of the 'rescue' to distort its collusive activities. And the biggest building, which portrays Goldman Sachs, has been captured in the talons of a blue buzzard, which is ascending skyward. The buzzard symbolizes Warren Buffett – the 'Oracle of Omaha' – since buzzards are native to Nebraska and he was featured in an accompanying story entitled "Tucking in" (2008: 76). With these industrial and ecological-survival metaphors, *The Economist* editors were signalling an asymmetric recovery among dominant players, replete with hostile takeovers, while the 'real economy' would be ignored, as cartel game theory predicts (Ayres 1987).[338]

Instead of explaining how exactly the crisis occurred, readers were told that a "global liquidity glut" (as "[the] head of one bank" phrased the worldwide credit boom), had led to what the editors referred to as "the golden years of risk-taking" ("American finance" 2008, September 27: 75).[339] All this had evidently been an "aberration." *The Economist*'s use of this aberration metaphor echoed the view of banker Lloyd Blankfein, who used it in an interview with *The New York Times* soon after he became CEO of Goldman Sachs in June 2007; albeit in an inverted way. Blankfein stated that the Banking Act of 1933 was "an aberration" that had prevented modern day bankers from creating the complex speculative bubbles that "the Rothschilds or J.P. Morgan" had been able to in their time (Engdahl 2009: 317).[340] The illustration signalled a deeper meaning. In the field of optics a spherical aberration refers to "a defect in a lens or mirror [with spherical surfaces] that causes the formation of … a distorted image" (*Collins English Dictionary* 1991: 3, 1487). The circular shadows of multiple wrecking balls swinging beyond the image frame represented the unseen 'speed politics.' Here, this 'aberration' metaphor was used to tacitly legitimate the regrettable market turmoil and hostile takeovers as necessary for financial markets to return to 'normality.'

Consistent with the aberration metaphor, the article came full circle by finishing whimsically (given the cartoon at the beginning) with a question: "[a]nother black swan in 2083 and who knows?" This question worked to naturalize the return to the kind of banking conglomerates that tycoon John Pierpont Morgan had constructed over 75 years ago. The term 'black swan' was unexplained and referred to a book by finance academic, Nassim Nicholas Taleb. The book, *The Black Swan: The Impact of the Highly Improbable*, was about unpredictable events coined by the author as 'Black Swans' evidently because there was nothing in the past to convincingly point to their "possibility" (Taleb 2008: 1). The 'black swan' aberration metaphor was therefore used to naturalize collusive cartel behaviour (as though a wild predator swooping into an urban environment is simply what happens when an unforeseeable market crisis emerges) ("And then there were none" 2008: 75; Jacobs 2010: 66-75; Federal Reserve Bank of St. Louis n.d.).[341]



Buffett lunch

Accompanying the main article "And then there were none" was a another story (inserted on the second page) entitled, "Tucking in," which presented Warren Buffett within a valorized human-interest framing (2008: 76).[342] The imagery of the so-called "Oracle of Omaha" tucking into a "Blizzard" icecream sundae worked as a clever joke that tied in with the image used for "And then there were none." The photo played on the meteorological metaphor that a *financial storm* had swept through Wall Street on *Sunday* September 14, when both the UK and the US financial authorities refused to guarantee or fund Barclays' 'proposed' takeover of Lehman Brothers. Here, the investment activities of the so-called 'Omaha native' were subtly compared to the predatory nature of buzzards, which live in Buffett's home state, Nebraska. Thus, the illustration on the preceding page, which depicted the biggest building (Goldman Sachs' headquarters) captured in the talons of a buzzard communicated that Buffett was the 'Buzzard of Omaha' who had capitalized on the *credit-freeze* by gaining a sweet investment deal with Goldman. Thus, the image of Buffett 'tucking-in' to a Blizzard sundae naturalized the financial crisis as a meteorological phenomenon and rarefied the oligarch as a folksy American.

The magazines and *The Guardian Weekly* failed to reveal why Goldman Sachs and Morgan Stanley mimicked one another, move for move, throughout the cluster. This mimickery progressed from their conference calls and early profits announcements on Tuesday September 16 to gaining investments from other major financial conglomerates on September 23, after gaining bank holding company status from the Federal Reserve just two days prior. True to the form of the news media's role as missionaries for financial capitalism, the weekly and bi-weekly publications examined here assisted with the

concealment of these collusive moves by making the investment banks seem like they were innocent victims. It followed that the Federal Reserve, Warren Buffett and Mitsubishi UFJ were cast as saviours and restorers of market confidence. But that projection of market confidence was not convincing, nor satisfying everybody.

Event Cluster Three: Bailout Bill Rejected

Sunday September 21 to Tuesday September 30

On Saturday September 20 2008, the US Treasury released a copy of the three-page bailout summary, that Henry Paulson and Ben Bernanke had outlined on Thursday September 18 (Guynn, Nazareth & Tahyar 2009: 42). The sum of the bailout had changed from a vague "hundreds of billions of dollars" to a possible $500 billion before settling on an ostensible $700 billion (Sorkin & Bajaj 2008, September 22: A1, *NYT*; Herszenhorn 2008, September 21: A1, *NYT*; Montgomery & Cho 2008, September 21: A1 & A13, *WP*). This ballooning of the bailout fits the definition of 'scope creep,' which is the change in scale of a project that initially lacks clear definition, plans and process. As mentioned in chapter three, Fuchs and Graf argued in their paper "The Financial Crisis in Discourse," that "[t]he re-signification of established norms goes hand in hand with their enlargement" (2010: 10). The newspapers were therefore faced with the task of framing their coverage to downplay the power relations behind this expanded scope while appearing to provide criticism. This required news frames that amplified fear by emphasizing the dire consequences for all without the bailout.

The cluster of events covered in this chapter contained three phases. These are the 'Sermon and Choir' rituals, the rituals of 'Reassurance and Purification' and a 'Pragmatism replaces 'free-market' ideology' transition. During the 'Sermon and Choir' rituals, which occurred on Sunday and Monday September 21 and 22, the Treasury's three-page term sheet surfaced summarizing the bailout proposal. Despite the 'preciseness' of the bailout sum, how the plan would function remained vague. The rituals of 'Reassurance and Purification' phase is characterized by sanitized coverage of the political contestations as rank and file politicians expressed either outrage or submissive posturings over the proposal. During this phase the White House changed tactics and merged the presidential campaign with the financial crisis in order to coerce 'the American people' and ultimately the political elite into supporting the bailout bill. A 'Pragmatism replaces 'free-market' ideology' phase occurred after the House rejected the bailout bill, wherein the news media attacked politicians opposed to the bailout for either being too attached to their ideology or too self-interested in their own re-election. (See Appendix V, Fig. 7).

Daily Newspapers

The New York Times

Late Edition

Today, cooler, mostly cloudy, high 78. Tonight, gradual clearing, areas of fog developing, low 57. Tomorrow, mostly sunny and seasonable, high 72. Weather map, Page B8.

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NEW YORK, MONDAY, SEPTEMBER 22, 2008

$1.50

DEMOCRATS SET CONDITIONS ON BAILOUT AS 2 FIRMS END INVESTMENT BANKING ERA

Radical Shift For Goldman And Morgan

By ANDREW ROSS SORKIN and VIKAS BAJAJ

Goldman Sachs and Morgan Stanley, the last big independent investment banks on Wall Street, will transform themselves into bank holding companies subject to far greater regulation, the Federal Reserve said Sunday night, a move that fundamentally reshapes an era of high finance that

FACE THE NATION/KARIN COOPER

Treasury Secretary Henry M. Paulson on "Face the Nation."

OVERSIGHT IS ISSUE

Aid for Homeowners Is Sought — Paulson Seeks 'Clean' Bill

This article was reported by David M. Herszenhorn, Stephen Labaton and Mark Landler, and written by Mr. Labaton.

WASHINGTON — Congressional Democrats began to set their own terms on Sunday for a plan to rescue the nation's financial institutions, including more

Treasury Secretary Henry M. Paulson on "Face the Nation."

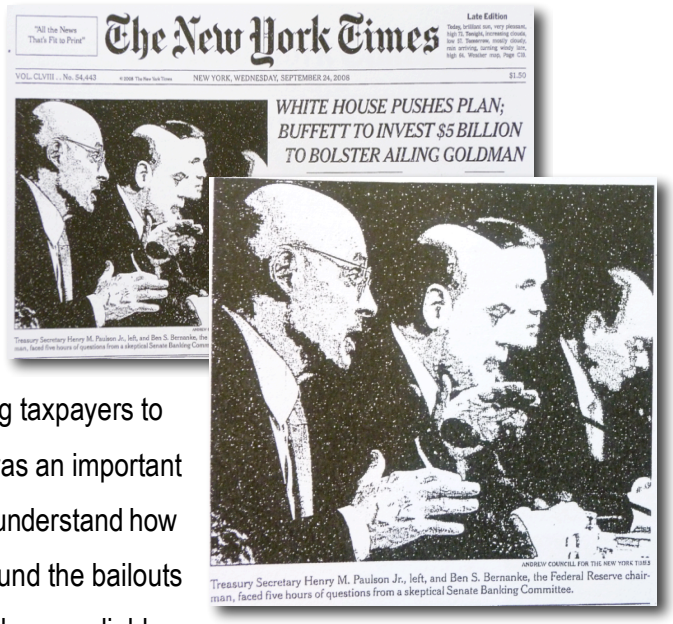
To promote the 'rescue,' Henry Paulson made several television appearances on Sunday morning September 21 talk shows – *NBC*, *ABC*, *CBS* and *Fox* – wherein he justified the bailout sum by alluding to the dire consequences of not interferring.[343] Paulson, who had cashed in $450 million worth of Goldman Sachs shares without paying any tax on it when he became the Treasury secretary (Ferguson 2011), contrived sympathy for taxpayers by brazenly stating on *Fox News Sunday*, "I hate the fact that we have to do it, but it's better than the alternative" (Herszenhorn, Labaton & Landler 2008, September 22: A1, *NYT*).[344] Paulson's claim inferred it was a choice between a bailout or inaction that would lead to financial catastrophe. Despite the fact that reporters from *The New York Times*, *The Wall Street Journal* and *The Washington Post* all caught his appearance on *Fox News Sunday*, none challenged the US monetary officials as to why they had no other *alternatives*, nor why they had waited until the situation had become so severe that it appeared that the only sensible course of action was a bailout (Herszenhorn et al. 2008, September 22: A1, *NYT*; Hitt, Paletta & Solomon 2008, September 22: A1, *WSJ*; Montgomery & Cho 2008, September 22: A1, *WP*). Paulson, in effect, performed 'Sermon' rituals in which he imparted the same messages, in keeping with the strictures of crisis management-public relations spin (Herszenhorn et al. 2008, September 22: A1, *NYT*).[345] The articles were essentially 'Choir rituals,' because they sung from the Treasury secretary's 'hymn sheets' and therefore played a formative role in constructing the 'crisis' narrative.[346]

On Monday September 22, when 'rank and file' members of Congress had returned from a weekend of campaigning they were vocal in their dissent to the Treasury's plan. The escalation of the financial crisis, triggered by the long-planned forced collapse of Lehman Brothers, occurred during the last weeks that the two Houses of the 110th Congress could pass legislation. As a consequence, the 'rescue' frame widened in the daily newspaper coverage on Tuesday September 23, with many politicians expressing anger at the extremely compressed time frame for drafting and passing the bailout bill.[347] At this point, some journalists and experts criticized the lack of alternative proposals on offer even as the spectre of dire consequences was invoked.[348] Some were even distrustful of the veracity of the claims from the US monetary officials regarding the necessity of a bailout, especially given that Bush administration had lied and used fear regarding the case for the War on Iraq (Goodman 2008 September 23: A1, *NYT*; Jarecki 2006; Montgomery, Kane & Irwin 2008a, September 24: A1, *WP*). The popular resentment toward the

vested interests of Wall Street was reflected in the political contestations that were depicted across the news media.

But, the newspapers were unwilling to seriously gather the viewpoints of ordinary Americans and use them to directly confront the political elite, financial officials and Wall Street executives. Here, the news discourse reveals the syntax that guides the news outlets, wherein the public's role is restricted to that of an artefact or referent.[349] The logic of this syntax is to ensure that the flak from the public is filtered by the news outlets themselves in ways that portray them as ignorant (Herman & Chomsky 2008; Wintonick & Achbar 1992). For example, in a *Wall Street Journal* front-page report headlined "Lawmakers battle over rescue plan," on Monday September 22 the reporters framed their story as a conflict between members of Congress whose concerns were labelled as a "populist backlash." Hence, the public were captured in an emotive moment like extras on a canvas backdrop. (Hitt, Paletta & Solomon 2008, September 22: A1, *WSJ*).[350] This generic treatment ultimately serves financial oligarchy interests.

The rituals of 'Reassurance and Purification' phase began on Tuesday September 23 and lasted for three days. In preparation for their public appearances at the Senate Committee on Banking, Housing and Urban Affairs (more commonly referred to as the Senate Banking Committee), Federal Reserve chairman Ben Bernanke and US Treasury secretary Henry Paulson were protected from justifiable criticism by the news media positioning them as 'Saviours.' For example, *The New York Times* valorized the American monetary officials as "the architects" of the bailout plan (Herszenhorn 2008d, September 23: A1). The reporter did so according to crisis journalism strictures in order to build trust.[351]


"All the News That's Fit to Print"
The New York Times
Late Edition
VOL. CLVIII .. No. 54,443
NEW YORK, WEDNESDAY, SEPTEMBER 24, 2008
$1.50
WHITE HOUSE PUSHES PLAN; BUFFETT TO INVEST $5 BILLION TO BOLSTER AILING GOLDMAN
ANDREW COUNCILL FOR THE NEW YORK TIMES
Treasury Secretary Henry M. Paulson Jr., left, and Ben S. Bernanke, the Federal Reserve chairman, faced five hours of questions from a skeptical Senate Banking Committee.

Before a packed room, the two US monetary officials gave testimony in a session that lasted almost five hours (Committee on Banking, Housing, and Urban Affairs 2008; U.S. credit markets and federal rescue plan 2008).[352] Many senators asked polite questions and some expressed scepticism and frustration. None asked the US monetary officials to explain what legal basis they had for urging taxpayers to bailout the financial institutions of the wealthy. This was an important omission. Poignantly, most Americans did not really understand how it was that as *taxpayers* they were legally obliged to fund the bailouts through public debt. Ironically, 'the American people' became liable for all debts created by the Federal Reserve System during a prior financial crisis – the Great Depression. On June 5 1933 Congress had passed House Joint Resolution 192 (HJR192), wherein the separation of powers between the federal government and state citizens was lost. An usurpation of state

sovereignty occurred because the Federal Reserve's bank notes and the private credit of its joint-stock holding member banks were in use by more than 51% of the population. Through their silence, American citizens were considered under commercial law to be in voluntary agreement with the Federal Reserve System (Brobst 2003: 4-5, fn 11: 9-10; 2010: 1, 4; Brobst & Beddoe 1991: 28).[353] This meant a third party was able to be pass on the rights and liabilities "constructed upon the circumstances" without the participation, consent or knowledge of the state citizenry (Brobst 2003: 7; Brobst & Beddoe 1991: 12-13). This third party was the Federal Reserve System. Conspicuously, none of the newspapers relayed the views of the "sign-toting protestors" or American citizens that occupied the back row seating during the hearing (Hitt, Reddy & Solomon 2008, September 24: A3, *WSJ*).

The US monetary officials' testimony and the news media's coverage relied on the *experiential evidence* of market turmoil for proof that the bailout was needed.[354] Indeed, only one article – from *The New York Times* – pointed out that the Committee did not challenge the dire scenarios that were suggested by Bernanke and Paulson if no bailout funds were authorized (Landler & Herszenhorn 2008, September 24: A1). Furthermore, Paulson and Bernanke provided no *substantive evidence* to demonstrate that the dire scenarios they described would likely ensue without the $700 billion bailout. Bernanke and Paulson's testimonials were replete with threats, but the news media reported them as benign warnings.

According to *New York Times*' reporters Mark Landler and David Herszenhorn, "Bernanke warned" the Senate Banking Committee that if "the $700 billion plan" was not passed, then the chances of a recession, rising unemployment and more mortgage defaults would likely increase (2008, September 24: A1). As chairman of the Board of Governors of the Federal Reserve System, Bernanke was brazenly threatening the senators. From a critical perspective, the sub-text of Bernanke's "performance," which was replete with technical explanations, was that the financial oligarchs who constituted the Wall-St-Fed-Treasury Complex were prepared to withhold the supply of 'capital' – credit (A1).[355] Indeed, when Paulson testified before the House Financial Services Committee on Wednesday September 24, the Treasury secretary threatened the "economic well being" of "the American people" while masking his remarks in crisis management rhetoric (Stolberg & Herszenhorn 2008, September 25: A1, *NYT*). *The New York Times* quoted Paulson's appeal:

> The entire proposal is about benefiting the American people because today's fragile financial system puts their economic well being at risk. (Paulson as cited in Stolberg & Herszenhorn 2008 September 25: A26)

Since the 'financial system' is mostly controlled by the Wall Street-Washington Complex, the head of the Treasury Department was in effect slyly communicating that the financial oligarchs regarded "the American people" as an "at risk" social group.

As some news reports on the Senate Banking Committee noted, the White House and the Republican leadership stepped up their own lobbying activity on Tuesday September 23. This activity was focussed

on wealth defence and included a decision to have the president address the nation live on prime-time television on Wednesday evening, September 24.[356] The White House had concluded that Paulson and Bernanke were failing to create messaging that could be used by the news media to persuade the populace (Montgomery & Kane 2008c, September 25: A11, *WP*; Stolberg & Herszenhorn 2008, September 25: A1, *NYT*).[357] Bush's 13-minute television appearance was designed to manipulate the audience, estimated at approximately 52 million people, through fear ("52.7 million watched…" 2008, September 26; "President Bush Addresses…" 2008, September 25). The president's address was replete with threats that were reported as dire warnings. As such, I have called this collective action in oligarchic wealth defence, the 'Present the Peril Live' ritual.

On September 25, the three American newspapers depicted the linkage between the financial crisis and the presidential campaign with photos of the candidates. This reflected a broader pattern across all three American newspapers; the drama of campaign politics overruled analysis of financial developments and deeper power relations.[358] The three American newspapers reported Bush's appeal to 'the American people,' ostensibly out of concern for their credit access difficulties, as though it were a benign warning. Bush's stated, "our entire economy is in danger." Thus, a 'nation-as-person' metaphor, which typically conflates the political construct of the state with media characterizations of its political leader, was used to universalize the threat inherent to this 'Present the Peril Live' ritual (McKinnon 2008, September 25: A6, *WSJ*; Montgomery & Kane 2008, September 25: A1, *WP*; Stolberg & Herszenhorn 2008, September 25: A1, *NYT*).[359]

The Washington Post
Bush Calls Bailout Vital to Economy, Will Meet With McCain and Obama
THE CAMPAIGNS: First Debate's Fate Unclear As Obama Resists McCain's Call to Postpone
THE BAILOUT: Proposal Takes Shape In Congress, but Broad Support Is Lacking
THE WALL STREET JOURNAL.
Financial Crisis Upends Campaign
Obama Rebuffs McCain's Request to Postpone Debate; Voters Divided Over Bailout
The New York Times
Bush to Hold Meeting on Bailout; First Debate Up in Air
McCAIN FOR DELAY
PLEA FOR SUPPORT
Rescue Plan's Basic Mystery: What's All This Stuff Worth?

As well as creating an event that would capture the news agenda, Bush announced during his 'Present the Peril Live' ritual that the next event in the crisis narrative – a White House 'Summit' – would take place the following afternoon, September 25. This 'Solidarity' ritual would bring together both presidential candidates and appeared to be intended as a forum for Republican and Democrat leaders to come to a consensus on the bailout proposal. However, the attempt to present a bi-partisan cooperative approach to the bailout, instead turned the White House 'Summit' into a heated argument between the leadership of the rival parties. The ruction evidently occurred because "a renegade block of Republicans" had tabled their own alterations to the Treasury bailout plan, to the ire of the Democrat

leadership, who needed bipartisan support for the unpopular bill (especially with an election looming) (Montgomery & Kane 2008, September 26, A1, *WP*). The meeting broke-up without the expected 'meet the press' media ritual and this caught the news media and the financial oligarchy off-guard.

Because the news media were not permitted to be present, journalists were faced with the challenge of gaining reconstructions of what occurred from those inside the meeting, instead of merely reproducing quotations from the press conference they were obediently waiting for.[360] Photos on the front-pages of *The Washington* Post, *The Wall Street Journal* and the *Financial Times* of congressional leaders from both parties gathered at the September 25 meeting created the optical illusion that the news media was performing its watchdog role. For the most part, the reconstructed accounts focussed on dramatizing the 'Summit' as though it were merely about political parties and the Republican-controlled White House trying to gain popularity. President Bush's statement during the meeting, "If money isn't loosened up, this sucker could go down" was widely reported. As *BBC* journalist Paul Mason stated, Bush's quote became famous (2009: 28). Yet the coercion of popular sentiment was not remarked upon. Its universal reproduction helped to spread the emotional contagion of fear. A report in *The Times* headlined "Anger, fear and deadlock, then Bush sums it up: 'this sucker could go down,' was the only daily news account of the 'Summit' that attempted to contextualize the US economy in terms of its vulnerability to capital flight from foreign powers (Baldwin 2008b, September 27).[361] Evidently, a Treasury official for international policy, David McCormick had been sent to China and other Asian countries to restore confidence in their investments of US debt earlier that week. Thus, the power relations underpinning the 'Summit' were barely touched upon in the news coverage.[362]

The Washington Post

Talks Falter on Bailout Deal

White House Summit Fails to Yield Accord as House GOP Floats New Plan

FINANCIAL TIMES

Inside the financial crisis

Dissenters hold up US bail-out

The 'Summit,' drew in the presidential candidates and a huge contingent of news media and was intended to impress upon 'the American people' that their economic well-being depended on the timely passage of the bailout bill.[363] Indeed, one could argue that the decision to have Bush address America across mainstream media outlets was about making the bailout *seem* consensual and to

THE WALL STREET JOURNAL.

WaMu Is Seized, Sold Off to J.P. Morgan, In Largest Failure in U.S. Banking History

What's News—

Bailout Negotiations in Disarray

Treasury's $700 Billion Proposal Hits Stalemate; Dramatic Gesture by Paulson

Bailout Negotiations in Disarray

Treasury's $700 Billion Proposal Hits Stalemate; Dramatic Gesture by Paulson

undermine what the financial oligarchs would have perceived as a popular threat to their authority. An oppositional mobilization occurred the same afternoon as the White House 'Summit.' Approximately 250 small-size demonstrations erupted across America, including one of around 1,000 people on Wall Street (Mason 2009; Rooney 2008, September 25). This attempt at a counter-movement received no post-event front-page coverage (Beattie & Politi 2008, September 27: 7, *FT*; Lueck & Phillips 2008, September 26: A6, *WSJ*).[364] Ironically, the reportage elevated the sense of economic 'peril' because the news media had behaved submissively, just as studies of crisis and presidential campaign media rituals could have predicted (Esser, Reinemann & Fan 2001; 't Hart 1993). In summary, the rituals of the 'Reassurance and Purification' phase were marked by: threats that were presented as benignly intended warnings; vague justifications and technical explanations that obscured the financial oligarchy; and political manoeuvres designed to make the financial crisis a presidential election issue (in order to scare 'voters' into changing their thinking on the bailout).

The 'Pragmatism replaces 'free-market' ideology' phase occurred from Friday September 26 and continued beyond Tuesday September 30. For the first three days of this phase, Wall Street donned a 'Cloak of Invisibility.' The oligarchy and Wall Street's executives and lobbyists all but disappeared from the coverage over the weekend. This apparent disappearance lent cohesion to Bush's rhetoric delivered in his regular radio speech on Saturday September 27. The president manipulatively appealed to the victims of the crisis – ordinary Americans – when he claimed, "The rescue effort we're negotiating is not aimed at Wall Street – it is aimed at your street (Montgomery & Kane 2008e, September 28: A19, *WP*).[365] The only 'glimpse' of an oligarch, other than Paulson, was Warren Buffett who received a phone call from a senator who had asked the 'go to Oligarch' for his "advice" (Montgomery & Kane 2008, September 28: A1, *WP*). The *Financial Times* reported that Buffett cautioned Democrat politicians during this phone conversation that "the biggest financial meltdown in American history" would occur if the bailout did not pass (Politi, Guha, Dombey & Morris 2008, September 29: 1). This overt act of seeking Buffett's 'advice' signalled that Wall Street interests were not forgotten and that the financial oligarchy spoke with one symbolic 'visible' voice. As *Washington Post* columnist Steven Pearlstein would point out the next day, Monday September 29, Wall Street's lobbyists had been told to 'lay-low' over the weekend (Pearlstein 2008, September 29: A1).

The coverage of the weekend reported the attempts by various groupings of politicians to gain provisions in the bailout bill to restrain Wall Street, provide some help for homeowners in need and to ensure transparency.[366] Despite these proceedings involving the appropriation of $700 billion, reporters continued to submit to the private nature of these meetings, in keeping with their observance of the 'neutral bystander' role. Indeed, when *The New York Times* and *The Wall Street Journal* reported that camera crews jostled to capture footage of a loud argument taking place inside one room of the Capitol building on Saturday afternoon, contextual information was absent (Herszenhorn & Hulse 2008,

September 28: A1, A29; Solomon, Paletta & Hitt 2008, September 29: A1).[367] The television crews were outside trying to film through a window as astonished tourists watched the spectacle. During this meeting, Paulson reminded the politicians about the takeover of Washington Mutual by JPMorgan Chase during the week in order to emphasize that more corporations were experiencing severe financial difficulty (Herszenhorn & Hulse 2008, September 28: A29, *NYT*; Solomon et al. 2008, September 29: A1, *WSJ*). According to Andrew Sorkin in his book *Too Big to Fail*, Neel Kashkari – who had co-authored the Treasury's 'Break the Glass" 'contingency' plan – had advised his Treasury colleagues to avoid talking about the draft provisions and to deflect attention to the possibility of financial calamity, should the bill fail to pass.[368]

Furthermore, 'Congressional staff' had been compelled to hand in their Blackberry smart-phones because information was said to be 'leaking' (Herszenhorn & Hulse 2008, September 28: A29, *NYT*; Solomon et al. 2008, September 29: A1, *WSJ*). But little was reported about the content of these leaks and the people they were sent to. It turned out that some among the congressional aides, politicians and Treasury officials were leaking information to representatives in the financial industry. In response, financial lobby groups and their members were sending electronic messages to those inside, including the politicians, in an effort to influence the political process (Williamson 2008, September 30: A4, *WSJ*). This continued into the evening in an attempt to undermine a Democrat-sponsored provision to recover costs from the financial industry (if after five years the Treasury had lost money from selling the assets it bought) (Williamson 2008, September 30: A4, *WSJ*). As a consequence of this lobbying effort, three Treasury officials had worked from 1a.m. to 4a.m. with congressional staff on the bailout draft (Solomon et al. 2008, September 29: A1, A4, *WSJ*). A *Wall Street Journal* report headlined "Congress, Treasury sign off on bailout package" did not investigate their ties to Wall Street and inquire about what involvement they may have had in the Treasury's "Break the Glass" 'contingency' plan mentioned in the article. This crucial information was needed because it could not be assumed that the officials were conscientiously working as public servants (Solomon et al. 2008, September 29: A1, A4, *WSJ*).[369]

AFTER THE MARATHON: Treasury Secretary Paulson, center, House Speaker Pelosi and Senate Majority Leader Reid announcing the deal; the House is expected to vote on it Monday. Complete coverage starts on Page A2.

THE WALL STREET JOURNAL.

MONDAY, SEPTEMBER 29, 2008 · VOL. CCLII NO. 78

Congress, Treasury Sign Off On Bailout Package

Wells Fargo Eyes Wachovia; Crisis Hits European Banks

Lehman's Demise Triggered

The lead stories for Monday September 29 headlined "Bailout plan is set; House braces for tough vote" in *The New York Times*; "Sweeping bailout bill unveiled" in *The Washington Post*; and "Congress, Treasury sign off on bailout package," in *The Wall Street Journal* downplayed the enormity of the bailout

(Hulse & Herszenhorn 2008, September 29: A1, *NYT*; Montgomery & Kane 2008f, September 29: A1, *WP*; Solomon et al. 2008, September 29: A1, *WSJ*).[370] *The New York Times* claimed it was "virtually impossible to know the ultimate cost of the rescue plan to taxpayers." In any case, it was not worth investigating because the reporters added, "Congressional leaders stressed it would likely be far less than $700 billion" (Hulse & Herszenhorn 2008, September 29: A1, *NYT*). This ritualistic statement of reassurance evidently 'balanced' the 'risk.' *The Washington Post* promoted this misleading impression by carrying the president's emphasis that in the long-run, the burden of the bailout would be far less than the "ultimate cost" of $700 billion, as the journalists worded it (Montgomery & Kane 2008f, September 29: A12, *WP*). Similarly, *The Wall Street Journal*'s reporters claimed that the bill protected the government's exposure to "ultimate losses" (Solomon et al. 2008, September 29: A1).[371]

In fact, the bill provided for the US Treasury to hold up to $700 billion worth of securities *at any one time* (Emergency Economic Stabilization Act of 2008 H.R. 1424, 110th Cong. § 115: 16). In other words, the proposed federal bailout was structured to continuously process $700 billion worth of securities, stocks and other financial claims, once it was running at full capacity. This meant then that in their adjustment to the 'rescue' frame, the three American newspapers obscured the intended enormity of the bailout by uncritically reproducing crisis management statements. While the newspapers either emphasized the import of the bailout bill, or overstated concessions for taxpayers and the apparent unprecedented new authority for the Treasury secretary, they all failed to investigate the significance of the underlying transformations afoot.[372] On Monday September 29, the House of Representatives voted down the bailout bill (205 votes for and 228 against). The voting session was broadcast live on television around the world and was keenly watched on the trading floors of stock and commodities exchanges and major financial firms (Kane & Montgomery 2008, September 30: A10, *WP*). Although the bill had support from the leadership from both parties, there was widespread opposition to the bailout.[373]

Stock markets worldwide began to fall as it became clear that the bailout was going to be rejected, and then they plunged, as *The New York Times* graphically depicted on its Tuesday September 30 frontpage. Similarly, the September 30 front-pages of *The Washington Post* and *The Wall Street Journal* merged the dropping value of the Dow Jones stock index over the course of the day with the casting of the House votes.[374] The *Financial Times*'

used imagery of a plummeting stock index overlaid on an image of a white-collar worker clasping his face in despair, while *The Times* used a wide long-shot of the Capitol building starkly lit with sunlight breaching dark clouds (Jagger & Hosking 2008, September 30: 1, *T*). This foreboding image borrowed the film narrative technique of setting the time and place of historically important scenes with a wide establishing shot. The reportage either implied or explicitly asserted that opposition to the bill was responsible for a major stock-market decline.[375] Recriminations flew thick and fast in the emotionally charged atmosphere.[376] The headlines and imagery either tacitly or explicitly framed politicians who dissented as rebellious, linked the outcome to 'investor opinion' and provided new subjects and objects upon which to project blame, uncertainty and fear.[377]

Because the news media's stance was to uphold the 'rescue' frame despite the $700 billion price-tag, perspectives emanating from 'the public' or 'taxpayers' were, for the most part, excluded, even as they continued to be used as an artefact. An exemplarly case of the democratic process being subjected to a ritual of animosity was a *New York Times*' front-page headline for Tuesday September 30, which read "Defiant House rejects huge bailout…" and its subheading "Leaders rebuffed in 228-205 vote – Broad public anger is cited" (Hulse & Herszenhorn 2008, September 30: A1).[378] Articles such as "Bailout plan rejected, markets plunge…" in *The Wall Street Journal* failed to ask the public why they had "barraged" congressional politicians "all week with angry messages" (Lueck, Paletta & Hitt 2008, September 30: A1). More importantly, *The Wall Street Journal* (and the other daily newspapers) failed to investigate the "populist uproar" to see if there were better economic ideas available from the public and non-establishment experts. Instead, the public were subordinated to the interests of the all-important 'investor.' As political scientist E.E. Schattschneider argued, "the definition of alternatives is the supreme instrument of power" (1961: 68). The meaning inferred in the newspaper coverage on September 30 was that the ensuing stock market volatility was necessary to shift 'recalcitrant' politicians' thinking (presumably through the fear of losing investments, savings and votes).

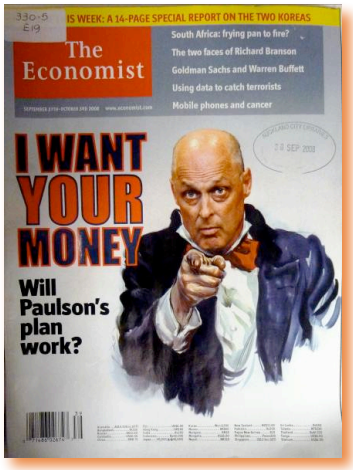
To this end, *The Washington Post* published a 'sentiment-finding' piece on September 30 that contained interviews with several characters whose occupations and opinions were used to communicate threats and promises symbolically to Washington's political elite. At face value, the report entitled "For many Americans, fear and distrust run high" and captioned, "The backlash" appeared to be a rather innocuous piece intended to capture the mood of ordinary Americans (Achenbach & Surdin 2008, September 30: A1).[379] Aptly, "The backlash" report ended with two funeral directors who were interviewed in the parking lot outside a branch of Wachovia bank, which was at the time the target of a takeover and had evidently been "forced from existence" (Appelbaum 2008, September 30: A1, *WP*). One of the funeral directors – Greg Houston – gave a summary of his outlook on the downturn. The reporters stated that he expected the situation to worsen and the funeral business to suffer. In other words, Houston was communicating he 'had a problem,' which was that even the business that was based on one of the 'two sure things in

life' – death – was under threat. That was, unless the other 'sure thing in life' – taxes – were gained on Capitol Hill.[380]

The 'rescue' master frame across the daily newspapers was characterized by discourses that were packaged with fear, problem-solution and market recovery sub-frames. The mythological Saviour metaphor became the prominent narrative device and was used to construct characterizations of central actors and institutions as ultimate resolvers of the financial crisis (within the 'rescue' master frame). As the flak from the political elite toward rebellious politicians became more vocal, the fear frame enlarged. More animosity was expressed in the 'rescue' master frame toward the Democrat and Republican political parties, the public as voters or taxpayers, and the government for failing to provide sufficient market oversight. Wall Street also was targeted for flak, but because it operated under the cover of 'private enterprise' and the 'free market' – it was absolved of any political responsibility. The financial oligarchy's dominance over the financial-regulatory and legislative frameworks was not the subject of scrutiny. Similarly, since 'government' is portrayed as separate from the economic realm, its collusive entwinement with Wall Street was portrayed as a series of 'mistakes.'

Weekly and Bi-weekly Publications

Across the weeklies and bi-weeklies fear was deployed in the 'rescue' master frame (suggesting catastrophe if the bailout bill did not pass). Since the publishing cycles of the weeklies and bi-weeklies cannot react to news on a daily basis, the longer 'shelf life' built into the articles and imagery contained forward looking viewpoints aimed at shaping readers' thinking. Their narratives made sense of what had occurred in recent times, sometimes by comparison to more historical referents, and sought to show 'the way forward.' The 'Saviour' metaphor was used in conjunction with historical referents in the weeklies and bi-weeklies.



The cover of *The Economist* for September 27th 2008, entitled "I want your money" depicted Henry Paulson as the quintessential World War I era Uncle Sam character pointing directly at the reader.[381] Evidently, with Paulson cloaked in a blue dinner jacket, it was his job to avert economic collapse. *BusinessWeek*'s October 6 edition included an article entitled "The Global View: Bloodied but still strong," that featured an illustration of a wiry black and white sparring, bloody-nosed Uncle Sam, dressed in 'Stars and Stripes' boxer shorts (Ewing 2008: 22). The reporter claimed that the opinion

"among bankers and citizens alike" of Henry Paulson was favourable, since he had dispensed with "free-market dogma" to propose the huge bailout.

The Guardian Weekly 26.09.08 15

Finance

The week the financial world changed

Investment banking model undergoes a radical realignment

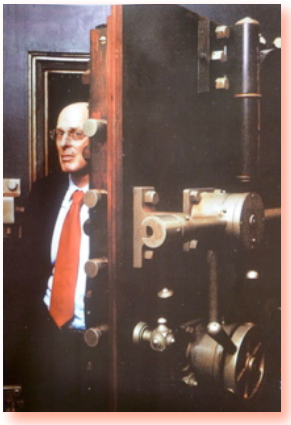
Andrew Clark New York

The US treasury has set a $700bn scheme to bail out the banking industry through a coordinated global plan to patch up the wounded financial system, and is pressing Britain, Japan, Germany and other industrialised nations to copy its lead.

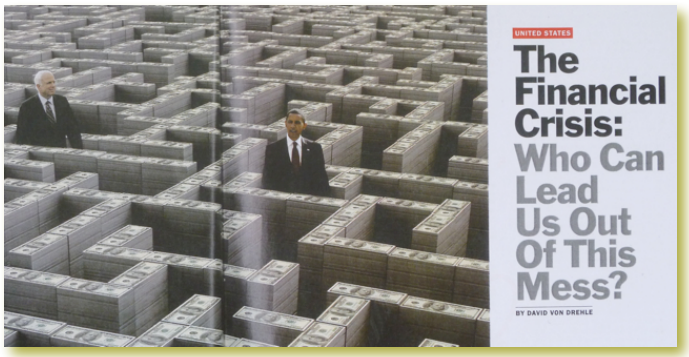
The bailout plan was crafted after a week in which global markets moved into meltdown mode, massive swaths of capital were wiped off balance sheets and thousands lost their jobs. A proposed state-sponsored organisation in the US to sweep up banks' toxic mortgage debt will require funding equivalent to more than $2,000 for every American citizen. It involves raising the statutory ceiling on the US

Questions . . . US treasury secretary Henry Paulson talks to reporters after moves to stabilise the markets Reuters

The September 26 edition of *The Guardian Weekly* used a wide shot of Paulson pointing at a journalist during a press conference, to dramatically emphasize the scale of the US bailout plan, said to be the largest "since the Great Depression" (Clark 2008: 15). The image, used to accompany an article headlined, "The week the financial world changed," invoked the Uncle Sam character too, because Paulson was looking and pointing toward the camera. The reporter quoted the US Treasury secretary, "I'm going to be pressing our colleagues around the world to design similar programmes for their banks and institutions." Thus, the Saviour metaphor was invoked (Clark 2008: 15).



Similarly, the September 29 issue of *Fortune* magazine featured an article entitled "Paulson to the rescue," which was accompanied by a photo of the Treasury chief standing at the vintage door of a US Treasury vault (Gunther 2008: 50-51). Paulson's squinting expression can be read as a provocative image of wealth defence on behalf of America's oligarchs, especially given the American civilization's history, replete with wars fought to gain control over money creation (Brown 2008; Griffin 2008; Still 2009; Zarlenga 2002).



The October 6 edition of *Time* featured an article entitled "The financial Crisis: Who can lead us out of this mess?" which was accompanied by an image that depicted senator McCain and governor Obama standing in a maze constructed of stacks of the Federal Reserve's $100 dollars bills (von Drehle 2008: 19). Because McCain is looking across the oversized bills at Obama, who is looking across the maze, frowning, *Time* created the visual effect that with Obama there is a better chance of figuring out an 'exit strategy,' upholding the Constitution and saving the economy (See Appendix IV, Fig. 7 & Appendix VI, Event Cluster Three).

Flak and criticism like that more generally directed at the US monetary authorities, stayed within the boundaries of the rescue frame; Wall Street and the financial oligarchy were not directly attacked.[382] For instance, *BusinessWeek* reporter Peter Coy timorously offered that the Treasury-Fed plan was "a

contradiction in terms: a free-market bailout" (Coy 2008c: 30). The image accompanying his October 6 report, entitled "$700 billion, no strings attached," depicted the frontage to the New York Stock Exchange floating with the aid of a parachute constructed of US one dollar bills in a cloudy green sky (Coy 2008c: 30-34). A small crowd of suited, white-collared men stand in a circle atop the parachute, as two 'less fortunate' dudes fall from above. This illustration captured the critical intent underpinning the article. The intention behind this '*deux ex machina*' metaphor was to project flak at Wall Street for its apparently unexpected resort to a bailout. This was in order to emphasize the breach of capitalism's ideology and of 'free-markets' in particular, rather than expose the boom-bust-bailout formula.[383]

The Economist, *Fortune, BusinessWeek* and *Time* magazines, as well as *The Guardian Weekly*, portrayed Paulson and Bernanke as heroic rescuers by drawing upon their career credentials to save the financial system. These depictions were rituals of 'Reassurance and Purification' that served to legitimize the government's role in managing the 'crisis.' *BusinessWeek*, *Fortune* and *The Economist* portrayed Paulson as being ideology-free and therefore pragmatic (Ewing 2008: 22; Gunther 2008: 53-54; "President Hank" 2008: 46). Such portrayals marked the 'Pragmatism replaces 'free-market' ideology' phase and worked to gain support from elites and the common people regardless of whether they had internalized neoliberal ideology (von Drehle 2008: 21). All the magazines and *The Guardian Weekly* performed ideologically to influence their audiences. To this end, they universalized the interests of the Anglo-American financial oligarchy, legitimized the actions of the financial authorities through heroic depictions of the key players, naturalized the financial turmoil and sought to control readers' opinions and actions with fear-laden metaphors, omissions and historical distortions.

Event Cluster Four: Resurrection of the Bailout Bill

Monday September 29 to Friday October 3

This cluster of events traces the lobbying efforts, provisions and adjustments to the 'rescue' frames immediately following the failure of the bailout bill to pass in the House of Representatives on Monday September 29, through to the media rituals after the bill was passed by the House on Friday October 3. Key players of Washington's political elite, Bush administration officials and Wall Street regrouped on Monday afternoon to discuss what to do next. Two senators introduced the bailout bill in the Senate that evening, when only a handful of congressional members were present. On Tuesday September 30, the Bush administration brought in business representatives from 'Main Street.' Meanwhile, a shift in

sentiment occurred among voters and politicians, and a discourse emerged in the media about re-branding the bailout.

The Senate passed the bill on Wednesday October 1 with 74 votes in favour and 25 votes opposed. Between Monday afternoon and Wednesday evening, numerous 'sweetener' provisions that appealed to Main Street business leaders were added to the bailout bill, in order to win over House politicians who had previously voted no. On Friday October 3, the House of Representatives passed the bill with a vote of 263 for and 171 against. Within two hours, president George W. Bush signed the bailout bill into a law, entitled the "Emergency Economic Stabilization Act of 2008." All week, Wall Street is 'lost in the crowd' amid an intensification of lobbying and continued market volatility (See Appendix V, Fig. 8).

Bailout 'Resurrection' Ritual – Senate & House Pass Bailout Bill

Rituals that drew upon the symbolic practices of Christian mythology were evident throughout this cluster of events, which I have entitled, "Resurrection of the Bailout Bill." On Monday afternoon of September 29, a meeting took place in the Roosevelt Room between Paulson, his Treasury colleagues and "the administration's economic team" shortly after the House vote (Weisman, Cho & Kane 2008, October 4: A1, *WP*). When Bush joined the officials, the president reportedly asked, "If the plan is not working, what is Plan B?" Paulson is alleged to have answered, "There is no Plan B." Amid an intensive lobbying effort by the White House, senior politicians, financial industry leaders and lobbyists, vice president Richard Cheney held a meeting with House Republicans in the Cannon caucus room on Tuesday September 30 (Weisman et al. 2008, October 4: A9, *WP*). In effect, Cheney's performed a 'Decree' ritual since it was intended to regain the submission of the House Republicans to the White House's 'moral canon law.' Cheney's doctrinaire pre-scripted speech provoked many of the Republicans present to testily resist the duress of voting on such a huge appropriation of tax funds.[384]

On Wednesday October 1, Bush held a meeting in the symbolically chosen Old Executive Building with "business leaders" to gain their support (Herszenhorn & Pear 2008, October 3: A22, *NYT*; Montgomery & Eggen 2008, October 3: A1, *WP*). The location was symbolic since the building is home to several agencies that form part of the Executive Office of the President including the Office of the Vice President and the National Security Council and was originally home to the State, War and Navy departments. (National Parks Service U.S. Department of the Interior n.d.). It was also the building Paulson worked from while waiting to be sworn in by president Bush as Treasury secretary (Paulson 2011).[385] On Wednesday October 1 and Thursday October 2, numerous articles reported on the 'sweetener' provisions being added to the bailout legislation such as raising deposit insurance on savings accounts, tax breaks for mortgage borrowers and the possibility of changing rules governing the bank valuation of assets.[386] The news media portrayed the lobbying efforts as positive and necessary amid a dire situation.[387]

Each of the three American newspapers found their own way to include fear and threats on their front-pages and in their lead stories for Wednesday October 1, the day the Senate was due to vote on the bailout bill. For example, *The Washington Post* used a high-angle cinematic photo of workers walking a wet pavement in London's Canary Wharf business district.[388] The photo's composition included a motif of three clocks, which worked as a threat to go with the caption that, in effect, asserted there was worldwide elite consensus for "Washington to solve the global financial crisis" (2008, October 1: A1). Hence, the image communicated that the clocks were ticking (Murray & Kane 2008, October 1: A1, *WP*).[389] Instead of critical reportage prior to the passage of the bailout bill, blame was projected either onto dissenting politicians or the political leadership.[390] *The Wall Street Journal* described the House rejection of the bailout bill as "a stunning revolt by rank-and-file lawmakers;" *The New York Times* called it "a revolt that rocked the Capitol;" and *The Washington Post* dubbed it "[a] bipartisan rebellion" (Hitt & Paletta 2008, October 1: A1, *WSJ*; Hulse & Herzenhorn 2008, September 30: A1, *NYT*; Weisman 2008, September 30: A1, *WP*). With these deflections, the American newspapers were able to get away with casually reporting that there had been a noticeable sentiment-shift from the public as a result of the market turmoil, evidently caused by the House "rebellion" or "revolt." This change was evident in calls and emails to congressional politicians, television networks and radio station leadership.[391] Conspicuously, the public's direct communications with the newspapers themselves were omitted from these reports. This meant that these publications were off-the-hook to explain why the real insurers of financial system were censored from their front-pages since the bailout had been announced. Indeed, the reports did not point out that the public had no formal arena to challenge the private lobbying that took place.

The Washington Post

FINAL EDITION

Wednesday, October 1, 2008

CAMPAIGN 2008

Most Voters Worry About Economy

Majority Consider Situation a Crisis

Lawmakers Revise Rescue Plan

Stocks Rise; Senate Aims To Vote Tonight

The evening of Wednesday October 1 saw the Senate perform a 'Judgment' ritual by passing the bailout bill by 74 votes to 25. *The New York Times*' and *The Washington Post*'s used almost identical descriptors for their front-page leading headlines on October 2; respectively, they were, "Senate approves bailout proposal…"and "Senate approves bailout…" (Hulse 2008, October 2: A1; Montgomery & Murray 2008, October 2: A1). The *Financial Times* and *The Wall Street Journal* frontpage headlines on October 2 used medical-mythological metaphors to explain the passing of the bailout bill by the Senate respectively; they were: "Senate revives US bail-out;" and "Senate vote gives bailout plan new life" (Guha, Barber, Tait & Hall 2008, October 2: A1; Hitt & Lueck 2008, October 2: A1). Whereas, *The Times* used an industrial metaphor in its headline "US Senate salvages the $700 bailout" (Reid & Hosking 2008, October 2: 1).[392] All the news outlets failed to investigate the collusion inherent to the increased market volatility that had followed the rejection of the bailout bill on Monday September 29.[393]

Meanwhile, the *Financial Times* focussed on supporting the US bailout with the purpose of inducing buy-in from British news audiences to the idea of system-wide bailouts in Britain and continental Europe (Brown, Tait, Parker & Larsen 2008, October 1: 1; Guha, Barber, Tait & Hall 2008, October 2: A1).[394] To this end, its Thursday October 2 lead story headlined "Senate revives US bail-out," the reporters masked the collusion between the Bank of England, Her Majesty's Treasury and the UK financial industry. The *Financial Times*' journalists stated the UK monetary authorities were "working on a range of plans in case a more co-ordinated approach arises" (Guha et al. 2008, October 2: A1). These initiatives included an expansion of liquidity operations, tax-payer backed mortgage securities, government credit for banks, a facility to process 'hard-to-value' assets in the events of bank failures and government capital stakes in banks.[395]

On Friday October 3, the House performed its second 'Judgment' ritual in a week on the bailout bill, and this time passed it by 263 to 171 votes (Herszenhorn 2008, October 4: A1, *NYT*). Following the vote, House speaker Nancy Pelosi and the Democrats held a 'triumphant' press conference, which *The Wall Street Journal* depicted on its Saturday October 4 front-page with a shot of Pelosi holding a bounded copy of the bill to the camera (Hitt & Solomon 2008, October 4: A1, *WSJ*).[396] This was, in effect, a 'Crucifixion Sacrifice' ritual because the financial oligarchs had metaphorically 'nailed' their bill over the heads of 'the American people.' Their 'sacrifice' was deemed 'necessary' so that the investment class could be 'saved' from their 'secular sins.'[397]

THE WALL STREET JOURNAL.
SATURDAY/SUNDAY, OCTOBER 4 - 5, 2008
WEEKEND EDITION
Historic Bailout Passes As Economy Slips Further

The New York Times
NEW YORK, SATURDAY, OCTOBER 4, 2008
BAILOUT PLAN WINS APPROVAL; DEMOCRATS VOW TIGHTER RULES

The Washington Post
Saturday, October 4, 2008
Bush Enacts Historic Financial Rescue
After Change In Tax Law, Wells Fargo Swoops In
House Passes Plan By Wide Margin, but Stocks Keep Falling

Within a couple of hours of the House vote, president Bush performed the 'Presidential Prerogative' ritual when he signed the bill into law (Montgomery & Kane 2008, October 4: A1, *WP*). Such official signing ceremonies I call 'Presidential Prerogative' rituals because they duplicate a monarch's exclusive power to authorize or block decisions (Cahill 2006: 49). Shortly after, Paulson and Bush shook hands in front of the Treasury Department building to 'seal the deal.' *The Washington Post* and *The New York Times*' used similar low-angle photos of Bush and Paulson shaking hands on their October 4 frontpages, set below the respective headlines, "Bush enacts historic financial rescue" and "Bailout plan wins approval…," respectively (Montgomery & Kane 2008, October 4: A1, *WP*; Landler & Andrews 2008,

October 4: A1, *NYT*). The handshake photos communicated a 'Resurrection' ritual because it signified the 'saving' of the financial system.[398]

Following the passage of the bailout, the newspapers were faced with the challenge of adjusting the 'rescue' frame, once again, in order to downplay or ignore contradictions within the 'crisis' narrative. As several newspapers noted, the enactment of the bailout bill failed to calm markets. On October 4, the *Financial Times* led with "Bail-out approval fails to calm markets;" which tacitly indicated the stock markets were used as a gauge for the outlook of the investment class (Dombey, Politi, Guha, Morris, MacKenzie & Giles 2008: 1). The *Financial Times*' report was vague about why "Wall Street turned increasingly negative after the vote – which was ironic – given that all the newspapers had either blamed the US House of Representatives' rejection of the bailout bill for causing the markets around the world to drop, or for risking economic collapse. Meanwhile, *The New York* Times, *The Wall Street Journal* and *The Washington Post,* deflected blame onto bleak economic data (Herszenhorn 2008, October 4: A1, *NYT*; Hitt & Solomon 2008, October 4: A1*, WSJ*; Montgomery & Kane 2008, October 4: A1, *WP*).[399]

It was not until after the bailout passed that *The Wall Street Journal* fleetingly allowed perfunctory flak (focussing on the coercion behind the market volatility) to enter the 'rescue' frame, in order to rebuild legitimacy with the audience. News Corp's flagship American newspaper quoted a Democrat politician, Brad Sherman, who acutely captured Paulson & Co.'s manipulation through fear.[400] Sherman amusingly stated in the article:

> Paulson's arrogance is shown not only in how he treated rank-and-file members at the hearings, but in his original proposal, which has to be regarded as a ransom note: 'We've got your 401(k) and you'll never see it alive again unless we get $700 billion in unmarked bills.' (Sherman as cited in Solomon 2008, October 4: A3)

The news outlets failed to highlight the aggressiveness of those financial institutions that had used their capacity to drive down the Dow Jones towards the end of the House vote on Monday September 29 (stock market indices rose after voting closed). This failure meant that the news media did not make the connection that AIG – Wall Street's financial debt-sponge – was a major insurer of the American workforces 401(k) savings and investment plans (Paulson 2011: 233). Those 401(k) plans were heavily invested in shares measured by the Dow Jones Industrial Stock Index, including AIG, and this is why the American newspapers, particularly *The Wall Street Journal* (owned by The Dow Jones Company), emphasized the Dow's plunges and volatility (Arsenault & Castells 2008; Dash & Sorkin 2008, September 18: C1, *NYT*; Grunwald 2008: 28).[401]

Conspicuously, once the bailout bill was passed, crucial details about the bailout plan began to surface as well, on Saturday October 4 (after the bailout bill became law).[402] An exemplary example appeared at the halfway mark in *The Wall Street Journal*'s lead story headlined "Historic bailout passes as economy slips further" (Hitt & Solomon 2008, October 4: A1). The reporters revealed that the new law included a

provision to allow the Federal Reserve to pay banks interest for their deposits held with the central bank. Reporters Greg Hitt and Deborah Solomon failed to clearly explain how it was that banks could "leave" reserves "on deposit" with a central bank, and what the implications were. Instead, *The Wall Street Journal*'s reporters gave their readers an oversimplified explanation that positioned the Federal Reserve as a body independent of wealthy private interests; "Paying interest on reserves makes it easier for the Fed to flood the financial system with additional cash" (Hitt & Solomon 2008, October 4: A2). This provision was actually an incentive for more banks and non-financial firms to join the Federal Reserve System, since its members would be able to buy US Treasury bonds and securities and earn interest on them from the central bank, *as well as* the Treasury (Johnson & Kwak 2010; Prins 2009). Therefore, this provision would act as a mechanism for the Federal Reserve to concentrate its power as a cartel.[403]

Weekly and Bi-weekly Publications

At the time of this coverage, these Anglo-American publications focussed their audience's attention on the fact that the financial crisis was spreading and deepening in two directions – across the Atlantic to Europe, and out of the financial markets back into the 'real' economy. Governments were deemed to have been dealing with the crisis in an 'ad hoc' way such that they had 'struggled' to gain control. During this coverage, it was assumed that the bill would likely pass soon. Therefore, the magazines and *The Guardian Weekly* focussed on; how effective the bailout might be, the likelihood of a global recession and the need to support 'the rescue' of the global financial system ("World on the edge" 2008, October 4: 11-12).

The October 3 edition of *The Guardian Weekly* led with the news that the US House of Representatives had failed to pass the bailout bill.[404] The lead report headlined "US Main Street refuses to bail out Wall Street" used the ideological division between the two arbitrarily defined Americas – Main Street and Wall Street, to infer that the enemy, 'ordinary' Americans, were ignorant ("US Main Street" 2008, October 3: 1). To this end, "ordinary people" got a mention – on page two – but since they were "leftwing protestors" outside the New York Stock Exchange, their only words expressed in the article came from a banner, which read, "no money for Wall Street" (p.2). This marginalization of dissent served to integrate the newspapers' middle class audience with the plight of Wall Street.

Indeed, *The Guardian Weeky's* October 3 edition also contained an article "Global economies left teetering" from *The Washington Post* columnist Steven Pearlstein, which was designed to undermine a discourse 'from below' (Pearlstein 2008f, October 3: 17).[405] Accompanying the article, which appeared on the finance page, was a photograph of demonstrators including a guy looking at the camera holding

a sign that read, “Bail Out People! NOT Banks!”[406] Confusingly, Pearlstein claimed that it was “the public” who had refused “to authorize and finance” the bailout, thus inferring that ‘the American people’ had the power to vote for the bailout bill.[407] Pearlstein, like many journalists, columnists and editors, did not state explicitly where the US government would borrow from. Therefore, he did not explain how such borrowing would *reduce* the level of debt that he claimed was on the world’s horizon. As the US Bureau of the Public Debt’s Strategic Plan for 2009-2014 stated, approximately “900 bidders” buy Treasury securities in each of its 200 plus auctions per year (Bureau of the Public Debt 2008d: 10). Ordinary people were evidently abusing their financial rescue powers that the 900 regular bidders in Treasury securities relied on to ‘earn’ their yields.[408]

Bedevilled bail-out . . . demonstrators in New York Keith Bedford/Reuters

The magazines continued to infuse the ‘rescue’ master frame with ideological ideas and mythological metaphors while implicitly promoting pragmatism. These publications used imagery to provoke fear, naturalize the crisis and promote the ‘need’ for system-wide, universal government bailouts. The metaphors used to create this imagery became the major framing elements for the accompanying reports.

BusinessWeek’s October 13 edition entitled “The new financial Ice Age” used an ice motif to focus attention on the ‘credit freeze’ and the likelihood of a recession (Cooper 2008: 10; Kalwarski 2008: 13). The ‘Ice Age’ idea was an ecological-survival-Apocalypse metaphor. The cover story entitled “A financial ice age dawns” depicted a brown woolly mammoth running towards the reader in a snow laden “Wall St” (Coy 2008d: 20-22, 24). The comic art image style lends the illustration a humorous quality even as it provokes a foreboding feeling. This image worked with the ice motif to naturalize the ‘credit freeze’ as a force of nature that threatened extinction. The article’s teaser paragraph announced that the “credit crunch” was taking its toll on American and European businesses and stated, “the potential consequences are frightening” (p.20). A red box inset on the title page declared “If they’re unable to borrow, businesses will begin to cut jobs, cease investment, and default on their debt in larger numbers.”[409] *BusinessWeek* failed to

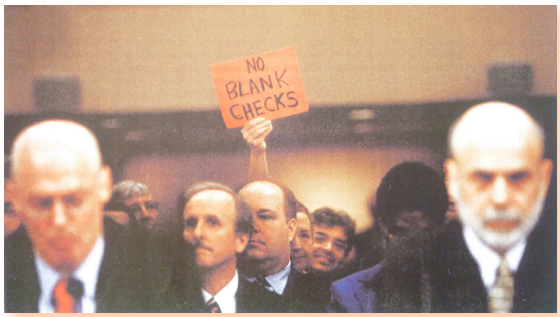
investigate how exactly credit 'flowed' when it was not 'frozen.'

The October 13 issue of *Fortune* contained a special report entitled "Bailing out America" (2008: 32-38), which was accompanied by an image of a retouched painting, originally entitled "Washington Crossing the Delaware" (Splashlight 2008: 32-33). In the original painting, by Emanuel Leutze (1851), General George Washington was depicted crossing the Delaware River in a surprise attack against Hessian forces (hired by Britain) located at Trenton, New Jersey in 1776, during the American Revolutionary War (1775-1783). In this retouched work, the boat that 'Washington' rides in is filled with water almost to the brim and the 'rowers' have become bailers. Henry Paulson has replaced George Washington, while the flag bearer has become Ben Bernanke with Christopher Cox as one of the bailers. The provocative 'nation-as-person' metaphor embedded in this illustration carried a meta-level meaning because the American Revolutionary War was itself a rebellion arising out of economic hardship caused by British bankers. The colonies had developed thriving economies because they had printed their own paper currencies called Colonial Scrip. Hardship followed the passing of the Currency Act of 1764 by the British Parliament, which banned the use of the Colonial Scrip for payment in private transactions (Brown 2008: 37, 42-43; Still 1995; 2009; Zarlenga 2002: 371, 376-378). *Fortune*'s reworked illustration of 'Washington Crossing the Delaware' therefore indirectly encouraged the magazine's readers to exercise wealth defence. But it was not wealth defence against an oligarchy of bankers this time, but *for them*.[410]

Inside the *Fortune* October 13 report "Bailing out America" was an article entitled "Main Street turns against Wall Street," which was about the public's anger against the proposed bailout (Easton 2008: 34-36, 38). The article was designed to provoke fear of an alleged class war waged by Middle America in the form a "populist backlash," as the article's teaser termed it (Easton 2008: 34). Variants of the word 'populist' appeared a further twelve times in the article (making 13 repetitions) and are listed as follows:

populist sentiments	populist eruption
populist rhetoric	populist solutions
economic populism	populism
born-again populist	American populism
the age of the populist	populist revolt
populist environment	a rising populist tide. (Easton 2008: 34-36, 38)

Here *Fortune*'s coverage framed populism as a threat to the interests of its unsophisticated investor readers. Thus, *Fortune* conflated Main Street's "populist backlash," as it was depicted in an accompanying photo of dissent taken at the Senate Banking Committee hearing, with the accusation that ordinary Americans had orchestrated the class warfare.[411]



The October 13 issue of *Time* deployed the fear frame on its cover with a photograph of coated-men standing in line outside a 'Soup Kitchen' – an infamous symbol of the Great Depression. Alongside this image, the cover title "The new hard times" communicated the metalevel meaning that the financial oligarchs had the power to withdraw credit and thereby control the 'lifeblood' of the economy, as their rivalrous forebears had done to wrest control over the American economy in the 1930s (Ferguson 2008: 20). Its deployment here by *Time* relied on the universal belief in the myth of mistakes.[412]

The October 4 issue of *The Economist* entitled "World on the edge" carried an illustration on its cover of a silhouetted suited figure, who symbolized a 'universal investor,' starring over the edge of a cliff.[413] Since this edition went to press between the House's "rebellion" and the Senate vote, at a time when there was no unified action in Europe, the cover illustration was designed to provoke its elite audience to imagine that if the US economy crashed, it would take the world with it ("The Federal Reserve; Plan B": 75). Indeed, the image evoked the mythological Apocalypse metaphor, since it connected the universalized threat of the 'global economy' hurtling towards a cliff with Christianity's symbolism of a 'hellish eternal abyss.' The crack in the ledge that the 'universal investor' could not see was a wry joke, since financial markets are designed to favour the wealthiest and most well connected citizens: the financial oligarchs.

The editorial entitled "World on the edge" made the observation that the "stockmarkets" had been making "real-time" bets on the likelihood of the bailout bill passing and that "investors panicked" when the House rejected the bill ("World on the edge" 2008: 11). This exposition failed to comprehend that market volatility represented rivalries among emergent and established oligarchs using dark-pools, large

financial institutions and tax-secrecy havens as a mechanisms to discipline Congress, less powerful firms, retail-level investors and voters. The editors squarely blamed "policymakers and the public they serve" for having "failed fully to grasp the breadth and depth of the crisis." This editorial characterized "policymakers" as ideologically moral, but mistaken. *The Economist* editors called on governments to fix the 'crisis,' rather than conduct criminal investigations.

The metaphors and impressions conjured by the imagery used in the magazines were designed to exploit the respective publications' strategic influence. In doing so, they played a formative role in creating ideological fields of perception with the intention that their readers would come to perceive, if not *believe*, that 'ideology' was a luxury – even for the rich – in a time of 'crisis.' Hence, the subtext to the magazine coverage was that pragmatism was the only helpful mindset, when 'the alternative' would lead to: 'the fall' of a 'universal investor' in *The Economist*, and the extinction of a financial mammoth in *BusinessWeek*, the sinking of General Henry Paulson's boat on the Delaware River in *Fortune*, and the emergence of a Great Depression 2.0 in *Time*. In this way, pragmatism was embedded in the framings across the magazine coverage in order to legitimize the US bailouts amidst a broader global 'rescue.'

Conclusion

Across the ten news media outlets in these four event clusters, the strictures of the 'neutral bystander' posture did not 'permit' the journalists, editors and columnists to do anything other than argue from a position of 'ignorance.' The news outlets' made biased use of 'authoritative resources' (including recollections of popular histories), deferred to elite sources and eschewed critical thinking about macro-economic issues. Conspicuously, the American public was not afforded front-page space to develop their own narrative in regard to the prevailing financial situation and were prevented from constructing counter arguments elsewhere in the coverage. If they were interviewed, the purpose was to gain their sentiments to better manipulate their perceptions or to alert elite readers to exercise vigilant wealth defence. Most reporters took the position that the American public had been hostile to the bailout. However, for the most part, the news media ignored popular concern that the leading players of Wall Street, Washington and the City were not held culpable for their aggressive, unethical and callous activities.

The news coverage in event cluster one dramatized the unfolding institutional 'meltdowns' and 'fallout' in the language of emergency, which worked to construct the daily and weekly 'rescue' frames. Because the major news outlets all observed the rituals of crisis journalism, none sought to seriously and systematically probe the discrepancies concerning the monetary authorities' claimed intentions. The construction of 'rescue' frames relied on the naturalization of the financial crisis and its elevated intensity, as though it were a maelstrom, a pandemic, a storm, a nuclear meltdown or an Apocalyptic abyss. A *terra incognita* doctrine underpinned the deployment of these sophisticated metaphors, which worked to

suggest, or explicitly assert, that key financial elites were like rescue workers confronted with a phenomenon that stretched their intellectual and institutional capacities. In effect, this *terra incognita* doctrine was embedded into the 'financial crisis' narrative by key actors so that they could control perceptions concerning the causes and solutions of the 'financial crisis.'

Furthermore, it worked to absolve Wall Street of the need for a 'moral compass' regarding the burden of the bailouts on American taxpayers, since the *terra incognita* doctrine was used to frame the crisis as an unintentional consequence of the house market boom and Wall Street's financial engineering wizardry. More importantly, it negated the need for substantive economic evidence and a clear exposition of the 'legal' basis upon which Wall Street-Washington Complex sought to make American citizens liable to fund the bailout. If 'the American people' had become conscious that since 1933, they have been deemed to be in agreement with the legitimacy of the Federal Reserve private banking cartel – then the 'rescue' master frame would have collapsed. Without the *terra incognita* doctrine key actors could not hope to become the primary beneficiaries in the post-crisis regime.

By firmly anchoring this doctrine in the week that followed the collapse of Lehman Brothers, the major news outlets played a formative role in helping the Anglo-American financial elites influence their respective political elites to support the proposed government interventions. As the 'financial crisis' narrative developed, unfolding events were reported through the 'rescue' master frame and substantive evidence of an Anglo-American financial oligarchy became harder to detect. Despite the contradictions inherent to: scapegoating Lehman Brothers while making its easier for other major banks to gain federal credit; the dual 'rescues' of AIG and HBOS following their simultaneous credit downgrades; the subsequent 'ad hoc' infusions of tax-backed credit by numerous major central banks, and; Paulson and Bernanke's 'Present the Bill' ritual, the newspapers and magazines permitted minimal criticism.

The news media failed to investigate the rivalrous manifestation of game theory that underpinned the intensified market turmoil. The oligarchs had sketched out a post-Lehman world wherein the stakes would be raised for all key players in order to force an agreement for collective action. Thus, speed-politics unfolded under the cover of a 'cooperative' effort that rendered the betrayal of an oligarch – Richard Fuld – as an 'accident' amid an emergency situation. Crucial to this 'cooperation' were Morgan Stanley and Goldman Sachs becoming bank holding companies, as event cluster two indicated. Their simultaneous moves to: post profits early; host conference calls; become bank holding companies; and gain new capital from high profile investors, were the result of coercive strategies that Morgan Stanley and Goldman Sachs themselves had participated in; they were among the major counterparties of credit default swaps (Fitch Ratings 2007: 9; Engdahl 2009; Wilmarth 2009). Warren Buffett symbolically represented the hedge funds, so his investment signalled collusion from a sector of the financial system that specialized in making money through speculative attacks on other financial firms.[414] By implication, speedy collective action was required of Congress to match the urgency of the crisis and the swift

collusion between the financial oligarchs and financial authorities. Without this consensus, the financial calamity would get worse and this would draw the ire of many politically powerful and super-wealthy people.[415]

Therefore, the key players of the financial crisis had anticipated that their coordinated attack on the investment banks would be the climax of 'Act II' or turning point two in their 'crisis' narrative. The second turning point represents the "*moment of truth*" (Frensham 2003: 128-129, See Appendix IV, Fig. 4). At such a moment, the protagonists realise that the choice they made at turning point one was a weak one. The 'weak' choice that the financial oligarchs and financial elites made at turning point one was paying $10 a share for Bear Stearns on March 24 2008, instead of $2 (Burrough 2008; Cohan 2009).[416] By doing so, they had not disciplined the market of ordinary investors enough, and this meant the investing public were not sufficiently controlled by fear-based thinking. A lack of fear in 'the market' meant that it would be harder for the oligarchs to get their bailout bill passed because politicians needed to be under the influence of an 'atmosphere of catastrophe' in order to vote for it. Therefore, the dissent among politicians presented an obstacle to their constructed 'crisis.'

Despite this opposition, the key actors who performed the rituals of 'reassurance and purification' in event cluster three passed through the coverage relatively unscathed. This was due, in no small part, to journalists universally observing the 'neutral bystander' posture. Their adherence to this submissive ritual meant they failed to examine substantive evidence of the financial 'crisis,' including the criminogenic environment of the Wall Street-Washington-City-Tax Haven Complex. By practising this crisis management media ritual, reporters failed to contextualize the events in this cluster as rituals. These rituals were: the Senate Banking and House Financial Services committee hearings, president Bush's 'Present the Peril Live' television address, the White House 'Summit' and the bailout bargaining in the Capitol while Wall Street donned a 'Cloak of Invisibility'. Therefore, Bernanke, Paulson and Bush were able to deliver crisis management-public relations statements replete with threats, confident that the news media would report them as benignly intended warnings.

The House vote-down on Monday September 29 was a major setback for the financial oligarchs because they had expected Washington's political elite to submit to their bailout proposal amid the 'atmosphere of catastrophe.' At this point the financial oligarchy were quite vulnerable. They had become so aloof, arrogant and addicted to using 'crises' as change mechanisms that they assumed that the combined 'spectacle' of financial calamity and the systemic propaganda produced by their faithful 'missionaries' – the news media – would be sufficient to obtain acquiescence from the public and political elites. Evidently, more aggressive financial and political trading was 'needed' – as the coverage showed.

To this end, an intensive week of lobbying took place in Washington, which included vice president Cheney laying down the law to Republicans who disliked being told to vote for a bailout bill under duress. It also saw Bush host a meeting with Main Street business elites, the two presidential candidates lobbying politicians from their respective parties, and Wall Street lobbyists and financial elites appearing to be 'lost in the crowd.' To support these efforts, the news media stigmatized the dissenting politicians as 'holdouts' and 'rebels' and the public as 'angry populists' who simply did not understand the implications of failing to pass the bailout bill. The rare news pieces that did seek 'Main Street' opinion had a sentiment finding agenda designed to influence politicians to vote for the bailout. Threats masked as benign warnings continued throughout event cluster four, 'Resurrection' of the Bailout Bill.

The passing of the bailout was the moment in the narrative arc that all the previous stories within the 'rescue' master frame had evidently been working towards. The rituals that accompanied the bailout bill's enactment were intended to be carthartic. But, ironically, this was not the dénouement to the story of the 'rescue.' Once the bailout passed, 'confidence' in the US financial system did not return and in fact, the financial contagion deepened and widened across the globe – particularly the North Atlantic. On the surface, this was because investors were in need of marketable investments to replace unmarketable ones, in order to avoid plummeting asset values and therefore financial ruination. At this point, the financial crisis was not merely about a 'crisis in confidence' as to which investment products, what institutions or even whether any financial systems were 'safe.' It was now a crisis about the accumulation of structural power and financial claims that burden 'ordinary' people as taxpayers with public and private credit/debt. Internally, the crisis was a conflict among emergent and rival groups of financial oligarchs and the loyalties of financial elites.

As such, the real climax of the 2007-2008 financial crisis narrative occurred on October 13 2008 (See Appendix IV, Fig. 4). This climax involved Henry Paulson, Ben Bernanke, Timothy Geithner and Shelia Bair coercing the CEOs of nine major banks to accept Treasury stakes in their conglomerates in return for $125 billion worth of federal credit, as mentioned in chapter two (Johnson & Kwak 2010: 153,164; Sorkin 2009: 519-528). Since attempts by politicians to embed government equity stakes in the financial firms was fiercely resisted by Wall Street lobby groups, the federal regulators were faced with the delicate challenge of getting the country's biggest banks to be the first to accept the bailout in return for preferred stock.

Critical examination of how the business-financial press covered the bailout revealed manipulations by Anglo-American financial officials, politicians, academics, economists, and Wall Street-City executives. This was detectable in their assumed claim that the bailout of the financial system (Wall Street) would benefit the 'real' economy (Main Street), all the while omitting to mention the Anglo-American financial oligarchy itself. None of the daily newspapers, nor the weekly and biweekly publications, allowed the public to advance their views alongside the views of Washington elites, Wall Street financiers,

academics or specialist think tanks. Yet, the public had been tacitly positioned as underwriters of the financial system. This means that periodic mass repossessions occur by design, because the financial oligarchs – in collusion with the global media 'missionaries', academic 'bishops', think-tank 'arch-bishops', and 'cardinals' from financial authorities – together sustain the capacity to create speculative bubbles and trigger their bursting. Thus, to 'save' the financial system required a universal contrivance to 'argue from ignorance,' by excluding important facts, counter ideas and non-elites.

The financial newsscape as a whole framed the bailout as a necessary one, without which the US financial system would either collapse or remain dysfunctional. Although the weekly and biweekly publications stigmatized politicians that opposed the bailout or certain provisions in it, their oversimplified coverage of the contestation legitimized the legislative process as though it were proof of a rigorous democracy. Like the daily newspapers, the weekly and biweekly publications ignored or downplayed the suspension of democratic deliberation by failing to highlight the fact that most of meetings among the political elite were private ones. The weekly and biweekly publications mimicked their own exclusion from these meetings by largely excluding the public from their coverage. Indeed, the public were portrayed in much the same way as those politicians that opposed the bailout; as an irrational sector of society incapable of seeing that it was self-defeating to let Wall Street fail. Furthermore, the magazines creatively used their capacity to construct metaphor-laden images to conflate the experiential evidence of the intensified 'crisis,' amid public outrage and political dissent – as a 'global' phenomenon – with the idea that it now threatened everyone and therefore required a common sacrifice. This conflation was designed to make it appear as though the interests of all were aligned with the major banks and financial institutions mentioned in the news. The magazine reportage omitted key information regarding the control of the financial system by the Anglo-American financial oligarchy.

The American coverage tended to focus on the likely dangers for the US economy in order to gain wider public and political support for the bill. The British coverage viewed the bailout as necessary to address an American-made crisis wrought on the world, or as an example of state intervention for other governments to follow. The key omissions in the 'rescue' frame were: the absence of a serious, systematic investigation of the causes of 'crisis,' including a theorization of oligarchic collusion and the lack of a prescriptive understanding that included a planned withdrawal from debt-dependent financial practices. If there had been serious, sustained debate involving 'ordinary' Americans, non-establishment experts and rank-and-file workers from Wall Street, Washington, and the City, then a broader picture of what had occurred and of what was unfolding would have emerged. The standard crisis narratives obscured the fact that the rulers of financial capitalism had extended the reach of their power system into other hierarchical power structures. Consequently, many of the biggest firms became larger.

Chapter 6: Conclusion – A criminogenic financial architecture

The Anglo-American financial oligarchy is comprised of people whose wealth is based upon financial claims to 'assets' and income flows derived from underlying assets, or derivatives. Many of the financial 'assets' on the balance sheets of banks and other financial firms are in fact debts or loans pyramided upon a thin base of other people's money. The oligarchy's power depends on widespread ignorance about banking and finance. It uses its enormous claims to wealth to exert control over the political systems, and therefore the legal systems of their respective countries and around the world. Full disclosure of the events, power relations and intentions that underpin the laws upon which banking, finance and the tax-secrecy havens are sustained was absent throughout the 'financial crisis' narrative of 2007 and 2008.

The Anglo-American financial oligarchy, for the most part, stay out of the news, and off the rich lists (Brown 2008; "The Forbes 400" 2008). These super-rich families and individuals are domiciled in the United States and the United Kingdom with shadow selves registered in the tax havens of the world. According to the "World Wealth Report 2011" published by Capgemini and Merrill Lynch, most of the wealth is concentrated in the hands of 10.9 million high net worth individuals (Capgemini & Merrill Lynch 2010: 4). Despite the asset deflations of the financial collapse in the northern fall of 2008, the world's richest 10.9 million citizens had a combined net worth of $42.7 trillion in 2010, which meant their wealth had climbed back from a drop to $32.8 trillion in 2008, after a 'pre-crisis' peak of $40.7 trillion in 2007 (p.5). In another study, entitled "The Wealth Report 2012," Knight Frank and Citi Private Bank found that super-rich individuals with a net worth of $100 million or more, called centa-millionaires, numbered 63,000 and possessed $39.9 trillion in wealth (2012: 9-10). In other words, the Anglo-American financial oligarchy occupy the upper fractions of the "1%" that has become the target of the Occupy Movement and which points to their slogan, "We are the 99%."[417]

These emergent super rich groupings set and pursued a strategy to liberalize the world's financial systems. The liberalization of financial systems involved easing or removing regulatory restrictions over financial flows and financial claims within and between countries. The concurrent development of financial derivatives enabled dominant capitalist groupings to reach into national spaces, inside corporations and even central banks and treasuries. Derivatives were used to attack whole economies by making currencies into an asset class. This allowed speculators to drive up the values of particular assets to form bubbles that were then burst by means of collusively arranged exit strategies. This facilitated oligarchic influence; their purpose was to gain more control over governments and their respective citizenries under the urgency of the resultant 'financial crises.'

Banking and other financial firms increasingly merged from the mid-1980s onward and became larger. But as they blurred the lines between their businesses, territories and functions, their role within society changed too. Banking and financial conglomerates pursued a 'too big to fail' strategy, which meant that they intensified their collusive capacity to exploit their customers and clients, instead of fulfilling their ostensible role of financing socio-economic development. The major banks of Wall Street and the City, in collusion with the four big accountancy firms, and the financial authorities of the United States and the United Kingdom, developed tax haven networks. These tax-secrecy havens were used to launch attacks on newly liberalized financial markets around the world. With national currencies liberalized, the financial oligarchy were able to destabilize governments and coerce them to bailout their domestic banks and corporations, who had borrowed heavily from Wall Street, the City, the World Bank and IMF. In this way, the Anglo-American financial oligarchy gained substantial control over the economies of Central and South America, Asia, Africa and Europe.

Concurrent to the global merger wave of Anglo-American banking and finance conglomerates, the financial oligarchy inflated the tech-stock bubble of the late 1990s. Tellingly, when the corporate scandals in the early 2000s resulted in jail terms for the executives of Enron and WorldCom, 13 major banks were merely fined for their dual involvement in the fraud. Thus, Wall Street and the City were free to maintain their vast financial claims to wealth and the power derived from subjecting governments, industries and citizenries to their debt-based financial regimes.

The rise of a massive housing bubble in America was collusively inflated by the Wall St-Washington Complex, with a supporting role played by the Bank of England-HM Treasury-City Complex. The securitization of mortgage-backed securities, marketed globally, in combination with the race to construct 'too big to fail' financial institutions culminated in the bursting of this bubble. From mid-2006 through to mid-2007, the Federal Reserve's incremental increases in the cost of credit, in combination with the re-setting of mortgages rates at higher rates, made the burst of the American housing bubble inevitable. The financial repercussions reached Wall Street itself in late July 2007 when Bear Stearns let two of its hedge funds collapse. The Anglo-American financial oligarchy managed the emerging crisis under the rubric of 'rescues' to save financial institutions deemed systemically important.

The media systems of America and Britain underwent similar transformations to that of banking and finance, as regulatory restrictions over ownership of media businesses were lifted. From the 1980s onward, in the United States and the United Kingdom the ownership of news outlets became increasingly concentrated. A three-tiered media system emerged and by 2001, just six media conglomerates dominated the world's news output. Their capacity to frame important news stories is formiddable.

The structural mechanisms through which the news is censored by unofficial means is hard for people to detect and decipher. Those mechanisms, as described by Herman and Chomsky's Propaganda Model, act seamlessly on news content such that the financial oligarchy can pursue its goals without serious journalistic investigation. Indeed, the universal deployment of neoliberal ideology through the news created a hegemonic pro-market news framing which was so deeply entrenched, news outlets continued to protect it even during market busts. The pattern of switching from the 'business as usual' posture to the 'neutral bystander' stance when market booms turned to financial busts was well established through the 1990s. The Anglo-American news media were, in effect, 'performing the news' by luring people to become consumer-level investors. Therefore, news outlets played a formative role in creating the market bubbles. Their dexterous switch to the 'neutral bystander' posture when the tech-stock bubble burst in early 2000 belied a duplicitious strategy. This strategy reflects the news media's contrived positioning as a neutral observer of events, feigning to deliver objective, balanced news. The media's switch back to the 'business as usual' posture as corporate scandals in America resulted in the successful prosecutions of exectives from Enron and WorldCom et al was crucial for the Anglo-American financial oligarchy. Journalists' failure to challenge the decision to let the executives off the hook from those 13 banks culpable for the corporate fraud that underpinned the outsized profits of Enron and WorldCom, in fact, communicated 'buying-out.' The collusion was so obvious it could not plausibly be missed. That failure saved the 13 banks from deeper investigations into their role in fomenting the tech-stock bubble.

It took the *BBC*'s revelation (on September 13 2007) of Northern Rock's surreptitious bailout request to the Bank of England for the news media to drop its 'business as usual' posture. This story, which anchored the crisis in the minds of Britons, marked the start of the 'rescue' master frame. Similarly, *The Wall Street Journal*'s frontpage scapegoat piece on Bear Stearns' chairman and CEO on November 1 2007 grabbed the attention of American news audiences. Thus, began the 'financial crisis' narrative of 2007 and 2008. The Anglo-American news media's apparent obtuseness regarding the severity of the financial crisis meant that they wasted away time as events unfolded. They failed to conduct systematic investigations into the causes of the financial crisis from August 2007, when it was obvious that the bust of the US housing bubble would have deep impacts on Wall Street, and therefore society at large. This meant that Anglo-American news audiences were denied a sophisticated contextual account.

It also meant that when the simultaneous Bear Stearns-Eliot Spitzer takedowns occurred, the connections between the two events were able to be obscured. Spitzer was scapegoated by the American news media, and his swift exit from office meant that the financial oligarchy could finish the job off. This course of events communicated that the Anglo-American media cartels were willing to advance the 'financial crisis' narrative to the next stage, as game theory predicts. Since game theory requires colluding players to issue and respond to threats and rewards to maintain the motivation,

discipline and purposes of the cartel (or cartels), their simultaneous actions are economic evidence of an unfolding plot.

Thus, JPMorgan Chase's public stoush with its law firm for overlooking a contractual clause that exposed the acquiring bank to Bear Stearns' liabilities for a period of one year was a predictable set-back. It was predictable, not so much for the detail, but for the risks associated with collusion. When fiction writers construct the climax of Act I in plots with a three-Act story architecture, it involves an unexpected defeat for the protagonist(s). As such, their spats reported in the news were not contrived. What was predictable about their public blaming was that it indicated that the plot they sketched did not totally go according to plan. This means the news media missed a vital clue that all was not as it seemed. The Fed-funded bailout-takeover of Bear Stearns at a price of $10 per share instead of $2 (as a result of JPMorgan Chases' weakened bargaining position) had implications for the planned system-wide bailout later in the year. The House's rejection of the bailout bill on September 29 represented an insufficient level of fear among 'the American people' and therefore Washington's political elite. Had the financial oligarchy been more ruthless in the settlement of Bear Stearns, a greater level of panic, fear and submission could have been achieved by the end of September 2008.

The false testimonies at the Senate Banking Committee hearing in early April 2008 by the American monetary officials was matched by the Senators lack of scepticism and the news media's failure to investigate the underlying power relations. The 'meeting of the minds' that occurred between Treasury and Federal Reserve officials on April 15 2008 to shelve the "Break the Glass" plan and manage an escalation of the financial crisis was evidence of collusion. The news media's failure to investigate the genesis of this plan when knowledge of it surfaced in the immediate aftermath of Lehman Brothers' collapse, demonstrated a commitment to maintain the 'rescue' master frame. Thus, news heads and those colluding editors and reporters with insider connections were, in effect, communicating a threat back to Wall Street and the American monetary officials to pursue the bailout with total commitment. If the officials failed in their assignment, they would be scapegoated, removed and others would complete the task.

The simultaneous takedowns of AIG and Halifax Bank of Scotland (HBOS) on Monday September 15 and Tuesday September 16 signalled a commitment by elites around the orbits of Wall Street's and the City's financial oligarchies to advance toward the next stage of the financial crisis narrative. The news media outlets failed to investigate the power relations underpinning the pattern of the major credit rating agencies downgrading AIG and HBOS almost simultaneously. Their subsequent takeovers involving respective financial authorities was downplayed under the rubric of 'rescues.' The failure of the news media to critically report these takeovers belied a remarkable commitment to the crisis journalism stricture of keeping a 'respectful distance.'

Thus, when Ben Bernanke and Henry Paulson metaphorically played their 'Go to Congress' card, they were enacting the 'scene' envisaged on April 15 2008.[418] Their 'Present the Bill' ritual on September the 18th 2008 signalled to key insiders that they had 'broken the glass' on their plan to coerce Congress amid an 'atmosphere of catastrophe.' Their exploitation of fear was reproduced in the news coverage as a means to make it seem as though everyone's interests were synonomous with Wall Street's objectives. The events involving the political elite and the American financial officials that followed were, in effect, ritual displays of power, replete with threats masked as benevolent warnings. These oligarchic-elite displays of power were: (1) the 'Power Walk' ritual of September 19, when Bush, Paulson, Bernanke and Cox appeared in the White House Rose Garden; (2) Paulson and Bernanke's appearance before the Senate Banking Committee on September 23; (3) Bush's 'Present the Peril Live' ritual on September 24; and (4) the White House 'Summit' on September 25 in the Cabinet Room.

The simultaneous actions of Goldman Sachs and Morgan Stanley to: hold conference calls with investors; become bank holding companies; and gain investments, were also evidence of collusion involving the American monetary authorities. The attainment of bank holding company status in particular required the news media to ignore the fact that Merrill Lynch had also gained easy access to federal credit. The news media also failed to investigate the fact that the London securities brokerages of all three firms were able to access the Federal Reserve's special lending facilities. Consequently, Warren Buffett's encoded coercion of Congress inferred that the financial oligarchy would resort to other means, if necessary, to achieve their goals.

The actual climax of 'Act II' in the financial 'crisis' narrative arc occurred when the House of Representatives rejected the bailout bill on September 29. At this moment, the protagonists of the crisis faced defeat (See Appendix IV, Fig. 4). The calling in of Main Street business elites to gain their support after the House votedown revealed that rhetoric about the bailout being for Main Street was false. The negotiations could not drag on because more financial institutions would have failed without new injections of Treasury debt/Federal Reserve credit. The collusion among the Anglo-American financial oligarchy required to achieve the goal of the $700 billion bailout bill on October 3 2008 was matched by the complicity of the Anglo-American news media. A shared lack of scepticism was the vital stricture of the 'rescue' master frame. All journalists, editors and columnists internalized its assumptions by adopting the role of the 'neutral bystander.' Its universal observance by the Anglo-American news media is a telling indictment on their behaviour and performance throughout the rest of the 'financial crisis' narrative arc.

This ubiquitous projection of the 'rescue' master frame does not mean that journalists, editors and columnists were aware of all of its inherent contradictions. Nor does it mean that they sat around learning how to construct it via video-conferenced, powerpoint presentations. It means that the heads of the news organizations maintained the naïve coverage by their unwillingness to confront the Anglo-

American financial oligarchy and those financial elites and lobbyists doing their bidding. The pervasive deployment of the 'rescue' master frame demonstrates that news making is controlled by the five structural filters and the sixth filter – buying out – as described by the Propaganda Model. In particular, the deviousness inherent to the operation of the 'buying out' filter is assisted within news outlets by oversimplified understandings regarding how collusion and conspiracy work. Collusion and conspiracy have both tacit and explicit elements, degrees of awareness and participation, and a dependence on ideology to evade detection. The main area of confusion regarding the anatomy of collusion and conspiracy is the common belief that when the crisis is a large one, involving thousands of participants, its impossible for a criminal plot to remain secret. This assumption fails to conceptualize the role of 'outer rings' of players, who are required to assist collusion and conspiracy. Those in the 'outer rings' either adopt a naïve belief in the ideology or are complicit in going along with the 'status quo,' (and constantly submitting to the in-built incentives, promises and threats). Key insiders, however, are skilled manipulators who derive their confidence from the continued obedience of workforces subjected to coercive power systems. Workers may witness wrongdoing, but either they fail to report it, or their concerns are not taken seriously.

For their part, the Anglo-American news media continued to deploy fear in order to obscure vested interests and adjust their justifications of unfolding events in the 'rescue' frames. These justifications were assisted in no small part by the use of ideological metaphors in the imagery, headlines and texts. Had the news outlets emphasized the discrepant viewpoints, the pattern of simultaneous power plays underpinning the actions of key players, then the 'rescue' master frame would have collapsed. In the absence of in-depth reportage across the news outlets, their news audiences were unable to formulate a sophisticated counter-financial crisis narrative. Indeed, ordinary citizens and non-establishment experts were excluded from meaningful debate in the news, and therefore they could not publicly articulate their views.

The criminogenic environment constructed by the Anglo-American financial oligarchy since its emergence in the 1970s and 1980s proved to be resilient as the financial crisis *went live*. By restricting the flow of credit, pursuing aggressive buying and selling strategies, and controlling the major private and public regulatory institutions, financial elites exerted a considerable degree of control over the 'crisis.' Crucially, the power of the American financial oligarchy consolidated as the federal regulators, such as the Federal Reserve, gained more political power over state regulators. The capacity for the Federal Reserve System to pay interest on reserves, obtained through the Emergency Economic Stablization Act, was designed as an incentive to banks and financial firms to join the cartel (Federal Reserve Bank of St. Louis n.d.; Johnson & Kwak 2010; Prins 2009; Prins & Ugrin 2010a, July, en 19). In addition to being able to earn interest on reserves, yields from Treasury securities, and dividends paid by the central bank to its members, banks would be able to lend to entities within their own corporate

structures for speculation, rather than to support and re-invigorate the 'real economy' (Chossudovsky 2010a; Engdahl 2009). The tax provision in the Emergency Economic Stablization Act that provided incentives for mergers, in effect, ratified the public policy that had facilitated the formation of the crisis – 'too big to fail' – as the solution! For their part, the political elite of Washington, New York and London proved to be incapable of reigning in their respective financial oligarchies because their trans-Atlantic entwinement was so pervasive. Indeed, it was the maintenance of this structural alliance that was the primary reason for bailing out the financial system and imposing 'austerity measures.'

The Anglo-American news outlets also proved themselves incapable of behaving and performing as ordinary people need them to. Because the news media almost totally deferred to establishment elites for comment, the discourse on the political economy of the 'rescue' was marked by a choice between the bailout and "the alternative," which Paulson & Co. frequently uttered as shorthand for a Great Depression-scale financial abyss. Thus, the Anglo-American financial oligarchy was successful in restricting "the definition of alternatives" to a scenario that only psychopaths would wish upon people, therefore they had wielded "the supreme instrument of power," as E.E. Schattschneider put it (1961: 68).

The Anglo-American financial oligarchy and key officials from the American and British financial authorities and executives of major banks and financials firms have sought to gain more power at the expense of other institutions, individuals and societies. In other words, they have conspired to cause a massive financial crisis and economic crisis in order to gain more political power to advance their objectives. Those objectives are to consolidate private banking and financial institutions, and a compliant regulatory infrastructure (to ensure control over assets, debt and financial systems). The 'financial crisis' narrative arc reveals a collusive strategy to entrench debt-based financial regimes worldwide. These criminogenic power structures perpetrate financial and economic warfare, using 'crises' as a mechanism of coercion and 'austerity measures' to weaken mass populations and gain control over public infrastructure and services. In short, the Anglo-American financial oligarchy have led a conspiracy to bring harm to their respective societies and the world. The systemic collusion between the Anglo-American financial oligarchy, the financial authorities, political elites and media outlets leaves American and British citizens in a predicament.

There is no easy way out. Because the governments of two major world powers are commissioning financial and economic warfare upon their respective citizenries, ordinary people everywhere have little choice but to strengthen the Occupy Movement with existing people's movements. Such actions require a revolution in people's minds to commit to non-violent, highly creative direct actions to highlight the necessity of jailing the key financial players and replacing capitalism. In such times, both resistance and resilience become necessary (Echo Video 2011; Grounded Television Network n.d.,a; Klein 2007; York, Delan & DuVall 1999). Confronting financial and economic warfare requires a resilient co-creative movement to dismantle the alleged authority of the Anglo-American financial oligarchy.

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Appendix I: Newspaper Front-pages[1]

The newspaper front-pages described in chapter five are collected here by date in the following publication order:

1. *The Wall Street Journal* (*WSJ*)
2. *The New York Times* (*NYT*)
3. *The Washington Post* (*WP*)
4. *Financial Times* (*FT*)
5. *The Times* (*T*)

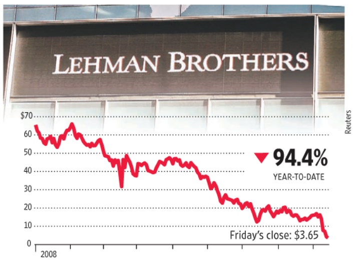
[1] Although not all of the newspaper front-pages are specifically referred to in the case study, they are included here for completeness of the data set, and to show that the public and non-extablishment experts were prevented from constructing a counter financial crisis narrative.

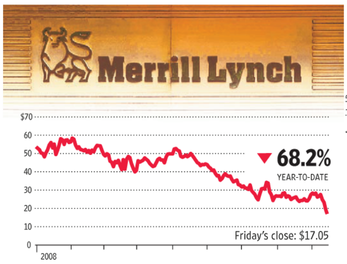
P2JW25905B-4-A00100-10000F7FFFF 09/15/2008 AZ,EE,MW,SC,SW,WE
**** CMYK Composite BG,BM,CH,CK,DA,DE,DM,DN,FW,HL,HW,LG,NA,NM,OR,PA,RI,RO,SB,SH,TL,UT,WD

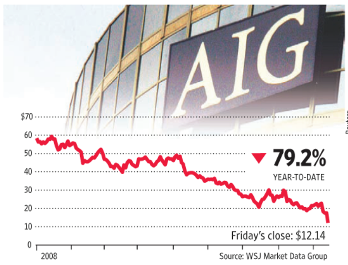
THE WALL STREET JOURNAL.

DOWJONES A News Corporation Company **** MONDAY, SEPTEMBER 15, 2008 ~ VOL. CCLII NO. 64 **** $2.00

Last week: **DJIA** 11421.99 ▲201.03 1.8% **NASDAQ** 2261.27 ▲0.2% **NIKKEI** 12214.76 unch. **DJ STOXX 50** 2858.68 ▲3.8% **10-YR TREASURY** ▼20/32, yield 3.730% **OIL** $101.18 ▼$5.05 **EURO** $1.4217 **YEN** 107.87







Crisis on Wall Street as Lehman Totters, Merrill Is Sold, AIG Seeks to Raise Cash

Fed Will Expand Its Lending Arsenal in a Bid to Calm Markets; Moves Cap a Momentous Weekend for American Finance

By Carrick Mollenkamp, Susanne Craig, Serena Ng and Aaron Lucchetti

The American financial system was shaken to its core on Sunday. Lehman Brothers Holdings Inc. faced the prospect of liquidation, and Merrill Lynch & Co. agreed to be sold to Bank of America Corp.

The U.S. government, which bailed out Fannie Mae and Freddie Mac a week ago and orchestrated the sale of Bear Stearns Cos. to J.P. Morgan Chase & Co. in March, played much tougher with Lehman. It refused to provide a financial backstop to potential buyers.

Without such support, Barclays PLC and Bank of America, the two most interested buyers, walked away. On Sunday night, Bank of America struck a deal to buy Merrill Lynch for $29 a share, or about $44 billion. Lehman was working on a possible bankruptcy filing that would allow most of its subsidiaries to continue operating as the firm is wound down.

Though it steered clear of a bailout, the Federal Reserve is expected to take new steps to stabilize the broader financial system. These steps, expected to be temporary, would make it easier for banks and securities firms to borrow from the central bank by using a wider range of collateral. Bankers say these financial institutions might need short-term funds as they unwind their many trading positions with Lehman.

In addition, 10 major commercial and investment banks announced Sunday night that they would pool $70 billion of their own money to create a borrowing facility. The 10 institutions, which include Citigroup Inc., Credit Suisse Group, Deutsche Bank AG, could tap the pool to help them ride out the crisis. The banks also said they are mutually committed to trying to mitigate market volatility.

A sense of foreboding gripped Wall Street as top executives feared collateral damage from a Lehman liquidation. Attention was focused on Merrill Lynch, which boasts the largest force of retail brokers, and American International Group Inc., the insurance giant. Both firms have seen their stocks get hammered on worries that they needed capital.

"Monday will be a day of reckoning for the financial markets," said Carlos Mendez, senior managing director of ICP Capital, a boutique investment firm in New York. On Sunday, he said, "it was like a fire alarm went off and people ran in all directions."

AIG executives spent the weekend trying to raise cash, either from asset sales or a capital infusion from private-equity firms, or both. AIG executives were meeting with regulators to see if they could transfer capital from some of its subsidiaries to the holding company.

As worries spread across Wall Street that Lehman wouldn't survive, brokerage firms, hedge funds and other traders moved to disentangle themselves from trades with Lehman. When hopes of a potential sale dimmed, a quiet Sunday on Wall Street turned into a mad rush. Executives and traders hurried to their offices or worked their phones to unwind outstanding contracts with Lehman and to gauge their overall exposure.

Merrill, whose brokerage force is known as the "thundering herd," quietly entered into discussions with Bank of America, which has retail bank branches stretching from coast to coast and has long coveted Merrill. Wall Street executives said the Federal Reserve may have been involved in orchestrating the sale, figuring that it was "better to save the rela-

Please turn to page A18

Ultimatum By Paulson Sparked Frantic End

By Deborah Solomon, Dennis K. Berman, Susanne Craig and Carrick Mollenkamp

One of the most tumultuous weekends in Wall Street's history began Friday, when federal officials decided to deliver a sobering message to the captains of finance: There would be no government bailout of Lehman Brothers Holdings Inc.

Officials wanted to prepare the market for the possibility that Lehman could simply fail. The best way to do that in an orderly way would be to get everyone together in a room.

Treasury Secretary Henry Paulson, Federal Reserve Chairman Ben Bernanke and his top New York lieutenant, Timothy Geithner, summoned some 30 Wall Street executives for a 6 p.m. Friday meeting at the Fed's offices in Lower Manhattan.

"There is no political will for a federal bailout," Mr. Geithner told the assembled executives, according to a person familiar with the matter. "Come back in the morning and be prepared to do something."

Over the next 48 hours, these marching orders developed into a nerve-wracking test of the ability of the U.S. financial system to hold itself together amid the worst series of shocks it has faced in decades.

By taking the rescue option off the table, the U.S. government was declaring that there are limits to its role as backstop-in-chief. A week earlier it had seized mortgage giants Fannie Mae and Freddie Mac, and months prior had brokered the sale of Bear Stearns & Co. to J.P. Morgan Chase & Co. But now, Washington appears to want Wall Street to largely fix its own problems, and feels that flailing institutions shouldn't expect the government to commit money to save them.

"We've re-established 'moral hazard,' " said a person involved

Please turn to page A19

What's News—

Business & Finance

Lehman faces the possibility of liquidation, and Merrill Lynch agreed to be sold to Bank of America on Sunday, a day in which the U.S. financial system was shaken to its core. The Federal Reserve is expected to take new steps to stabilize the broader financial system. Meanwhile, AIG sought to raise cash and craft a survival plan amid investor pressure. **A1, A18, A19, C1, C2**

■ **Regulators and investors** prepare for Monday as Lehman's collapse, an AIG deal and talks between Bank of America and Merrill could rattle investors. **C1**

■ **Oil futures pushed** lower Sunday even after Hurricane Ike forced shutdowns of Gulf Coast refineries and platforms. Crude fell $2.09, or 2.1%, to $99.09 a barrel. **C1**

■ **Exit packages** for the deposed CEOs of Fannie Mae and Freddie Mac highlight a weak link in efforts to link executive pay with performance: severance deals. **B4**

■ **Charles Prince**, former Citigroup chairman and CEO, has a new job: using his contacts to drum up business for a Washington consulting firm. **C5**

■ **Electronic Arts dropped** its bid for Take-Two, hinting its inability to get a deal by the holiday season was a factor. **B1**

■ **China introduced** a high-level commission to oversee enforcement of its new antitrust legislation, which is facing a test from Coca-Cola. **B2**monopoly

■ **Sirius XM's CEO detailed** his plan for addressing the company's debt and proving satellite radio's potential. **B1**

■ **GM on Tuesday aims** to unveil the Chevrolet Volt, its battery-powered car set to hit the market by 2011. **B1**

■ **The lengthening lead** Japan's auto makers hold in securing batteries for the next generation of cars has become a rallying point for the U.S. auto industry. **B1**

World-Wide

■ **Ike left a trail of damage from Texas to Louisiana.** Destruction from the hurricane could squeeze energy supplies and strike a blow to the strong regional economy. More than 2.5 million homes and businesses lost power. Despite a broad evacuation effort, tens of thousands refused to leave their homes. Thirteen people were reported dead by Sunday. **A3**
Gulf Coast oil refineries appeared to have escaped major damage, but power problems prevented many from returning to service.

■ **The NTSB was trying** to determine the cause of a commuter-train crash in a Los Angeles suburb Friday. The train barreled into an oncoming freight train, and 25 people were killed. The wreck highlights the absence of key safety equipment on the nation's rail network. **A4**

■ **In New Delhi, bombings** in popular shopping areas on Saturday killed 21. The five blasts followed three similar attacks that have hit other cities since May. **A10**

■ **Obama raised** a record $66 million from donors in August, but the money race between him and McCain is likely to be tighter than many originally thought. **A6**

■ **A plane crash in Russia** killed all 88 people on board. Officials said the Boeing 737-500, operated by an Aeroflot unit, was circling in "difficult weather conditions" when it lost dispatcher contact. **A17**

■ **Russian troops began** pulling back from western Georgia checkpoints, part of an EU-brokered peace deal, but a new battle looms over international access to Russia-backed separatist regions. **A14**

■ **Bolivia's Morales agreed** to talks over a clash with opposition-led provinces, after political violence killed as many as 30 last week. **A17**

■ **Pakistani security forces** killed 16 suspected militants in a tribal region bordering Afghanistan, the latest round of a military offensive with no end in sight, officials said.

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Bank of America to Buy Merrill

Merrill Lynch CEO John Thain leaving the Federal Reserve Bank of New York Saturday, where U.S. officials and Wall Street executives met to discuss the turmoil facing U.S. financial institutions. **More coverage on C1, C3 and C8.**

Associated Press

By Matthew Karnitschnig, Carrick Mollenkamp and Dan Fitzpatrick

In a rushed bid to ride out the storm sweeping American finance, 94-year-old Merrill Lynch & Co. agreed late Sunday to sell itself to Bank of America Corp. for roughly $44 billion.

The deal, worked out in 48 hours of frenetic negotiating, could instantly reshape the U.S. banking landscape, making the nation's prime behemoth even bigger. Late Sunday night, the companies' boards had approved the deal, but lawyers were negotiating over last-minute details.

Driven by Chief Executive Kenneth Lewis, Bank of America has already made dozens of acquisitions large and small, including the purchase of ailing mortgage lender Countrywide Financial Corp. earlier this year. In adding Merrill Lynch, it would control the nation's largest force of stock brokers as well as a well-regarded investment bank.

The combination, if approved by shareholders, would create a bank of vast reach, involved in nearly every nook and cranny of the financial system, from credit cards and auto loans to bond and stock underwriting, merger advice and wealth management.

Through the weekend, federal officials, including Federal Reserve Bank of New York head Timothy Geithner, made it clear that they strongly encouraged a deal to sell Merrill. They worried the firm could be the next to approach the brink of failure after Lehman Brothers Holdings Inc., said people familiar with the matter.

The all-stock deal came together quickly. With Merrill stock dropping sharply last week, Merrill President Gregory Fleming, a former financial-institutions adviser, urged Merrill Chief Executive John Thain to

Please turn to page A19

Political Turmoil in Thailand Boosts Business for Astrologers

Mr. Luck Automates Fortunetelling; Some Rivals Want Industry Regulation

By James Hookway

BANGKOK—For a glimpse into the future of fortunetelling in Thailand, pay a visit to Luck Rakhanithes.

Luck Rakhanithes

At Mr. Luck's plush, three-story Bangkok offices, a team of telephone operators guides anxious callers through the chaos of everyday life. Some learn what their prospects are for securing a suitable love match or a well-paying job. Others are given auspicious dates for starting a new business.

At 36 years old, Mr. Luck is part of a new generation of business-savvy seers turning the ancient art of astrology into big business. He's a prime-time fixture on Thai television for waving a red flag when he is 100% certain about his predictions (a white flag goes up when he's less sure). He sells about 300,000 books a year, he says, thanks to a distribution deal with the local operator of the 7-Eleven convenience-store chain.

As Thailand comes to grips with two years of political unrest—including a coup, deadly riots and, last week, a court ruling forcing the prime minister to step down for hosting a television cooking show—the country has lapped up Mr. Luck's confident forecasts.

"Every time there's a crisis in Thailand, it's a glorious time for astrologers," Mr. Luck says.

It's all too much for some in the old guard, whose predictions tend to be vaguer and more in keeping with the ancient traditions of seers here. These astrolo-

Please turn to page A17

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DJIA 10917.51 ▼ 504.48 -4.4% NASDAQ 2179.91 ▼ 3.6% NIKKEI Closed(12214.76) DJ STOXX 50 2744.81 ▼ 4.0% 10-YR TREAS ▲ 2 3/32, yield 3.482% OIL $95.71 ▼ $5.47 GOLD $783.10 ▲ $22.80 EURO $1.4310 YEN 104.88

AIG, Lehman Shock Hits World Markets

Focus Moves to Fate of Giant Insurer After U.S. Allows Investment Bank to Fail; Barclays in Talks to Buy Core Lehman Unit

The convulsions in the U.S. financial system sent markets across the globe tumbling, as two of Wall Street's biggest firms looked set to exit the scene and insurance titan American In-

By Susanne Craig, Jeffrey McCracken, Jon Hilsenrath and Deborah Solomon

ternational Group Inc. turned to the Federal Reserve and the state of New York for assistance.

The U.S. stock market suffered its worst daily point plunge since the first day of trading after the Sept. 11, 2001, terrorist attacks. Financial markets were rattled by the rushed sale Sunday of Merrill Lynch & Co. and the bankruptcy court filing of Lehman Brothers Holdings Inc., which scrambled Monday to sell its most-prized businesses before too many employees and customers walk out the door. (Please see related article on Page C1.)

All day Monday, top Lehman officials were huddled in Manhattan at their Seventh Avenue headquarters negotiating a sale of the U.S. investment bank – the core part of Lehman – to Barclays PLC of the U.K. People involved in the discussions were increasingly hopeful late Monday that a deal would be struck.

In stock markets from Sydney to London to New York, the news was greeted with immediate selling. For much of the day, the major U.S. market indexes were down 2%, which, while a good-sized decline, was smaller than many had thought would be the case. But in the final hour of trading, a wave of selling hit, driven by concerns about the fate of AIG. The Dow Jones Industrial Average ended down 504.48 points on Monday, off 4.4%, at its daily low of 10917.51, down 18% on the year. Of the Dow industrials' 30 components, all but one—Coca-Cola Co.—fell, led by a 60.8% plunge in AIG.

In Europe, London's FTSE 100 index dropped 3.9%. Several Asian markets, including Japan and China, were closed Monday due to holiday. By Tuesday, Tokyo shares were down 5.1% in early trading, and Hong Kong's Hang Seng index was down 6.1%.

Monday's action was the latest fallout in a widening financial crisis that began a year ago with the fall of American housing prices and as now reordering the U.S. financial system. Steps unveiled by the Federal Reserve to expand its emergency lending arsenal did little to snap the sense of gloom.

Plenty of potential land mines remain. Banks are increasingly hoarding cash, curbing lending at a time when the economy is slowing. They are also starting to dump assets to raise capital. A mass sale of assets by

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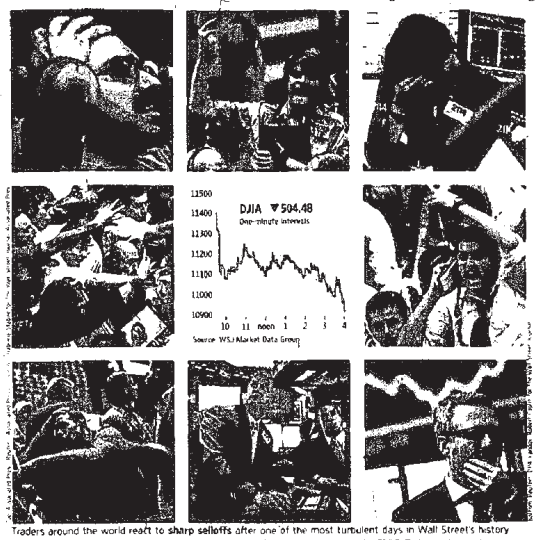

Traders around the world react to sharp selloffs after one of the most turbulent days in Wall Street's history

AIG Faces Cash Crisis As Stock Dives 61%

By Matthew Karnitschnig, Liam Pleven and Serena Ng

American International Group Inc. was facing a severe cash crunch last night as ratings agencies cut the firm's credit ratings, forcing the giant insurer to raise $14.5 billion to cover its obligations.

With AIG now tottering, a crisis that began with falling home prices and went on to engulf Wall Street has reached one of the world's largest insurance companies, threatening to intensify the financial storm and greatly complicate the government's efforts to contain it. The company, whose stock fell 61% yesterday, is such a big player in insuring risk for institutions around the world that its failure could shake the global financial system.

AIG has been scrambling to raise as much as $75 billion to weather the crisis, and people close to the situation said that if the insurer doesn't secure fresh funding by Wednesday, it may have no choice but to opt for a bankruptcy-court filing.

"The situation is dire," a person close to AIG said.

Many market participants have been anticipating a government-led rescue, but so far, however, the U.S. has been reluctant to step in, preferring instead to broker a private-sector solution.

The Federal Reserve hosted a meeting to discuss AIG's prospects at the central bank's offices in New York on Monday with company executives, bankers as well as state and federal officials.

With strong encouragement from the Fed, Goldman Sachs Group Inc. and J.P. Morgan Chase & Co. are seeking to raise $70 billion to $75 billion in loans to help prop up AIG, according to people familiar with the situation. Word of AIG's efforts to borrow that much sent the stock market tumbling in the last hour of trading.

The company turned to the government in earnest after a weekend where intense efforts failed to produce a plan to raise roughly $40 billion in capital. The worsening crisis has now forced the firm to seek considerably more, underscoring its precarious position. AIG needs the money to sidestep a potentially fatal downgrade by credit rating firms.

The downgrades by Moody's Investors Service and Standard & Poor's mean that AIG's counterparties, or trading partners, can demand that it post an additional $14.5 billion in collateral, according to a filing AIG made with the Securities and Exchange Commission in August. It is not clear how quickly AIG would have to produce those funds. In addition, AIG or its counterparties could demand early termination based on the

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What's News—

Business & Finance

AIG was facing a severe cash crunch as its credit ratings were cut, forcing the giant insurer to raise $14.5 billion to cover its obligations. AIG's shares fell 61% on a day when financial markets in the U.S. and around the world were rattled by the rushed sale of Merrill Lynch and the bankruptcy court filing of Lehman. **A1, C2, C16**

■ **Lehman was negotiating** a last-minute plan to sell large portions of itself to Barclays, the U.K.'s third-largest bank. **C1**

■ **The Dow industrials fell** 504.48 points, or 4.4%, to 10917.51, its lowest close in over two years, as financials slid and investors sought bonds. **C1, C10**

■ **Fed officials aren't inclined** to veer from plans to hold short-term rates steady at Tuesday's meeting. **A4**

■ **Central banks around the** world pumped cash into money markets amid the turmoil on Wall Street. Expectations are rising that rates will be cut. **A8**

■ **The balance of power** in the banking industry is shifting to the old-fashioned business of chasing customer deposits and building branch networks. **A1**

■ **A big regulatory overhaul** that had been under discussion could go beyond oversight of investment banks. **A10**

■ **Oil fell** 5.4% to $95.71, the first close below $100 since March. Prices are expected to soften further as investors turn away from commodities. **A12**

■ **H-P is cutting** 24,600 jobs as part of its plan to integrate EDS and will record a $1.7 billion restructuring charge. **B1**

■ **KB Home's former CEO** agreed to pay more than $7 million to settle SEC charges that he backdated his stock options to boost his pay. **B1**

■ **Germany's BASF launched** a friendly offer to buy Ciba, a Swiss specialty chemicals maker, for almost $3 billion. **B2**

■ **A plan to rescue Alitalia** was partially revived as some labor unions signed a draft deal with the group seeking control of the carrier. **B2**

World-Wide

■ **Most Houston residents remained without power.** About four million households couldn't run air conditioning, turn on lights or refrigerate food in the wake of Hurricane Ike, and officials voiced concern about public health and sanitation. Refineries, chemical plants and other businesses couldn't return to operation. More than 30 deaths were blamed on the storm, most in the Midwest. **A12**

The situation continued to be dire along the coast and especially on Galveston Island, which took a direct hit from Ike.

■ **Bush sought** to reassure the public and investors that markets remain sound despite the financial crisis. **A6**

■ **The economies of London** and New York are likely to be hit hard by the loss of financial-services jobs. **A3**

■ **House Democrats plan to** push for action on a $50 billion stimulus package that focuses on infrastructure. **A6**

■ **Mugabe agreed** to a deal that would make opposition leader Tsvangirai Zimbabwe's prime minister. **A16**

■ **A female suicide bomber** killed at least 22 people in Iraq's Diyala province. Car bombings in Baghdad killed 13 more. **A20**

■ **Iran has blocked** a U.N. nuclear-arms investigation and the probe is now at a dead end, the IAEA said in a report. **A20**

■ **NATO envoys demanded** Russia withdraw from Georgia but made no promise of faster membership for Tbilisi. **A20**

■ **Israel's foreign minister** appears to be the top party's leading candidate to succeed Olmert as prime minister. **A18**

■ **Thailand's ruling party** chose ousted leader Thaksin's brother-in-law as its nominee to become prime minister. **A18**

■ **Obama's health-care plan** would cover more people than McCain's but would cost more, two new reports conclude. **A21**

■ **Died: Richard Wright,** 65, Pink Floyd founding member and keyboard player, of cancer.

Old-School Banks Emerge Atop New World of Finance

By Carrick Mollenkamp and Mark Whitehouse

More than 200 years after it was born at the base of a buttonwood tree, Wall Street as we have known it is ceasing to exist.

The rapid demise of 158-year-old investment bank Lehman Brothers Holdings Inc., together with the takeover of 94-year-old Merrill Lynch & Co., represents a watershed in the banking industry's biggest restructuring since the Great Depression.

For decades, the world of banking was divided largely into two kinds of businesses. Commercial banks took deposits and made loans, eking out a decent return under the burden of heavy regulations designed to protect depositors. Standalone securities firms such as Lehman, Merrill and the now-defunct Bear Stearns Cos. took no deposits and were lightly regulated, freeing them to take big risks and make fat profits at the cost of occasional losses. More recently, some of the biggest institutions, such as UBS AG and Citigroup Inc., combined the two.

Now, as many securities firms are consumed in the wake of a disastrous foray into financial wizardry, the balance of power is shifting. On the wane are the heavy borrowing and complex securities that financiers embraced in recent years. On the rise is a more old-fashioned business of chasing customer deposits and building branch networks, conducted with the backing of federal insurance programs to keep depositors from pulling out en masse.

Of the five major independent investment banks that existed a year ago, only two—Goldman Sachs Group Inc. and Morgan Stanley—remain standing. Two others, Merrill and Bear Stearns, have been acquired by big deposit-taking institutions, Bank of America Corp. and J.P. Morgan Chase & Co. Other giant commercial banking players, such as Wells Fargo & Co. in the U.S., as well as Germany's Deutsche Bank AG and Spain's Banco Santander SA, have emerged as some of the most powerful players in an industry that is likely to be safer but less lucrative for shareholders.

Banks are heading "back to basics—to, if you like, the core purpose of the system with less bells and whistles," says Douglas Flint, finance chief at HSBC Holdings PLC and co-chair of the Counterparty Risk Management Policy Group, a task force of finance executives working on a framework to prevent systemic financial shocks. "There is a recognition that when the dust settles, the construct of the industry will be different."

Evidence of the new importance of bread-and-butter banking is appearing around the globe. Deutsche Bank, which had been focused on building its global investment banking business, last week agreed to pay nearly €3 billion ($4.3 billion) in a two-stage deal to acquire the 850 domestic branches of Deutsche Postbank AG, the retail banking arm of the German postal system. Santander, which also wooed Postbank, paid £1.26 billion ($2.26 billion) in July for troubled U.K. mortgage lender Alliance & Leicester.

The shift reflects a broader re-

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Crisis on Wall Street

■ Economic fallout in New York and London A3
■ McCain, Obama campaigns react A21
■ Goldman and Morgan Stanley come under pressure as fears continue C1
■ What brokerage clients of Merrill and Lehman Brothers can expect D1

Keeping Their Powder Dry: Draft Boards Hang On, Just in Case

Preparedness Includes Enlisting Volunteers To Hear the Pleadings of Fake Objectors

By Michael M. Phillips

MUSTANG, Okla.—Draft boards are forgotten, but not gone.

Thirty-five years have passed since the last American man stood before his local draft board and asked to be excused from military service. But in case the draft returns, the Selective Service System is still recruiting civilians to determine which conscripts deserve a pass from Uncle Sam.

"The draft is an insurance policy," said Oklahoma Army National Guard Maj. Greg Park, as 15 volunteers raised their right hands and swore in as draft-board members at a community center here. "The draft is the last line of defense for our country."

Greg Park

The Selective Service System has the awkward task of persuading citizens to sit on draft boards that may never be activated, at a time when most Americans don't know such things exist, all while the U.S. is fighting wars on two fronts.

Should Congress decide to reinstate the draft, the Selective Service would have 190 days to start delivering draftees to the military. To be prepared, the agency has local draft boards picked, trained and ready to pass judgment on those who claim to be conscientious objectors, ministers or others eligible for deferments or exemptions.

So far, Congress has shown no appetite for the draft, although Rep. Charles Rangel, a New York Democrat, has repeatedly proposed legislation mandating military or civilian ser-

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New on WSJ.com

WSJ.com unveils its redesign with expanded news, new features including Journal Community and Management section, and improved navigation to it all. More enhancements are rolling out in the coming months.

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U.S. to Take Over AIG in $85 Billion Bailout; Central Banks Inject Cash as Credit Dries Up

Emergency Loan Effectively Gives Government Control of Insurer; Historic Move Would Cap 10 Days That Reshaped U.S. Finance

The U.S government seized control of American International Group Inc.—one of the world's biggest insurers—in an $85 billion deal that signaled the intensity of its concerns about the danger a collapse could pose to the financial system.

By Matthew Karnitschnig, Deborah Solomon, Liam Pleven and Jon E. Hilsenrath

The step marks a dramatic turnabout for the federal government, which had been strongly resisting overtures from AIG for an emergency loan or some intervention that would prevent the insurer from falling into bankruptcy. Just last weekend, the government essentially pulled the plug on Lehman Brothers Holdings Inc., allowing the big investment bank to go under instead of giving it financial support. This time, the government decided AIG truly was too big to fail.

The U.S. negotiators drove a hard bargain. Under terms hammered out Tuesday night, the Fed will lend up to $85 billion to AIG, and the U.S. government will effectively get a 79.9% equity stake in the insurer in the form of warrants called equity participation notes. The two-year loan will carry an interest rate of Libor plus 8.5 percentage points. (Libor, the London interbank offered rate, is a common short-term lending benchmark.)

The loan is secured by AIG's assets, including its profitable insurance businesses, giving the Fed some protection even if markets continue to sink. And if AIG rebounds, taxpayers could reap a big profit through the government's equity stake.

"This loan will facilitate a process under which AIG will sell certain of its businesses in an orderly manner, with the least possible disruption to the overall economy," the Fed said in a statement.

It puts the government in control of a private insurer—a historic development, particularly considering that AIG isn't directly regulated by the federal government. The Fed took the highly unusual step using legal authority granted in the Federal Reserve Act, which allows it to lend to nonbanks under "unusual and exigent" circumstances, something it invoked when Bear Stearns Cos. was rescued in March.

As part of the deal, Treasury Secretary Henry Paulson insisted that AIG's chief executive, Robert Willumstad, step aside. Mr. Paulson personally told Mr. Willumstad the news in a phone call on Tuesday, according to a person familiar with the call.

Mr. Willumstad will be succeeded by Edward Liddy, the former head of insurer Allstate Corp.

AIG's bailout caps a tumultuous 10 days that have remade the American financial system. In that time, the government has engineered rescues that insert it deep into the housing and insurance industries, while Wall Street has watched two of its last four big independent brokerage firms exit the scene.

The U.S. on Sept. 6 took over mortgage lending giants Fannie Mae and Freddie Mac as they teetered near collapse. This Sunday, the U.S. refused to bail out Wall Street pillar Lehman Brothers, which filed for bankruptcy-court protection and is now being sold off in pieces. That same day, another struggling Wall Street titan, Merrill Lynch & Co., agreed to sell itself to Bank of America Corp.

The AIG deal followed a day of high drama in Washington. The Treasury's Mr. Paulson and Federal Reserve Chairman Ben Bernanke convened in the early evening an unexpected meeting of top congressional leaders. Late in the trading day Tuesday, anticipation that the government might assist the insurer helped propel the Dow Jones Industrial Average to a 1.3% gain.

In bailing out AIG, the Federal Reserve appeared to be motivated in part by worries that Wall Street's financial crisis could begin to spill over into seemingly safe investments held by small investors, such as money market funds that invest in AIG debt.

Indeed, on Tuesday the $62 billion Primary Fund from the Reserve, a New York money market firm, said it "broke the buck"—that is, its net asset value fell below the $1 a share level that funds like this

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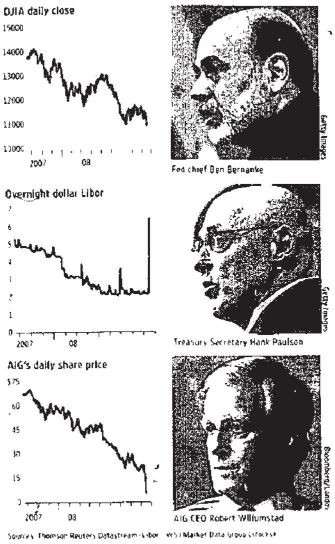
Urgent Mission

Plunging shares, soaring credit costs push the government to step in



Fed chief Ben Bernanke

Treasury Secretary Hank Paulson

AIG CEO Robert Willumstad

Sources: Thomson Reuters Datastream (Libor); WSJ Market Data Group (stocks)

Lending Among Banks Freezes

By Carrick Mollenkamp, Mark Whitehouse And Neil Shah

Banks abruptly stopped lending to each other or charged exorbitantly high rates Tuesday, threatening to spread the troubles of American International Group Inc. and Lehman Brothers Holdings Inc. to a broad range of financial institutions and the global economy.

The breakdown came despite efforts by central bankers to keep money flowing. Central banks in the U.S., Europe and Japan pumped tens of billions of dollars each into the banking system. The Federal Reserve, while declining to lower its benchmark interest rate at a regular meeting Tuesday, said it will "act as needed" to combat ills including tight credit and the still declining housing market.

In one stark sign of waning confidence, the overnight London interbank offered rate, or Libor, a benchmark reflecting the rates at which banks lend to one another, more than doubled, in its sharpest spike on record. Longer term Libor rates also rose sharply. If sustained, that move will push up payments on billions of dollars in mortgages and corporate loans that are linked to Libor.

The tensions reverberated around the world on a day of sharp gyrations in stock and bond markets. The Dow Jones Industrial Average, which was down more than 100 points during the day, ended up 141.51, or 1.3%, to 11059.02 as investors welcomed news that the Fed was weighing a plan to support AIG.

Individual financial shares were all over the map, as investors tried to sort out who will survive the market turmoil. Commercial banks, seen as more stable because they can tap consumer deposits for funding, were up sharply. Bank of America Corp. rose 11.3% and Wachovia Corp. was up 9%. The investment bank Morgan Stanley was down 10.8%, prompting it to rush out its better-than-expected financial results a day early.

Prices of government bonds, a traditional safe haven investment, rose sharply. It was "a nausea-inducing rollercoaster ride," wrote Benjamin Cheng, a strategist at UBS.

From Russia to Switzerland, officials were at times forced to suspend trading as stock prices plunged. Both major Russian stock exchanges halted trading for an hour late in the day, the first time they had

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What's News—

Business & Finance

The U.S. seized control of AIG in a deal that involves the Fed lending the insurer up to $85 billion and the government taking a 79.9% equity stake. The bailout is a sharp turnabout for the U.S. and signals concerns about the danger that AIG's collapse could pose to the financial system. The chairman of AIG's aircraft-leasing arm is expected to lead an effort to buy back the unit. **A1, A8, A10**

- **The Dow industrials rose** 141.51 points, or 1.3%, to 11059.02, spurred by hopes of an AIG bailout. Markets across Asia and Europe sank. **C1, C2**
- **Barclays agreed** to acquire the bulk of Lehman for $1.75 billion, buying a stripped-clean version of the firm's North American business. **C1**
- **Banks abruptly stopped** lending to each other or charged exorbitantly high rates, despite efforts by central banks to keep money flowing. **A1**
- **The Fed kept** its key short-term rate at 2%, but hinted it isn't ruling out future rate cuts amid the financial turmoil. **A3**
- **Morgan Stanley's net fell** a smaller-than-expected 7.7% as concerns about its future sent shares plunging. Goldman's profit tumbled 70%. **C3, C20**
- **U.S. consumer prices** fell in August for the first time in two years. The consumer-price index declined 0.1% on a sharp drop in energy prices. **A3**
- **Oil continued** its slide, falling $4.56 to $91.15. Speculators using borrowed money are being forced out of the market. **A18**
- **Sallie Mae** and the Education Department are embroiled in a contract dispute that could delay efforts to shore up the student-loan market. **A21**
- **Samsung Electronics** made public an offer to buy SanDisk for $5.8 billion. **B1**

World-Wide

- **GAO questioned Interior's collection of energy royalties.** Coming as the House passed a Democratic bill to allow more oil drilling off U.S. coasts, the audits highlight concerns about whether the government is taking in all that it is owed for petroleum developed on federal property. The GAO found that the two agencies responsible for overseeing drilling are falling far short. **A16, A18**
  Senate leaders reached agreement on a tax package, including an AMT fix and an extension of tax breaks.
- **McCain and Obama** are talking about shaking up how Wall Street is regulated, signaling that financial institutions likely will face more scrutiny from Washington. **A4**
- **Lawmakers are examining** the idea of creating a government corporation to deal with financial firms' toxic assets. **A12**
- **The Obama campaign** filed suit to limit Republican challenges of the eligibility of some Michigan voters. **A22**
- **China said problems** with tainted baby formula are more widespread, reflecting Beijing's weak control over food and product safety. **A23**
- **Ukraine's government** collapsed, deepening a political crisis that has marred its prospects of joining NATO. **A23**
- **Pakistan ordered** its troops to fire on U.S. soldiers if they enter from Afghanistan on raids, ahead of a meeting with U.S. military officials. **A23**
- **The U.S. added** Bolivia to the list of countries failing to fight illegal narcotics, but didn't cut aid. **A23**
- **Grenade blasts killed** seven at a Mexican Independence Day celebration. Drug cartels are suspected. **A24**

More on the Financial Turmoil

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- Congress wary of political fallout over AIG rescue ...A10
- Hank Greenberg gets the cold shoulder A12
- Lehman strikes deal to sell its investment bank and capital-markets business to Barclays C1

Tech Guru Riles the Industry By Seeking Huge Patent Fees

By Amol Sharma And Don Clark

Millionaire Nathan Myhrvold, renowned in the computer industry as a Renaissance man, has a less lofty message for tech companies these days: Pay up.

Over the past few years, the former Microsoft Corp. executive has quietly amassed a trove of 20,000-plus patents and patent applications related to everything from lasers to computer chips. He now ranks among the world's largest patent holders—and is using that clout to press tech giants to sign some of the costliest patent licensing deals ever negotiated.

Nathan Myhrvold

In recent months Mr. Myhrvold's firm, Intellectual Ventures, has secured payments in the range of $200 million to $400 million from companies including telecom giant Verizon Communications Inc. and networking gear maker Cisco Systems Inc., according to people familiar with the situation. Verizon, for instance, disclosed in a July filing with the Securities and Exchange Commission that it plans to pay as much as $350 million for patent licenses and an equity stake in a patent holding investment fund. The company operating that investment fund is Intellectual Ventures, according to a person familiar with the terms of the deal.

In many cases, companies that make these license payments also become investors in Mr. Myhrvold's firm. Intellectual Ventures has approached several more companies, according to people familiar with the situation. Some aren't willing to pay. Cable provider Comcast Corp. was approached earlier this year to make licensing payments, but declined, these people said.

The companies approached by Mr. Myhrvold point out that they have signed strict nondisclosure agreements that prohibit them from publicly commenting on their dealings with Intellectual Ventures.

Mr. Myhrvold's venture represents a sizable expansion of a controversial business that has emerged in recent years, in which companies acquire patents with the sole purpose of licensing them to others, without ever actually manufacturing any products. Most of these compa-

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After the Flood: In Louisiana, Diehards Cling to a Vanishing Isle

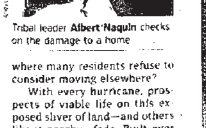
Residents, Battered by Storms, Weigh Tradition and the Lure of a Buyout

By Betsy McKay

ISLE DE JEAN CHARLES, La.—A few days after Hurricane Gustav, Pierre Naquin returned to this fragile vein of marshy land to find part of his roof torn off, his family's furniture, appliances and clothes soaked by beating rains, and black mud oozing under the house. Days later, Hurricane Ike hit the island on its way to Texas.

But as Mr. Naquin, a 67-year-old former tugboat captain, prepared for another slow cleanup, one thing was certain: He won't move. No matter how many times this happens. "This is where I was born. I'm gonna die here," he said.

Emergency officials face a number of questions in helping communities like Isle de Jean Charles. Among them: What should be done in wetlands that are disintegrating, or in locations where man-made protections are unlikely ever to spare people from storm damage, yet where many residents refuse to consider moving elsewhere?



Tribal leader **Albert Naquin** checks on the damage to a home

With every hurricane, prospects of viable life on this exposed sliver of land—and others like it nearby—fade. Built over thousands of years by sediment spread by the Mississippi River during yearly floods, Louisiana's wetlands have been sinking into the Gulf of Mexico ever since the great river was imprisoned in high levees starting in the late 1920s and oil and gas companies began cutting channels through

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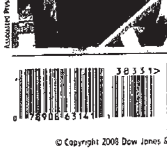

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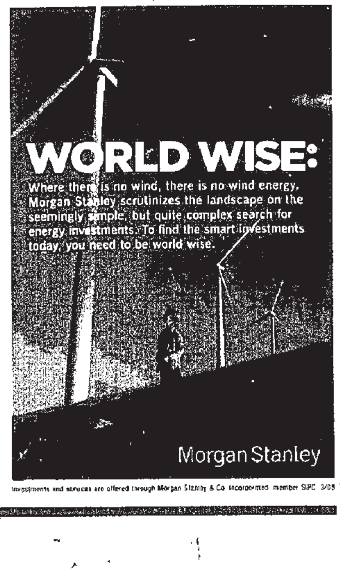

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THE WALL STREET JOURNAL.

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DJIA 10609.66 ▼449.36 –4.1% NASDAQ 2098.85 ▼4.9% NIKKEI 11749.79 ▲1.2% DJ STOXX 50 2597.65 ▼2.3% 10-YR TREAS ▲22/32, yield 3.412% OIL $97.16 ▲$6.01 GOLD $846.60 ▲$70.10 EURO $1.4352 YEN 104.74

Mounting Fears Shake World Markets As Banking Giants Rush to Raise Capital

By Tom Lauricella, Liz Rappaport And Annelena Lobb

Fear coursed through the U.S. financial system on Wednesday, as hope for a resolution to the year-old credit crisis faded.

Stocks tumbled, concern grew about which financial firm would fall next, and investors rushed toward the safe haven of government bonds in the wake of the collapse of Lehman Brothers Holdings Inc. and the crisis at insurer American International Group.

The market turmoil is doing more than inflicting losses on investors. Borrowing costs for U.S. companies have skyrocketed, and the debt markets have become nearly inaccessible to all but the most creditworthy borrowers.

The desperation was especially striking in the market for U.S. government debt, long considered the safest of investments. At one point during the day, investors were willing to pay more for one-month Treasurys than they could expect to get back when the bonds matured. Some investors, in essence, had decided that a small but known loss was better than the uncertainty connected to any other type of investment.

That's never happened before. In a special government auction on Wednesday, demand ran so high that the Treasury Department sold $40 billion in bills, far beyond what it needed to cover the government's obligations.

"We've seen crisis. We've seen recession. But we've not seen the core of the financial system shaken like this," says Joseph Balestrino, a portfolio manager at Federated Investors. "It's just crazy."

A 449-point selloff took the Dow Jones Industrial Average to its lowest level in almost three years, leaving it 23% below where it stood a year ago. Volume on the New York Stock Exchange was the second highest in history, falling just shy of the record set on Tuesday. The VIX, a widely watched measure of market volatility that is often referred to as the "fear index," hit its highest level since late 2002.

In Europe, stock markets lost roughly 2% of their value. In Russia, the scene of recent massive declines, trading on the country's major exchanges was halted for the second day in a row, this time only an hour and a half into the session. Gold prices rose 9% to $846.60 an ounce amid the global turmoil.

"Forget about retail investors, all the pros are scared," says one broker. "People have no idea where to put their money."

For now, "if you have cash, you're going to put it in the short-term, most liquid stuff you can," says Steve Van Order, fixed-income strategist for Calvert Asset Management.

Adding to the fear was a loss in a prominent money-market fund, the Reserve Primary Fund, which held Lehman Brothers debt. It was the first time since 1994 that such a fund, which is supposed to be as safe as a bank account, had lost money. The loss was made worse by a run on the fund. Over two days, inves-

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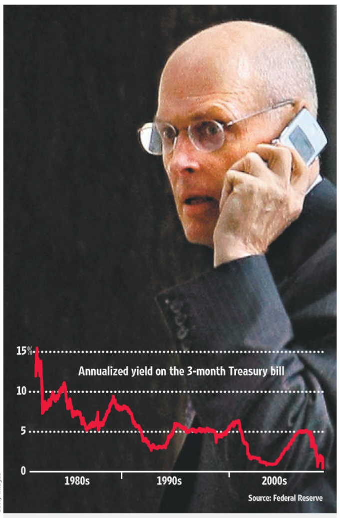

High Anxiety, Low Returns

In a stark sign of the severity of the crisis, investors poured money into Treasury bills, one of the safest investments. Wednesday, yields hit their lowest level since the 1950s, as the premium on security rose sharply.

Morgan Stanley in Talks With Wachovia, Others

By Aaron Lucchetti, Randall Smith And Jenny Strasburg

Morgan Stanley sought shelter from the growing financial storm Wednesday, entering preliminary merger talks with Wachovia Corp. and other banks as a seventh straight decline in the company's share price sent the stock to its lowest level since 1998.

After a harrowing day, Morgan Stanley's shares finished down $6.95, or 24%, to $21.75. Goldman Sachs Group, the largest U.S. investment bank by market value, also fell $18.51, or 14%, to $114.50.

While the situation is more acute at Morgan Stanley, the two Wall Street banks are both battling extraordinary market pressures that have already pushed stable franchises such as Lehman Brothers Holdings Inc. and Merrill Lynch & Co. into bankruptcy protection or hasty merger deals. At Morgan Stanley and Goldman Sachs, two of the oldest and most successful investment banks, market confidence withered in the past 24 hours for firms that were once trusted and envied.

As employees stared at their trading screens and television sets, a sense of disbelief hung over people who had thought themselves largely insulated from credit-market fears. "I've lost more than half my net worth in a month," said one Goldman employee.

Reaching Down

Morgan Stanley's share price dropped 24% on Wednesday

Source: WSJ Market Data Group

The perception hurting investment-bank shares is that they can no longer rely on jittery global markets to replenish the cash necessary to fund their trading and lending businesses. That has forced the companies' borrowing costs higher, which means, ultimately, it will likely become prohibitively expensive for them to fund their businesses.

Commercial banks such as Wachovia are perceived as more stable, creating strong incentive for investment banks to link up with them, as Merrill Lynch did earlier this week with Bank of America Corp. But even some retail banks are under attack, such as the large savings-and-loan

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What's News—

Business & Finance

Morgan Stanley entered preliminary merger talks with Wachovia and other banks as a seventh straight decline in the company's share price sent the stock to its lowest level since 1998. Market confidence in Goldman Sachs has also withered. Meanwhile, WaMu accelerated efforts to raise more capital or potentially sell itself. **A1, C1, C14**

■ **The Dow industrials fell** 449.36 points, or 4.1%, to 10609.66 as rattled investors sent the index to its lowest close in nearly three years. **C1**

■ **Desperation among** investors was especially evident in the market for U.S. government debt, long considered the safest of investments. **A1, C14**

■ **New fault lines** in the financial crisis are emerging in areas like credit-default swaps, the credit-insurance contracts sold by AIG and other firms. **A1**

■ **The Treasury sold** $40 billion in 35-day Treasury bills in a move to bolster the Fed's dwindling balance sheet. **A3**

■ **AIG's bailout drew** praise from Asian policy makers, who still injected more money into regional markets. **A7**

■ **Lloyds TSB is buying** troubled mortgage lender HBOS in a government-brokered deal aimed at shoring up the British banking system. **C1**

■ **The SEC is launching** an effort to make it harder for traders to improperly drive down stock prices and wants more disclosure by hedge funds. **A6**

■ **Crude jumped** $6.01 to $97.16 a barrel amid a decline in U.S. gasoline supplies. A sustained fall in oil prices may squeeze energy projects. **A17**

■ **Housing starts slumped** 6.2% last month to a 17-year low, suggesting market stabilization is still a ways off. **A10**

World-Wide

■ **Washington tried to assess the impact of the AIG loan.** The budget consequences of the move, along with the bailouts of Fannie, Freddie and Bear Stearns, could range from zero to tens of billions of dollars, administration officials said. Senior lawmakers called for a comprehensive look at the financial-regulatory system, but action is unlikely before Congress adjourns at the end of the month. **A3, A6, A21**

The Wall Street crisis and a renewed focus on the economy could help Obama regain control of the campaign debate.

■ **Militants in Yemen** attacked the U.S. Embassy, killing 16 people but failing to penetrate the compound. **A17**

■ **Israel's foreign minister** appeared to be on the brink of becoming the second woman to lead the Jewish state. **A18**

■ **The U.S. Army plans** to deploy drones to Afghanistan. A U.S. missile strike in Pakistan killed at least five people. **A17**

■ **Gates expressed** regret for U.S. airstrikes that killed Afghan civilians and promised more-accurate targeting.

■ **A global network procured** electronic parts for Iran that may have been used in bombs in Iraq, prosecutors charged. **A10**

■ **The Senate passed** by an 88-8 vote a $612.5 billion defense bill that includes a 3.9% pay raise for military personnel.

■ **Galveston residents tried** to return home but were turned away. Hurricane Ike's U.S. death toll climbed past 50. **A10**

■ **Sen. Leahy**, a target of the deadly 2001 anthrax letters, said he doesn't believe the suspect in the attack acted alone.

■ **Two new medical studies** recommend less frequent and less invasive colon exams. **D6**

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Andy Jordan's **Tech Diary** gets dizzy streaming video

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Bad Bets and Cash Crunch Pushed Ailing AIG to Brink

By Monica Langley, Deborah Solomon and Matthew Karnitschnig

For three hours Tuesday evening, the board of American International Group Inc. wrestled with the government's offer: an $85 billion loan in return for surrendering control of the insurance giant.

The directors were stunned by the "onerous" proposal, as one called it. They were surprised by an order to replace Chief Executive Robert Willumstad and bristled at what they considered Washington's heavy-handed treatment. One director said he felt "violated."

It's not the government's role to buy private companies, said Martin Feldstein, an AIG director and former economic adviser to President Ronald Reagan. As the board debated taking its chances in bankruptcy protection—a move that could have caused chaos in global financial markets—Mr. Willumstad made the dilemma clear.

"We are faced with two bad choices," he told the board, according to someone present at the meeting. "File for bankruptcy tomorrow morning or take the Fed's deal tonight." At 7:50 p.m., Mr. Willumstad placed a phone call and accepted the deal.

The following account—based on interviews with Wall Street bankers and lawyers, AIG executives and government officials—shows how the wave that engulfed Wall Street this weekend surged through the financial system and on Tuesday felled the world's largest insurance company.

It's not yet clear where the devastation will end. These tumultuous days have resulted, thus far, with the U.S. government taking control of AIG as well as mortgage titans Fannie Mae and Freddie Mac. Two venerable Wall Street firms, Lehman Brothers Holdings Inc. and Merrill Lynch & Co., ceased to exist as independent entities.

As the AIG case demonstrates, the demise of even the biggest firms can come swiftly. The idea of a takeover hadn't been broached, by either party, until early this week. On Sunday, Treasury Secretary Henry Paulson told bankers considering financing for AIG that government officials "don't have a clear sense of how big the problem is."

On Tuesday, with no private fi-

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The Fallout Spreads

■ U.S. government faces tough task: managing troubled firms while protecting taxpayers A3
■ Russia shuts markets as stocks go into free fall.......... A4
■ In U.K., Lloyds acquires mortgage lender HBOS C1
■ New pressures on once-safe money markets C1

Worst Crisis Since '30s, With No End Yet in Sight

By Jon Hilsenrath, Serena Ng And Damian Paletta

The financial crisis that began 13 months ago has entered a new, far more serious phase.

Lingering hopes that the damage could be contained to a handful of financial institutions that made bad bets on mortgages have evaporated. New fault lines are emerging beyond the original problem—troubled subprime mortgages—in areas like credit-default swaps, the credit insurance contracts sold by American International Group Inc. and others. There's also a growing sense of wariness about the health of trading partners.

The consequences for companies and chief executives who tarry—hoping for better times in which to raise capital, sell assets or acknowledge losses—are now clear and brutal, as falling share prices and fearful lenders send troubled companies into ever-deeper holes. This weekend, such a realization led John

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In Fútbol-Mad Argentina, Ms. Rubeo Teaches Soccer Fans to Play Nice

* * *

Hooligan Etiquette Bans Rock Throwing, Provoking Police; 'Big Baby' Learns a Lesson

By Matt Moffett

BUENOS AIRES—For years, the roughneck fans of the Huracán soccer club often put on more of a show than the players did. Boasting in a fight song that they "root with wine and drugs," they battled police with rocks, fought rival fans with chains and vandalized everything from cars to bleachers.

But at a recent Huracán game, the tough guys were kept in check by a woman sporting a Chanel handbag. Fabiana Rubeo, a 5-foot-3-inch lawyer, is crusading to teach sportsmanship to the *barras bravas*, gangs of soccer hooligans who have fueled a culture of violence in Argentina's national sport. She counseled the leader of the Huracán gang on avoiding provocations with stadium police and warned against launching bottle rockets from the stands.

Fabiana Rubeo

"Despite what people say, this is basically innocent fun," said Ms. Rubeo, 40 years old, shouting to be heard above the roar of the fight songs.

Just about every Argentine soccer team has a barra brava composed of diehard fans who root for teams with nicknames like "The Scoundrels," "The Slum Dwellers," "The Lepers" and "The Garbage Men." They sit in special stadium sections, brandish huge banners and pound drums. Barra brava-related violence has claimed some 250 lives in the past 50 years, estimates Amilcar Romero, a journalist who has written extensively on the

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Weekend Journal: Dancing on Gehry's Rooftops

THE WALL STREET JOURNAL.

DOW JONES A News Corporation Company **** FRIDAY, SEPTEMBER 19, 2008 ~ VOL. CCLII NO. 68 **** $2.00

DJIA 11019.69 ▲410.03 3.9% **NASDAQ** 2199.10 ▲4.8% **NIKKEI** 11489.30 ▼2.2% **DJ STOXX 50** 2569.45 ▼1.1% **10-YR TREAS** ▼7/32, yield 3.436% **OIL** $97.88 ▲$0.72 **GOLD** $892.70 ▲$46.10 **EURO** $1.4305 **YEN** 105.65

U.S. Drafts Sweeping Plan to Fight Crisis As Turmoil Worsens in Credit Markets

Paulson Briefs Congress on Idea to Buy Bad Assets From Banks, Insure Money-Market Funds; Stocks Rebound Sharply

By Deborah Solomon And Damian Paletta

WASHINGTON—The government is working on a sweeping series of programs that would represent perhaps the biggest intervention in financial markets since the 1930s, embracing the need for a comprehensive approach to the financial crisis after a series of ad hoc rescues.

At the center of the potential plan is a mechanism that would take bad assets off the balance sheets of financial companies, according to people familiar with the matter, a device that echoes similar moves taken in past financial crises. The size of the entity could reach hundreds of billions of dollars, one person said.

Another proposal would be the creation of federal insurance for investors in money-market mutual funds, coverage akin to the insurance that currently safeguards bank deposits. The move is designed to stem an outflow of funds as consumers start to worry about even the safest of investments, a sign of how the crisis is spreading to Main Street. There is $3.4 trillion in money-market funds outstanding.

In addition, the Securities and Exchange Commission is set to propose a temporary ban on short-selling. It's not clear how broadly the ban might extend, but it is expected to apply to financial stocks.

Details of the plan were still being worked out Thursday night and could be delivered to Congress in "hours," said Senate Majority Leader Harry Reid of Nevada.

The administration had been taking a patchwork approach to the financial crisis, putting each fire out one at a time. These moves represent an effort to take a more systematic approach, after a spiral of bad debts, credit downgrades and tumbling stocks brought down venerable names from investment bank Lehman Brothers Holdings Inc. to insurance giant American International Group Inc. Banks have grown unwilling to lend to one another, a sign of extreme stress, because financial markets work only when institutions have faith in each other's ability to meet their obligations. (See articles on Pages A9 and C1.)

Word of the plan came the

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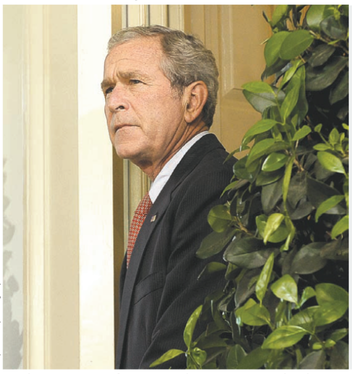

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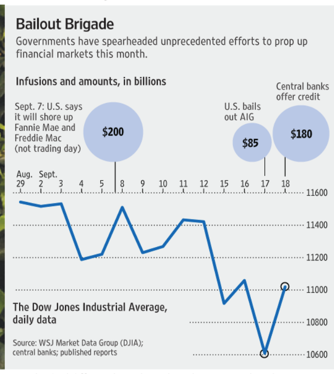

President **George W. Bush** arrives to make a statement regarding the economy in the Oval Office Colonnade at the White House Thursday.

SEC Is Set To Issue Temporary Ban Against Short Selling

The Securities and Exchange Commission prepared an aggressive assault against short-sellers, saying it would temporarily prevent investors from making bets on stock declines in an attempt to stem some of the worst

By Kara Scannell, Deborah Solomon, Craig Karmin and Gregory Zuckerman

stock-market slides in years, according to people briefed on the proposal.

The SEC was convening a late-night commission meeting to consider several items, some of which could be announced as early as today, a person familiar with the matter said. It's unclear whether the halt will be limited to a certain number of financial stocks or how long it would last.

Following a late meeting with Congress, Mr. Cox said, "We're going back to work tonight and in fact the entire commission is in formal meeting right now."

He declined to comment on a temporary ban on short sales. In short selling, traders borrow shares of stock and sell them, hoping the price of the shares decline and they can profit by buying them back at a lower price. Short-sellers have become scapegoats for the big declines in the share prices of weakened companies including Lehman Brothers Holdings Inc. and American International Group Inc., though it is unclear whether they were the cause of the declines.

Earlier Thursday, the U.K.'s Financial Services Authority said it would ban short selling in financial stocks until January. The FSA said it would review the ban in 30 days. The FSA also announced additional disclosure requirements from hedge funds of short sales if a certain threshold is met.

U.K. Treasury Chief Alistair Darling, who was involved in the FSA's decision, said in a statement Thursday he welcomed the

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What's News—

Business & Finance

The government is working on a sweeping series of programs that could mark the biggest intervention in financial markets since the 1930s. At the center of the potential plan is a mechanism to take bad assets off balance sheets of financial companies. Federal insurance for investors in money-market mutual funds is also being considered. **A1**

■ **The SEC plans** to temporarily ban investors from making bets on stock declines, joining a similar move by the U.K. to halt short selling. **A1**

■ **The Fed expanded** its currency-swap lines by $180 billion and unveiled new programs to give foreign central banks access to dollars. **A4**

■ **Actions by central banks** did little to alleviate lending markets as banks held onto the newly injected funds. **A9**

■ **The Dow industrials soared** 410.03 points, or 3.9%, to 11019.69, boosted by reports that a plan is being considered to bail out troubled banks. **C1**

■ **Russia unveiled** an expanded $120 billion rescue package for the nation's financial system as fears of an economic slowdown grew. **A8**

■ **China plans** to buy shares and take other measures to halt a stock-market slide and boost investor sentiment. **A8**

■ **Turmoil in the U.S.** financial sector is showing signs of spreading to other industries. The index of leading indicators fell by 0.5% in August. **A3**

■ **AIG's new CEO said** in an interview that he hopes to keep large insurance operations intact after selling assets to pay back the government. **A3**

■ **Citigroup is considering** making a bid for WaMu, while other suitors are reviewing the thrift's books. **C1**

■ **Morgan Stanley CEO** John Mack went on the offensive, lobbying for intervention and rule changes targeting short selling. Shares rose 3.7%. **C3**

■ **Freddie Mac said** Lehman hasn't made principal payments of $1.2 billion plus interest on short-term loans. **A4**

■ **Buffett's MidAmerican** Energy is paying $4.7 billion for Constellation Energy. **B1, C12**

■ **Dow Jones said** Kraft Foods will join the Dow Jones Industrial Average on Monday, replacing AIG. **C5**

World-Wide

■ **Bush sought to reassure the public about markets.** In a live-TV statement on the financial crisis, the president defended the government's recent moves and said "markets are adjusting." His comments had little immediate effect on financial markets, though stocks surged on suggestions the White House is considering bigger bailout steps. Democrats blasted Bush's comments as insufficient. **A6, A7**

McCain said he would fire the SEC chairman if he were president, blaming Cox for poor handling of the crisis.

■ **House Democrats** are moving to include a narrowed list of stimulus proposals in a stopgap spending bill. **A13**

■ **Israel's foreign minister** began efforts to build a coalition government after her party chose her as prime minister. **A16**

■ **Pakistan's foreign minister** said the U.S. hadn't informed Islamabad before it launched a drone missile attack. **A17**

■ **The White House** is reviewing its Afghan strategy as violence spreads, Gates said.

■ **The Pentagon said** a malfunction likely caused a helicopter crash in southern Iraq that killed seven U.S. soldiers. **A17**

■ **At least 25 militants** with suspected al Qaeda ties were arrested in the deadly attack on the U.S. Embassy in Yemen.

■ **Palin's husband refused** to testify in the Alaska Legislature's investigation of his wife's alleged abuse of power. **A12**

■ **The FDA proposed** rules on regulating genetically engineered animals, likely paving the way for their sale as food. **A12**

■ **North Korea appears** to be taking a harder line in nuclear talks with its leader's health in question, U.S. officials said. **A16**

■ **A commuter-train engineer** was apparently text-messaging shortly before last week's fatal crash near Los Angeles. **A11**

■ **A U.S. psychologists' group** voted to ban members from taking part in interrogations that violate international law. **A13**

■ **Crane operators** will have to pass a certification test under proposed rules, OSHA said. **A13**

■ **The WHO halved** its estimated number of malaria cases world-wide to 247 million.

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Street Scenes: The Players Remaking Financial World

History has thrown a handful of men together this week with a task that they themselves might have brushed off as unthinkable just days ago: Give the U.S. financial system its biggest makeover

By Susanne Craig, Carrick Mollenkamp, Deborah Solomon and Dan Fitzpatrick

since the 1930s. And do it quickly.

They hail from all parts of the financial world, a banker from North Carolina, a London financial executive, the U.S. Treasury chieftain who himself once ruled a Wall Street powerhouse. Along with small cadre of other men, they are struggling to shore up the foundations of Wall Street, on the fly.

It's too early to know whether the choices they've made—rapid-fire acquisitions of Wall Street icons Merrill Lynch & Co. and Lehman Brothers Holdings Inc., government seizure of one of the world's biggest insurers, American International Group Inc.—were the right ones. Rarely are decisions on the trillion-dollar scale made so hastily and with so little vetting.

Now, the government appears ready to embark on yet another attempt to stem the financial carnage. The Treasury Department and the Federal Reserve are considering ways to

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Associated Press

Henry Paulson, right, and **John Thain** on the NYSE trading floor during better days.

Wall Street's Ills Seep Into Everyday Lives

By Jennifer Levitz, Ilan Brat And Nicholas Casey

Bradford Roth, the 56-year-old chairman of a Chicago law firm, had a clear strategy for dealing with Wall Street's gyrations when he stopped by a local Fidelity Investments branch Wednesday.

He'd make a deposit to his cash-management account, but he wasn't going to check the balance of his retirement account.

"The less you know," he said, "the better you feel. There's nothing wrong with working in your 80s."

The crisis gripping global finance is filtering into the everyday lives of Americans, spawning confusion and denial, avarice and anxiety, stoicism and black humor. For some it has meant, putting off retirement or long-planned moves. For others, it meant moving their money out of stocks and bonds and into foreclosed homes, gold, livestock or even just having a good time.

"I've been talking to my banker and telling him to get all my money out of the market," said Pat Hurley, a 57-year-old electrical contractor from Phoenix. "I'm really worried—I think the stock market is going to get worse and worse," he said.

Mr. Hurley has $440,000 in his retirement fund, a sizable chunk but not nearly the million dollars he was hoping for. "I finally got back to where I was in 2001 and now the stock market's diving again," he said.

Bob Conrad, a 59-year-old budget director at the U.S. District Court in Dallas, sees his chance

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The House Takes a Hit as Casinos Ban Cigarette Smoking

* * *

Several States Are Kicking the Habit, But Gamblers Leave Slots for Nicotine

By Tamara Audi

JOLIET, Ill.—At one point during her Saturday evening on Harrah's casino barge anchored outside Chicago, Tensi Beavers needed a cigarette. But Illinois had recently banned smoking in casinos. So Ms. Beavers did something that is making gambling executives choke on their smoke-free casino air: She walked away from her game.

"I like to play and smoke, but you can't, so…," Ms. Beavers said, clutching a pack of cigarettes and searching for the smokers' lounge, located just off the casino floor but too far from the nearest slot machine to gamble.

To players like Ms. Beavers, smoking and gambling go hand in hand—cigarette in one hand, slot-machine button in the other. "You take a pull and hope you hit it," Ms. Beavers said.

Now, that ritual is being upended in several states where casino smoking bans have been implemented or are on the way. The bans are hitting casinos at a time when larger economic woes—such as airline flight reductions, cash-strapped consumers and the credit crisis—are driving down casino revenues from Las Vegas to Connecticut.

"The smoking ban is having a major impact," said Tom Swoik, head of the Illinois Casino Gaming Association. Casinos in Illinois have posted double-digit declines in revenue since the smoking ban took effect in January.

Casino officials say steep revenue losses threaten to force staff cuts, and drastically reduce state tax revenues generated by casinos. They point to a 2005 research paper by the Federal Reserve Bank of St. Louis that says Delaware's "racinos"—race-

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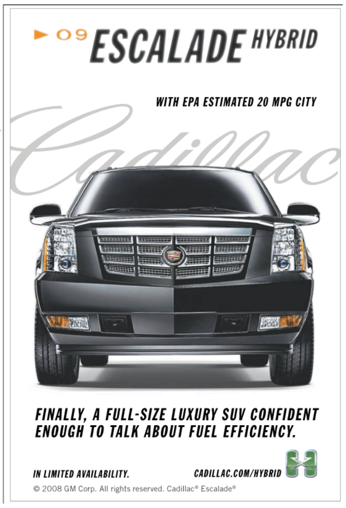

The Cultural History of Debt
By Margaret Atwood

THE WALL STREET JOURNAL.

SATURDAY-SUNDAY, SEPTEMBER 20 - 21, 2008

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What's News—

Business & Finance

The U.S.'s top economic generals pressed Congress to authorize by next week a plan to bail out the financial system. Details are still to be worked out, but the plan involves auctions using what Treasury Secretary Paulson said would be "hundreds of billions" of taxpayer money to buy illiquid assets. A1, B16

■ **The Dow Industrials surged** 368.75 points, or 3.3%, to 11388.44, up for the second straight day on the bailout. Oil climbed 6.8% to $104.55. B1, B5

■ **The government's actions** helped unclog short-term debt markets and renew investor confidence. Bond prices fell. B5

■ **U.S. officials watched** with alarm Wednesday as events in the credit markets spurred the intervention plan. A1

■ **The SEC said** it was expanding its probe into potential market manipulation, focusing on credit-default swaps. B5

■ **GM plans to draw** down the remaining $3.5 billion of a secured revolving credit facility to boost its liquidity amid uncertainty in capital markets. A2

■ **Lehman's move** to transfer $8 billion to its New York operations from London just ahead of its bankruptcy filing is drawing scrutiny. B1

■ **Morgan Stanley's board** was expected over the weekend to discuss a deal with Wachovia. A Chinese entity could take a stake in the combined firm. B1

■ **Mortgage delinquencies** last month rose at the fastest pace since last year for many loan categories, data show. A3

■ **Russian stocks surged,** as a $120 billion government rescue package and the rebound in global markets helped avert a financial calamity. B3

■ **Stocks soared world-wide** on the rescue efforts but most major indexes in Europe and Asia still fell for the week. B3

■ **China is considering** a recall of all locally produced dairy goods in the wake of the scandal over tainted formula. A10

■ **Energy said** Hurricane Gustav caused $500 million to $600 million worth of damage to its electric system. A9

—Markets—

Stocks (Friday): DJIA 11388.44, ▲ 368.75; Nasdaq 2273.90, ▲ 74.80; S&P 500 1255.08, ▲ 48.57

Bonds: 10-year Treas. ▼ 2 27/32, yield 3.771%, 30-year Treas. ▼ 4 15/32, yield 4.367%.

Dollar: 107.27 yen, -1.62; euro $1.4474, -1.69 cent vs. dollar

Commodities: Oil $104.55 a barrel, ▲ $6.67; Gold (Comex) $860.60 per troy ounce, ▼ 32.10; DJ-AIG index 175.376, ▲ 3.529.

World-Wide

■ **The White House is taking "decisive" action, Bush said.** In his most detailed remarks on the financial crisis, the president outlined a plan to restore confidence, the key element of which is a mechanism for buying up and disposing of illiquid securities. Congressional leaders vowed speedy action on the rescue plan, but conservatives bridled at the notion of major new government interventions. A4

Obama called for an added stimulus package, while McCain cautioned against too much strain on the Fed.

■ **North Korea said** it is rebuilding its nuclear plant and appeared to suggest it may end aid-for-disarmament talks. A11

■ **Russia is set** to boost its defense budget next year by more than a quarter to a post-Soviet high of $50 billion. A11

■ **U.S. troops killed** seven people in a raid targeting al Qaeda in Iraq. Iraqi officials said the victims were all civilians. A11

■ **Gates told** NATO allies that they will be expected to share the cost of a planned expansion of the Afghan army. A11

■ **A roadside bomb hit** a U.S.-led coalition convoy in western Afghanistan, killing one coalition member.

■ **A bomb exploded** at a religious school in Pakistan believed to be linked to a pro-Taliban party, killing five people.

■ **Schwarzenegger agreed** to a budget compromise with California's Legislature that averts a threatened veto.

■ **Medicare premiums** for most people will stay at $96.40 a month in 2009, the first year without a raise since 2000.

■ **A government watchdog** demanded a probe of complaints the FAA failed to act on runway-safety problems.

■ **Venezuela expelled** two rights monitors after they criticized the Chávez presidency for political discrimination.

■ **An out-of-service bus struck** a light-rail train in Los Angeles during the morning rush, injuring at least 14 people

■ **Japan's agriculture minister** resigned in a scandal over contaminated rice that was sold to thousands of people. A11

■ **Anti-Christian violence** that started in a remote corner of eastern India last month is breaking out in other states. A11

■ **The Pentagon shifted** a top member of the Guantanamo war-crimes trial to another post amid charges of misconduct.

■ **Over 500,000 women** still die each year in pregnancy and childbirth, Unicef said.

■ **Weather forecasters predict** more hurricanes this year in the Atlantic and Caribbean.

—Inside—

THE WEEKEND INTERVIEW:
The general who had Bush's ear | A13

THE INTELLIGENT INVESTOR:
Abracadabra! And the market's rescued? | B2

Beyond El Bulli: Where to taste what's next on Spain's cutting edge | W3▸

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		World News	A11,A12

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U.S. Bailout Plan Calms Markets, But Struggle Looms Over Details

By Deborah Solomon And Damian Paletta

The nation's top economic generals pressed Congress to move with extraordinary speed—by next week—to authorize a plan to bail out the U.S. financial system, but are still working to iron out enormously complicated details likely to generate controversy.

Under broad outlines of the plan, the Treasury Department will request the authority to run auctions using what Treasury Secretary Henry Paulson said would be "hundreds of billions" of taxpayer money to buy illiquid assets from U.S. financial institutions. The goal: to stabilize markets and allow vulnerable firms to shore up their balance sheets.

Markets soared for a second straight day on news of the discussions. The Dow Jones Industrial Average rose 368.75, or 3.35%. Financial stocks led the rebound. Stock markets in Asia and Europe also rose sharply. The news also helped improve credit markets. Investors poured out of the ultra-safe Treasury bond market Friday, sending yields on the three-month T-bill up to 1% after briefly touching 0% on Wednesday.

President Bush with, from left, SEC Chairman Cox, Treasury Secretary Paulson and Fed Chairman Bernanke

Still, though members of Congress briefed on the idea generally voiced approval, lobbyists, policymakers and financial services executives geared up for a fight over the details. (See related story on page A4.)

Among the measures announced Friday, the Treasury temporarily extended insurance similar to that on bank deposits to money market mutual funds, and the Federal Reserve said it would buy commercial paper from the funds. The Securities and Exchange Commission, meanwhile, banned short-selling of 799 financial stocks—a financial bet that they will fall in price—for at least 10 days. And the Treasury said it—along with mortgage giants Fannie Mae and Freddie Mac, recently taken over

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Shock Forced Paulson's Hand

A Black Wednesday on Credit Markets; 'Heaven Help Us All'

When government officials surveyed the flailing American financial system this week, they didn't see only a collapsed investment bank or the surrender of a giant insurance firm. They saw

By Deborah Solomon, Liz Rappaport, Damian Paletta and Jon Hilsenrath

the circulatory system of the U.S. economy—credit markets—starting to fail.

Huddled in his office Wednesday with top advisers, Treasury Secretary Henry Paulson watched his financial-data terminal with alarm as one market after another began go haywire. Investors were fleeing money-market mutual funds, long considered ultra-safe. The market froze for the short-term loans that banks rely on for their day-to-day business. Without such mechanisms, the economy would grind to a halt. Companies would be unable to fund their daily operations. Soon, consumers would panic.

For at least a month, Mr. Paulson and Treasury officials had discussed the option of jump-starting markets by having the government absorb the rotten assets—mainly financial instruments tied to subprime mortgages—at the heart of the crisis. The concept, dubbed Balance Sheet Relief, was seen at Treasury as a blunt instrument, something to be used in only the direst of circumstances.

One day later, Mr. Paulson and Federal Reserve Chairman Ben Bernanke sped to Congress to seek approval for the biggest government intervention in financial markets since the 1930s. In a private meeting with lawmakers, according to a person present, one asked what would happen if the bill failed.

"If it doesn't pass, then heaven help us all," responded Mr. Paulson, according to several people familiar with the matter.

Accounts of the events surrounding this week's unprecedented federal interventions are based on interviews with Bush administration and Congressional officials, as well as investors.

In the past two weeks, the relationship between government and the markets has been redefined. The Bush administration has become responsible for a major chunk of the U.S. housing market through its seizure of mortgage giants Fannie Mae and Freddie Mac. It has entered the insurance business in a big way after taking control of American International Group Inc. Regulators allowed one investment bank to

Please turn to page A5

The Fallout Continues

■ Lehman draws scrutiny over how it moved billions of dollars just ahead of its bankruptcy filing B1

■ Regulators target short sellers, with consequences B1

■ Mortgage delinquencies jump sharply in August A3

■ Follow the latest developments at WSJ.com

In Turmoil, Capitalism In U.S. Sets New Course

By David Wessel

This past week marks a decisive turn in the evolution of American capitalism.

Black September, the biggest financial shock since the Great Depression, is prompting a Republican Treasury secretary and Federal Reserve chairman to devise the most muscular government intervention in the economy since the Great Depression in an effort to prevent the economic devastation of the Great Depression.

Abandoning its one-rescue-at-a-time strategy of recent months, the government suddenly has shifted to a broad attack on what Treasury Secretary Henry Paulson calls "the root cause of our financial system's stresses," the rot on the balance sheets of America's financial system.

Gone is the faith, shared by the nation's leadership with varying degrees of enthusiasm, that the best road to prosperity is to unleash financial markets to allocate capital, take risks, enjoy profits, absorb losses. Erased is the hope

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As Times Turn Tough, New York's Wealthy Economize

Plastic Surgeons, Jewelers, Yacht Builders Brace for Leaner Times; Saying No to Caviar

By Ellen Gamerman, Cheryl Lu-Lien Tan And Francine Schwadel

A nose job in a hospital with a private nurse in attendance had been something of a rite of passage for Joan Asher's children. But when her fourth and last child was ready for her own rhinoplasty recently, Ms. Asher asked her to postpone it.

The financial markets were simply more out of whack than her 16-year-old's proboscis.

"The other noses were more prominent," the stay-at-home mother from a tony New York City suburb in Westchester County told her 16-year-old daughter. She could get hers done when things settled down.

The financial crisis on Wall Street has New York's well-to-do reeling. The people who fuel the area's economy with their spending on art, fashion, cars, restaurants, plastic surgery and other luxe goods and services are starting to cut back once lavish budgets. As a result, those who cater to their every whim—from nanny agencies to jewelers to yacht builders—are seeing clients tighten their belts on expenses from the millions to the thousands.

Tina Tang

At luxury boat builder Northrop & Johnson Yacht and Ship, headquartered in the British Virgin Islands, director Kathleen Mullen says a New York investor called this week trying to put off the purchase of a more than $25 million megayacht. The client's de-

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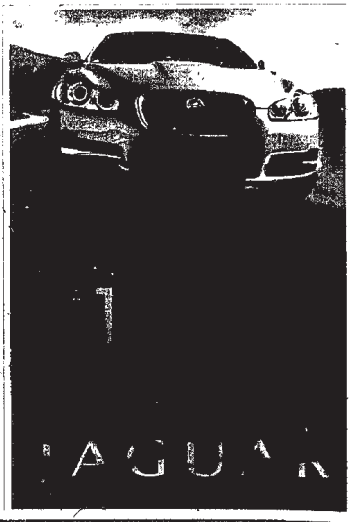


The Journal Report: Making the Most of Customer Complaints

THE WALL STREET JOURNAL.

DOW JONES A NEWS CORPORATION COMPANY · MONDAY, SEPTEMBER 22, 2008 · VOL. CCLII NO. 70 · ★★★★ $2.00

Last week: DJIA 11388.44 ▼33.55 -0.3% . NASDAQ 2273.90 ▲0.6% . NIKKEI 11920.86 ▼2.4% DJ STOXX 50 2809.38 ▼1.7% 10-YR TREASURY ▼11/32, yield 3.771% OIL $104.55 ▲$3.37 EURO $1.4474 YEN 107.27

Goldman, Morgan Scrap Wall Street Model, Become Banks in Bid to Ride Out Crisis

End of Traditional Investment Banking, as Storied Firms Face Closer Supervision and Stringent New Capital Requirements

BY JON HILSENRATH, DAMIAN PALETTA AND AARON LUCCHETTI

The Federal Reserve, in an attempt to prevent the crisis on Wall Street from infecting its two premier institutions, took the extraordinary measure on Sunday night of agreeing to convert investment banks Morgan Stanley and Goldman Sachs Group Inc. into traditional bank holding companies.

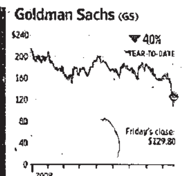
With the move, Wall Street as it has long been known—a coterie of independent brokerage firms that buy and sell securities, advise clients and are less regulated than old-fashioned banks—will cease to exist. Wall Street's two most prestigious institutions will come under the close supervision of national bank regulators, subjecting them to new capital requirements, additional oversight, and far less profitability than they have historically enjoyed.

Already, the biggest rivals of Goldman Sachs and Morgan Stanley—Merrill Lynch & Co., Lehman Brothers and Bear Stearns Cos.—have merged into larger banks or sought bankruptcy protection.

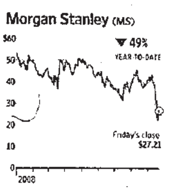
Under the Gun

Instead of being overseen by just the Securities and Exchange Commission, Goldman Sachs and Morgan Stanley will now face much stricter oversight. The Federal Reserve will regulate the parent companies, the Treasury Department's Office of the Comptroller of the Currency will regulate national bank charters and the Federal Deposit Insurance Corp. will likely play a bigger role.

◄ Lloyd Blankfein, Goldman Sachs chief executive



◄ John Mack, Morgan Stanley chief executive



Source: WSJ Market Data Group Images: Getty Images (Blankfein); Associated Press (Mack)

"This fundamentally alters the landscape," a Goldman Sachs spokesman said Sunday night. "By becoming a bank holding company and being regulated by the Federal Reserve, we have directly addressed issues that have become of mounting concern to market participants in recent weeks."

The rapid pace of change in recent weeks highlights the severity of the financial crisis, and suggests it is deeper than many on Wall Street were willing to admit. Some investors may view the move as a negative signal, for it suggests that Goldman and Morgan Stanley, two institutions who were once considered rock solid, may have been facing greater liquidity issues than was apparent.

Becoming a bank holding company can help both Morgan Stanley and Goldman organize their assets, and puts both in a much better position to be acquired, to merge or to acquire smaller companies with insured deposits. It also may allow Goldman and Morgan Stanley to avoid using of mark-to-market accounting—which forces companies to value their assets based on the current market price. Instead, these firm may be able to classify assets as "held for investment," as many

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Lawmakers Battle Over Rescue Plan

BY GREG HITT, DAMIAN PALETTA AND DEBORAH SOLOMON

WASHINGTON—Lawmakers are scrambling to put their mark on the Bush administration's $700 billion plan to save financial markets—a fast-moving test of wills that could reshape one of the biggest bailouts in U.S. history.

There's no sign yet that Congress will delay or derail the proposal. Democrats are looking to add provisions that include beefed-up congressional oversight, aid for individual homeowners and changes to bankruptcy laws.

Some of the measures are opposed by the administration. Perhaps the biggest looming fight is over Democratic efforts to require the program's participants to curb what they pay their executives.

Last week, as deep new fissures opened in global financial markets, the U.S. Treasury unveiled a plan to spend up to $700 billion to buy soured mortgages and mortgage-related securities from financial institutions. In many respects, the financial sector last week all but ceased to function.

In discussions with lawmakers late Sunday, Treasury Secretary Henry Paulson prodded Congress to move forward, voicing worry about how financial markets will react Monday and whether those institutions still standing could be in for more turmoil, officials said. Since unveiling the plan, the administration has kept up pressure for rapid action, in hopes that relieving banks of their troublesome holdings will help lending markets to stabilize.

The bailout is raising thorny questions that could be tough to address as the bill speeds through Congress. Until this proposal, the government's response to the worst financial crisis in 80 years had been led largely by the Treasury and the Federal Reserve, with Congress consulted often only after the fact. As a result, lawmakers view the bailout plan as a chance to reassert their authority. Many are unnerved by Treasury's request for a blank check with few conditions.

The proposal has also stirred a populist backlash, with many members of Congress saying the bill needs to be better geared to Main Street than Wall Street.

"This is not in anyway to deprive [Treasury Secretary Paulson] the opportunity to act. We totally understand the gravity of the moment," said Senate Banking Committee Chairman and Connecticut Democrat Chris Dodd. But, he added: "You cannot just turn over $700 billion of taxpayer money and not insist

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What's News—

Business & Finance

The Fed took the extraordinary step of agreeing to convert the last two major investment banks, Morgan Stanley and Goldman Sachs Group, into traditional bank holding companies under the close supervision of national bank regulators. With the move, the Wall Street model of independent brokerage firms will cease to exist. **A1**

■ **The Bush administration's** proposed $700 billion bailout drew bipartisan backing along with criticism. Democrats want bailout participants to curb what they pay their executives, which the president opposes. **C1**

■ **Washington Mutual** pushed to decide its fate, continuing talks with potential buyers amid pressure from regulators. **C1**

■ **Lehman transferred** billions of dollars in assets among units before its bankruptcy filing, raising questions over the propriety of the moves. **C1**

■ **AIG shareholders** are scrambling to help repay a loan from Washington in time to avoid its taking an 80% stake in the U.S. insurance giant. **A3**

■ **The effort to quash** short selling gained global momentum, as Australia, Taiwan and the Netherlands announced restrictions. **C1**

■ **Chinese banks** may be in better shape than others to weather the storm, with only minor hits from the collapse of major U.S. institutions. **A3**

■ **A consortium failed** in its effort to best Buffett's bid for Constellation. Électricité de France, KKR and TPG had hoped to win the cash-starved company. **B1**

■ **Treasurys are expected** to face losses after government efforts to stabilize the financial system. The dollar has held steady, but that could soon change. **C2, C3**

■ **Investors sold a net** $3.9 billion of stock-focused mutual funds in the week through Wednesday, according to AMG Data Services. **C3**

■ **Retailers are preparing** for a weak holiday season with new sales strategies and staff cutbacks. **B1**

World-Wide

■ **Mbeki resigns South Africa presidency under pressure.** The leader defended his economic record after bowing to a request during the weekend from his ruling party to step down. The move ushers in what could be a period of political and investor uncertainty in Africa's largest economy. The parliament will replace him within the next month. **A19**

The resignation could spook investors who have flocked to the nation amid the current commodities boom.

■ **China's government** doubled the official tally of children sickened by tainted formula and stepped up efforts to address the domestic fallout from the scandal. **A19**

■ **Obama is seizing** on the recent financial turbulence to attack proposals by McCain on Social Security and health care. **A17**

■ **Pakistani officials** said Saturday's suicide blast that killed 53 people at the Islamabad Marriott Hotel bore the hallmarks of al Qaeda. **A20**

■ **Brown pledged** at a Labour Party conference to do "whatever it takes" to tackle Britain's economic crisis despite a rebellion against him. **A20**

■ **Israeli Prime Minister** Olmert tendered his resignation Sunday, but he will stay on as caretaker until a new government is formed. **A20**

■ **Belgium needs** radical constitutional changes so it can devolve more powers to its Dutch and French-speaking regions, a committee recommended. **A20**

■ **Former U.S. Rep. Mark** Foley won't face state or federal criminal charges related to allegations he sent salacious messages to underage male pages.

■ **California lawmakers** approved changes to a $143 billion spending plan and gave in to Gov. Schwarzenegger's demands for a more robust rainy day fund. **A12**

■ **A nightclub fire** sparked by fireworks and a crush of panicked patrons killed at least 43 people in Shenzhen, China. **A20**

■ **Six children were placed** in temporary state custody following a raid on an Arkansas church compound as part of a child-porn investigation. **A12**

■ **U.S. defeated Europe** to win the Ryder Cup golf title for the first time since 1999.

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Bloomberg News/Landov

Spreading Impact

■ Decline in assets forces some baby boomers to delay retirement A4
■ Q&A: Where things stand in rescue plan A8
■ Credit crunch prompts GM to tap cash now B1
■ Fallout from the Lehman bankruptcy C1

Investors protested in Hong Kong Sunday, over bonds they bought that had been issued by Lehman Brothers Holdings

Consumers Cut Health Spending, As Economic Downturn Takes Toll

BY VANESSA FUHRMANS

As the credit crunch threatens to throw the economy into a deep slump, Americans are already cutting back on health care, a sector once thought to be invulnerable to recession. Spending on everything from doctors' appointments to preventive tests to prescription drugs is under pressure.

The number of prescriptions filled in the U.S. fell 0.5% in the first quarter and a steeper 1.97% in the second, compared with the same periods in 2007—the first negative quarters in at least a decade, according to data from market researcher IMS Health. Despite an aging and growing U.S. population, the number of physician office visits also has been declining since the end of 2006. Between July 2007 and 2008, the most recent month for which data are available, visits fell 1.2%, according to IMS.

In a survey by the National Association of Insurance Commissioners last month, 22% of 686 consumers said that economy-related woes were causing them to go to the doctor less often. About 11% said they've scaled back on prescription drugs to save money. Some of the areas being hit include hip and knee replacements, mammograms, and visits to the emergency room, according to a survey conducted by D2Hawkeye Inc., a Waltham, Mass., medical data analytics firm, on behalf of The Wall Street Journal.

Since sales at the Sebring, Fla.-area car dealership where Christopher Pye works have dwindled, so have the commissions that were 40% of his income in good times. Barely able to afford his $850 monthly mortgage and pay for groceries, he says something had to give: his two young sons' annual medical checkups.

"It's just a little too expensive right now," says Mr. Pye, 32 years old, who says he can't afford to have his family on the company health plan or to pay up front for the visits. This month, Mr. Pye is canceling his own insurance, hoping the $56 he'll save in weekly premiums will pay for the exams of his boys, ages 3 and 4, later.

Health-policy experts say that patients' short-term care cutbacks could lead to more medical problems and higher spending down the road. As more people forgo screenings or wait until minor medical problems blow up into serious complications, hospital and emergency-room admissions could eventually spike.

"Once you've had that heart attack and end up in the hospital, that's when the expensive stuff begins," says Dana Goldman, director of health economics at the Rand Corp., a nonprofit research institute in Santa Monica, Calif.

Health-care companies say the current economic slump's impact on demand for medical services has been surprisingly swift. Laboratory Corp., the country's second-largest clinical lab-testing company by sales after Quest Diagnostics Inc., says the number of blood tests and other types of lab work it does for uninsured customers fell 8% in the second quarter, compared with the 1% quarterly growth it usually sees.

The company's analysis of outside market data also shows that obstetrician-gynecologist visits, the sole source of preventive

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In This Slimy Political Contest, The Winner Is Crowned Slug Queen

Oregon Festival's Pageant Contestants Come Out of Their Shells to Compete

BY MARY PILON

EUGENE, Ore.—An hour before the pageant, contestant Constance Van Flandern carefully applied her eye makeup, as any beauty contestant would. But she was vying to become Eugene's Slug Queen.

Ms. Van Flandern attached a plastic cage around her waist to puff out her 45-inch-wide green skirt. Then she put on a corsetlike green silk top.

Wearing 4-inch gold platform heels, the 42-year-old mother of two began her slow walk through Eugene to the downtown stage where the competition for slug queen was taking place. Three little girls—called slugettes—lifted the slime train on Ms. Van Flandern's skirt as she walked.

Constance Van Flandern

Ms. Van Flandern had been angling for the title for nearly a year. To impress the judges, she designed a Web site chronicling the history and news of the pageant. She made slug-shaped meringues for them. She lobbied to have a statue of a slug erected in Eugene's Hendricks Park.

"There will be fierce competition this year," Ms. Van Flandern declared. "But I say, bring it on."

The S.L.U.G. (an acronym for Society for the Legitimization of the Ubiquitous Gastropod) Queen has been a tradition here for a quarter century. It began because some rebellious local politicians wanted to make a snide statement about other Oregon pageants—Portland's Rose Queen, Lebanon's Strawberry Queen and the state's Miss Rodeo.

"There are people who don't

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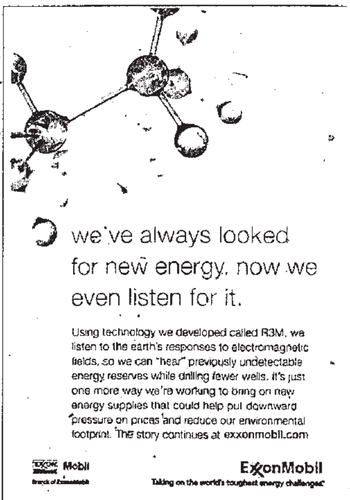

THE WALL STREET JOURNAL.

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DJIA 11015.69 ▼ 372.75 -3.3% NASDAQ 2178.98 ▼ 4.2% NIKKEI 12090.59 ▲ 1.4% DJ STOXX 50 2745.32 ▼ 2.3% 10-YR TREAS ▼ 16/32, yield 3.829% OIL $120.92 ▲ $16.37 GOLD $903.90 ▲ $43.30 EURO $1.4839 YEN 105.19

What's News—

Business & Finance

Volatility spread across financial markets, undermining the dollar and contributing to the biggest-ever one-day jump in oil prices. Investor sentiment turned negative, spurred by the government's proposed $700 billion bailout plan. Frenzied last-minute trading in the oil market sent crude surging $16.37 to $120.92 a barrel. A1, C2, C14

■ **The Dow Industrials fell** 372.75 points, or 3.3%, to 11015.69 as the rescue plan worried investors. Financial stocks led the declines. C1

■ **China's benchmark index** jumped 7.8% as Beijing took more steps to shore up shares. In Russia, signs of consolidation are emerging. C7, A8

■ **The Fed loosened** rules that limited the ability of buyout firms and private investors to take big stakes in banks. A1

■ **The SEC said** it will revise newly issued rules to curb short-selling, a move that caught participants off guard and prompted criticism. A9

■ **New York regulators** are requiring some sellers of credit-default swaps to become insurance companies in a move to rein in the market. C3

■ **The White House** and Congress inched closer to agreement on the rescue plan, with the Treasury making most of the concessions. A3

■ **Auto-finance companies** lead a growing list of liquidity-starved industries trying to get in on the rescue plan. A2

■ **Morgan Stanley** and Goldman may have a tougher time generating the big profits they did before the new oversight. C1

■ **Japan's MUFG** is seeking to buy 20% of Morgan Stanley for as much as $9 billion. Nomura is acquiring certain Lehman operations in Asia. C1

■ **The Treasury's plan** to spend up to $700 billion on bad mortgages may hinge on stemming the housing slide. A4

■ **About 25% of the nation's** banks lost a combined $10 billion to $15 billion after the takeover of Fannie Mae and Freddie Mac, a survey found. A4

■ **Thousands of community** banks are clamoring for a piece of the proposed bailout plan. A6

■ **U.S. prosecutors opened** separate criminal probes into possible price-fixing by major egg producers and California tomato processors. A1

■ **Microsoft announced** a $40 billion buyback over five years, while H-P and Nike authorized repurchases of $8 billion and $5 billion, respectively. B1, C14

■ **Bristol-Myers raised** its bid for the rest of ImClone by $2 a share, increasing the value of the potential deal by about $200 million, to $4.7 billion. B1

■ **Hurricane Ike's impact** has resulted in sharply higher gasoline prices and some shortages in the Southeast. A14

■ **The head of Citigroup's** wealth-management unit is stepping down after months of tension with CEO Pandit. C8

■ **Circuit City's board** ousted its CEO after months of lackluster sales and an aborted takeover effort by Blockbuster. B1

■ **Netflix signed** deals with CBS and Walt Disney that will let subscribers watch their shows over the Internet. B3

■ **The NHL plans** to offer a service that would let subscribers view nearly every game live on its Web site. B8

World-Wide

■ **Obama and McCain assessed the bailout plan.** Both nominees left their options open about whether they would support or oppose the mammoth proposal if and when it reaches the Senate floor. McCain and Obama agree on several aspects they want changed. Both favor limits on executive pay, increased oversight of the Treasury and more transparency on how the money is spent. A18

Unlike McCain, Obama wants a $115 billion stimulus package and tax breaks for the middle class.

■ **U.S. commanders** in Afghanistan say they expect a Taliban offensive this winter, usually a relatively peaceful season. A23

■ **Pakistan's top leaders** were to dine at the hotel bombed Saturday but changed the venue, an official said. A23

■ **Gunmen kidnapped** Afghanistan's top diplomat to Pakistan after killing his driver.

■ **Eleven European tourists** and their local guides were abducted in a remote area of Egypt near the Sudanese border. A23

■ **South Africa's ANC party** will likely name its deputy president Thursday as interim successor to Mbeki. A24

■ **Immigration to the U.S.** has slowed amid an economic downturn and a crackdown on illegal immigrants, new data show. A12

■ **China's food-safety chief** resigned as a dairy contamination scandal brought more recalls of Chinese products. A22

■ **The head of the IAEA** warned that he cannot determine whether Iran is hiding some of its nuclear activities.

■ **North Korea asked** the IAEA to remove seals from its reactor, raising fears Pyongyang plans to restart its nuclear program.

■ **A driver in Jerusalem** plowed his car into a group of soldiers, injuring 13 of them before he was shot to death. A23

■ **Foreign Minister Livni** received formal approval to form a new Israeli government.

■ **Iraqi officials said** five children were killed by a hidden bomb in Mosul. At least three civilians died in Baghdad blasts.

■ **A car bomb exploded** in northern Spain, killing an army officer, in an attack by suspected Basque separatists.

■ **The U.S. continues** to engage Russia on key strategic issues even as it has stepped up its rhetoric against Moscow. A24

■ **The head of an EU mission** pledged to deploy observers in Georgia by an Oct. 1 deadline despite Russian objections.

■ **Radiation for breast cancer** in shorter, intense courses works as well as longer therapy, researchers reported.

■ **The U.N. secretary-general** urged rich nations to spend $72 billion a year on poverty, education and health in Africa.

■ **Stonehenge may have been** a pilgrimage site for the sick who came to be healed, two British archaeologists say. A26

■ **Monsoon rains** and flooding in India have killed 119 people in the past three days. A23

■ **Ugandan rebels kidnapped** 90 children in eastern Congo, and fighting has forced 100,000 people to flee, Unicef said.

■ **Somalia's warring sides** pelted the capital of Mogadishu with mortar rounds and gunfire, killing 30 people.

TODAY'S AGENDA

Bernanke, Paulson To Testify on Markets

Fed Chairman Ben Bernanke, Treasury Secretary Henry Paulson and SEC Chairman Christopher Cox are scheduled to testify at a Senate Banking, Housing and Urban Affairs Committee hearing on turmoil in the financial markets. 9:30 a.m. EDT

T-Mobile to Unveil Its 'Dream' Phone

T-Mobile USA is expected to unveil its "Dream" phone—the first phone using Android, Google's open-source platform. The device is due to hit stores as soon as the end of October.

Home-builder Lennar reports earnings, to be followed by KB Home on Friday.

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Media & Marketing	B8-9	Weather Watch	D8
		Which News	B5

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Doubts on Rescue Plan Spur Fall in Dollar, Leap for Oil

By Tom Lauricella, Liz Rappaport And Joanna Slater

Volatility spread across financial markets on Monday—undermining the dollar and contributing to the biggest-ever one-day surge in oil prices—as investors grappled with the depth of the financial crisis and the cost of the government's proposed bailout plan.

In the stock market, investors once again turned negative after two days of gains spurred by the government's plan to remove troubled assets from banks and brokers' books. The Dow Jones Industrial Average dropped 372.75, or 3.3%, Monday to 11015.69, more than wiping out the gain posted Friday on news of the proposed bailout. It marked the first time in the Dow's history that it has moved more than 350 points, four days in a row.

The tumult came as Democratic leaders in Congress and the Bush administration moved closer to agreement on key details of the behemoth package, amid widening hostility from economists and lawmakers toward the plan. The administration agreed to allow tougher oversight of the program and to give more help to homeowners facing foreclosure, two Democratic priorities. But differences remain on major points, including a proposal to limit executive pay at firms participating in the bailout.

Perhaps the clearest initial verdict on the bailout, with its potential $700 billion price tag, was de-

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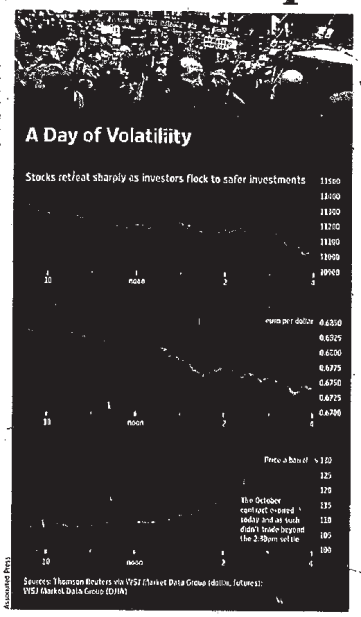

Associated Press

Associated Press

Bailout Battleground

■ Democrats prevail on oversight, aid for homeowners in bailout proposal A3

■ Who steps in when the titans are down? C1

■ Japanese firms go shopping: Mitsubishi UFJ Financial Group to buy 20% stake in Morgan Stanley C1

Funds Get Freer Hand In Buying Bank Stakes

By Peter Lattman And Damian Paletta

WASHINGTON—The Federal Reserve, unleashing its latest attempt to inject more cash into the nation's ailing banks, loosened longstanding rules that had limited the ability of buyout firms and private investors to take big stakes in banks.

It marks the latest move by the Fed to rewrite the rulebook in response to the financial crisis. Regulators have grown worried about a shortage of capital at banks, in particular smaller thrifts and regional institutions. The Fed has been crafting this policy for at least two years, and private-equity firms have been aggressively lobbying for more lenient policies.

Monday's move should encourage private-equity firms, government investment funds and others to buy stakes in banks, transferring capital from those that have it to those that need it. Previously, if the Fed determined that a private-equity firm had a controlling stake in a bank, it could classify the investor as a "bank holding company," directly supervise the parent firm and impose restrictions on outside investments. The rules were designed to prevent investors from abusing their bank stakes to benefit their nonfinancial investments.

The Fed showed flexibility in three main areas: allowing certain investors to hold board

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Federal Prosecutors Probe Food-Price Collusion

By John R. Wilke

Federal prosecutors have opened separate criminal probes into possible price-fixing by major egg producers and California tomato processors, the latest in a series of U.S. investigations of alleged collusion in food and agriculture.

The investigations, which have not been previously reported, add to concerns that beyond the rising cost of fuel and feed, a hidden factor may be driving food prices higher: collusion among farmers, food processors or exporters.

A Justice Department official confirmed that it had opened investigations into tomatoes and eggs. Federal agencies already are pursuing criminal or civil inquiries in markets including fertilizer, cheese and milk, examining whether suppliers worked in league to manipulate prices. The Justice Department said it had also opened a probe last year into the citrus-fruit industry.

Higher food prices have become a hot issue in the presidential campaign and a rising source of anxiety in the global economy. In part, prices have climbed in response to rising world demand in places such as China and India, as well as drought and energy costs. But years of unrestrained consolidation among food producers may have had an impact as well, diminishing competition in many markets.

"When big guys get bigger, it makes collusion easier," said Peter Carstensen, a University of Wisconsin law professor who has testified in Congress on competition in the food industry.

Under U.S. law, it's a crime for competitors to collaborate on production or prices. However, many farm groups and cooperatives are allowed to work together under antitrust exemptions such as the 1922 Capper-Volstead Act. The act, one of a web of loopholes carved out over the years, was originally meant to help small farms bargain with big processors. Egg and tomato producers say their cooperation is shielded by these exemptions. In stepping up enforcement in food, prosecutors are signaling a new willingness to test these exemptions' limits.

In the tomato-industry probe, a federal grand jury in Sacramento, Calif., has issued subpoenas, and Federal Bureau of Investigation agents are interviewing executives of big California tomato processors, lawyers close to the case said. The officials are trying to determine if dominant processors of tomatoes for canning, ketchup, salsa and sauces conspired to fix prices, these people said.

The tomato probe grew out of an investigation into allegations that a consultant to a big processor, SK Foods Inc. of Lemoore, Calif., was working with SK to bribe buyers at six major food companies to pay inflated prices for tomato paste and chili peppers. In wiretaps and raids carried out as part of the bribery probe, investigators found evidence of the wider price-fixing conspiracy, according to FBI documents filed in federal court in Sacramento.

A lawyer for SK Foods declined to comment on the bribery case or collusion inquiry but said the company is cooperating with investigators. The lawyer, Brian Maschler, said SK and other processors disbanded their industry organization, the California Tomato Export Group, in May shortly after the FBI raided several tomato processors. He said that while its members believed the group was exempt from antitrust law, "we wanted to avoid even the appearance of anything improper."

Tomatoes are among the big price gainers in the past year,

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When She Blows the Alphorn, It's Not All Mountain Music

Ms. Burki Plays Jazz, Funk on Instrument Used by Swiss Shepherds; Riffing in Berne

By Edward Taylor

BERNE, Switzerland—The alphorn, a 12-foot-long wooden folk instrument played by Swiss shepherds to communicate across mountain valleys, hasn't exactly been the inspiration for many rock stars.

Never mind its unwieldy size. Would-be players are also turned off by its limited tonal range and the traditional tunes evoking images of misty Alpine meadows. And then there's the outfit. The alphorn costume is typically a black felt hat, short-sleeved black velvet jacket with silver buttons and a crisp white shirt.

Eliana Burki

Enter Eliana Burki, a petite 25-year-old jazz musician with a pierced nose from Solothurn, Switzerland. She performs in short skirts and torn jeans, and likes to play funky jazz tunes on her collapsible carbon-fiber alphorn. "People thought I was a bit weird at first but it's getting more accepted now," she says in her apartment in Berne, before tearing off a riff, skipping from low to high notes, blending in trills and low rumbles.

Ms. Burki is on the cutting edge of a decidedly uncool instrument's newfound chic. She has brought the alphorn out of its pastoral roots, teaming up with David Richards, a music producer who previously worked with the rock band Queen, to produce a CD with blues, funk and rock tunes.

She last appeared at a traditional alphorn festival when she was 9 and says she has no desire

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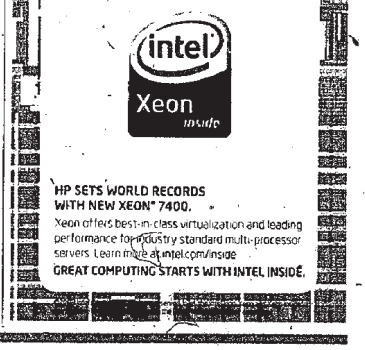

THE WALL STREET JOURNAL.

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DJIA 10854.17 ▼ 161.52 -1.5% NASDAQ 2153.33 ▼ 1.2% NIKKEI Closed (12090.59) DJ STOXX 50 2710.11 ▼ 1.3% 10-YR TREAS ▼ 4/32, yield 3.843% OIL $106.61 ▼ $2.76 GOLD $885.50 ▼ $18.40 EURO $1.4708 YEN 105.30

Buffett to Invest $5 Billion in Goldman

Famed Investor's Move Is Seen as a Vote of Confidence in Crisis-Stricken Banking System; Old Ties to Firm Paved Way for Deal

By Susanne Craig, Matthew Karnitschnig And Aaron Lucchetti

Goldman Sachs Group Inc. said it will get a $5 billion investment from billionaire Warren Buffett's company, marking one of the biggest expressions of confidence in the financial system since the credit crisis intensified early this month.

The deal is the latest in a series of dramatic events that have reshaped American finance this month, from the federal takeover of Fannie Mae and Freddie Mac to the bankruptcy filing of Lehman Brothers Holdings Inc. to the bailout of American International Group Inc. and steps by Goldman and Morgan Stanley to become commercial banks.

The move by Mr. Buffett's Berkshire Hathaway Inc. capped a day of bruising hearings in Congress over the fate of the Treasury Department's plan to buy $700 billion in distressed assets from financial institutions, in a bid to shore up the banking system. The plan is still expected to pass, though coming under increasing fire.

The Berkshire investment will be a big boost to Goldman. Even though the firm hasn't posted a quarterly loss since the credit crisis began, its profits have waned and its stock got hit last week. It has examined a number of options aimed at bolstering its capital position.

Warren Buffett's deal could result in a Goldman stake for Berkshire.

Berkshire's plan "is a sign of confidence from one of the nation's most respected investors," said James Angel, a finance professor at Georgetown University, who added that "sharp investors" now are "sniffing around the wreckage of the credit crunch to pick up good assets on the cheap."

The deal is structured in two parts, giving Berkshire a stream of cash and potential ownership of roughly 10% of Goldman. Berkshire will spend $5 billion on "perpetual" preferred shares of Goldman. These are not convertible into equity but pay a fat 10% dividend.

Berkshire also will get warrants granting it the right to buy $5 billion of Goldman common stock at $115 a share, which is 5% below the 4 p.m. closing share price Tuesday of $125.05. At Goldman's roughly $50 billion market value, based on that closing price, exercising those warrants would give Berkshire about a 10% stake in Goldman.

Goldman also will go to the public to raise at least a further $2.5 billion by selling common shares. Once it does, Berkshire's stake—if it has exercised the warrants—would fall to about 7%. Goldman will have the right to repurchase the preferred shares at any time for a 10% premium.

Goldman's plan to raise capital comes just a day after Morgan Stanley announced plans to raise about $8 billion by selling up to a 20% stake to Mitsubishi UFJ Financial Group, a big Japanese commercial bank.

Goldman shares surged after the close of regular-hours trading—up $8.15, or 6.5%, to $133.20. Other financial stocks also rallied in after-hours trade.

As Congress debated the Treasury's broad bailout plan for financial firms, the Berkshire news may rev up Republicans who already are arguing that such private investment is superior to a costly taxpayer-funded rescue plan. "People are holding back, and it sounds like Mr. Buffett is trying to lead by example for the financial community," said Rep. Thaddeus McCotter of Michigan, a member of the Financial Services Committee and Republican leadership.

But Democratic Sen. Charles Schumer of New York, a member of the Banking Committee and

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A Shot in the Arm

Goldman Sachs's share price, intraday and after-hours trading

Source: WSJ Market Data Group

Rescue Plan Stirs Calls For Deeper Regulation

WASHINGTON—A rapid-fire series of moves Tuesday promised to extend Washington's reach into American business, illuminating the ways in which

By Kara Scannell, Phred Dvorak, Joann S. Lublin and Elizabeth Williamson

the financial crisis could reshape the relationship between government and the economy.

During a Senate hearing, Securities and Exchange Commission Chairman Christopher Cox—citing a "regulatory hole that must be immediately addressed"—issued a strong call for Washington to exert oversight of exotic types of financial instruments that previously were unregulated. Also moving forward: proposals from Congressional Democrats to allow the government to set limits on executive pay and to take equity stakes in companies that tap a possible $700 billion government bailout fund. On Tuesday, Republican presidential candidate Sen. John McCain again backed the imposition of pay caps.

All told, the moves represent the early stages of what economists and policy makers say typically happens at moments of great economic turmoil: Government responds by crafting solutions that revolve around beefing up regulation and oversight.

"I have never been a proponent of intervention, and I just think we have an unprecedented situation here and it calls for unprecedented action," said Treasury Secretary Henry Paulson at a Senate Banking Committee hearing to defend his bailout plan. "There's no way to stabilize the markets other than through government intervention."

The bailout plan continued to get a frosty reception on Capitol Hill on Tuesday, as lawmakers grilled Mr. Paulson and Federal Reserve Chairman Ben Bernanke during a five-hour hearing. But many lawmakers stopped short of saying they'd vote against the proposal. And the Republican and Democratic leaderships in Congress made progress on several key questions, notably executive-pay limits.

Still, the speed at which the process is unfolding has left many questions unanswered about how the government would fulfill its expanded role. That's providing succor for critics looking to preserve the hands-off approach to business that's dominated Washington for decades.

"Do you really want the government to own all this?" said Anne Canfield of the Consumer Mortgage Coalition, a national trade association, referring to the proposal that the government get equity stakes in companies it rescues. "They've got to manage the assets with multiple goals—keeping homeowners in their homes,

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What's News—

Business & Finance

Goldman Sachs is getting a $5 billion investment from Warren Buffett, marking one of the biggest expressions of confidence in the financial system. The deal is structured in two parts, giving Buffett's Berkshire a stream of cash and potentially ownership of roughly 10% of the firm. Goldman's shares rose 6.5% after hours. **A1, C22**

■ **The government's quick** response to the crisis promised to extend Washington's oversight and could reshape its relationship with the economy. **A1**

■ **Bernanke and Paulson** faced a cold reception at a hearing over the plan. The Fed chief said inaction may lead credit markets to seize up further. **A3**

■ **The Dow industrials fell** 161.52 points to 10854.17 amid uncertainty about the plan's prospects. Oil fell 2.5%, while the dollar rebounded. **C1, C6**

■ **The FBI opened** preliminary inquiries into Fannie Mae, Freddie Mac, Lehman and AIG over whether fraud caused some of their troubles. **A8**

■ **Libor's accuracy** is coming under question for the second time this year following moves to inject liquidity into lending markets. **C1**

■ **Reserve Primary Fund** moved away from a conservative strategy prior to "breaking the buck" and stoking chaos in the financial system. **C1**

■ **Chrysler disclosed** to dealers that it has lost $400 million this year and unveiled prototypes of electric vehicles. **B1**

■ **Electricité de France** agreed to acquire British Energy for about $23 billion in a deal that promises to reshape the U.K.'s energy sector. **B1**

■ **European stocks declined** as recession fears and the U.S. rescue plan weighed on investors. China stocks fell after two days of sharp gains. **C2**

■ **Nomura acquired** Lehman's European and Mideast equities and investment-banking operations, a day after buying the firm's Asian assets. **C2**

■ **DuPont named** Ellen Kullman, a 20-year veteran, president and CEO, succeeding Charles Holliday Jr. **B1**

■ **A new ban** on short-selling is changing the way many mutual funds and exchange-traded funds operate. **C3**

World-Wide

■ **McCain and Obama warily addressed the bailout plan.** The candidates both called for changes in the $700 billion proposal, though neither specified what would trigger outright opposition. McCain asked for an oversight board, a cap on executive pay and a ban on earmarks. Obama said any plan must ensure taxpayers are reimbursed and executive pay slashed, and called middle-class tax cuts "absolutely necessary." **A22**

Polls set down with the presidents of Afghanistan and Colombia, in the candidate's first meetings with foreign leaders.

■ **Ahmadinejad defended** Iran's nuclear program in a U.N. speech and said the "American empire" is near collapse. **A10**

■ **Bush told** the U.N. that multinational organizations are "needed more urgently than ever" to combat terrorism.

■ **Pakistani troops killed** some 60 militants near the Afghan border, officials said. Separately, officials claimed soldiers and tribesmen shot down a suspected U.S. drone. **A24**

■ **Gates said** as many as three more combat brigades could be available to go to Afghanistan beginning in the spring.

■ **The Senate passed** a $100 billion tax-break bill that protects millions of people from the alternative-minimum tax. **A16**

■ **Democrats decided** to let an offshore-drilling ban expire next week, conceding defeat in a battle with Republicans.

■ **Schwarzenegger signed** California's $14.5 billion spending plan after the longest budget delay in state history.

■ **Japan's Fukuda resigned** as prime minister, paving the way for former Foreign Minister Aso to succeed him.

■ **News that South Africa's** finance minister had joined others in Mbeki's cabinet in offering to resign rattled markets. **A25**

■ **A gunman opened fire** at his trade school in western Finland, killing 10 people before fatally shooting himself. **A24**

■ **Gulf Coast officials asked** Congress for a quick, direct infusion of federal funds for hurricane-cleanup efforts. **A8**

■ **The Supreme Court** granted a reprieve to a Georgia man less than two hours before he was to be executed. **A15**

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Getty Images

At CVS Golf Gala, Suppliers Pay for Access to Executives

By David Armstrong

NEWPORT, R.I.—Like other retailers, CVS Caremark Corp. has an ethics policy meant to keep suppliers from using pricey travel, entertainment or gifts to buy the favor of its employees. But many companies have found a way to spread largess to the drugstore giant's influential executives—with the blessing of CVS.

This year, for example, KKM LLC of Lincoln, R.I., paid at least $50,000 for a weekend of yachting and golf with two top CVS officials. In past years, KKM, which sells goods to CVS on behalf of manufacturers, has funded other vacations that paired its executives with those from the retailer.

Access to company decision-makers is a hallmark of the CVS Caremark Charity Classic, the drugstore chain's annual golf tournament, which this year featured golf pros Nick Faldo, Rocco Mediate and Davis Love III vying for $1.55 million in prize money. Held each year at the Rhode Island Country Club, the four-day event attracts scores of donors, many of them CVS vendors. Companies that underwrite the event are granted time with top CVS officials, including department heads and executives who make important purchasing decisions.

Generous contributors are rewarded with rounds of golf at the tournament with CVS employees. Top sponsors get fairway-view pavilions and private visits by company officials. The highlight of the event's gala dinner is an auction where this year, KKM bought one of the seven vacations for golf, game fishing, riding or yachting. Each auction lot included high-level CVS executives as guests; one promised a day of golf with the company's CEO.

"I take advantage of this Classic, asking the different manufacturers I work for if they want to participate," said KKM's president, John Malmborg. "They all chip in and we work to get to a high level of participation and have access to CVS executives on an informal basis. It really is helpful."

Bans against vendor gifts are meant to ensure that buying decisions are made solely based on who is offering the best prices and quality. The strict gift policy of Wal-Mart Stores Inc. was at the center of a recent flap that led to the ouster of a top marketing executive. Earlier this summer, two former buyers for Home Depot Inc. pleaded guilty to federal charges that they defrauded their employer by taking payments from vendors in return for favored treatment.

Some CVS insiders have complained that the Charity Classic promotes a "pay to play" system, according to people familiar with the company, under which the

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Charity Outlets

Total charitable giving in 2007 by CVS and other big retailers

	In millions	As percentage of revenue
Target	$269.0	2.67%
Kroger	160.5	2.29
Walgreens	46.0	0.97
Wal-Mart	296.0	0.86
Best Buy	25.3	0.70
CVS	32.9	0.43
Rite Aid	1.7	0.10

Source: the companies

Got Milk? Chinese Crisis Creates A Market for Human Alternatives

In China, Parents Pay a Premium to Hire Wet Nurses; Ms. Zhang's Chubby Baby

By Geoffrey A. Fowler And Juliet Ye

In China's spiraling milk-contamination crisis, some mothers are making money selling their breast milk.

As news spread of the deadly taint of the industrial chemical melamine in China's milk supply last week, new father Jimandy Wu approached his wife with a business proposition: She could become a *nai ma*, or wet nurse. He had read on the Internet about the practice, in which a woman feeds her own breast milk to someone else's child.

"Why not," says his 24-year-old wife, Tina Huang, a mother in the southern Chinese boomtown of Shenzhen who says she produces more milk than her own 2-month-old baby can use. "It's a pity that I waste my breast milk when I see on TV so many kids with no milk to drink because of the contaminated powder."

Tina Huang

Ms. Huang's old job as a secretary paid just 1,000 yuan ($146) a month. The 12,000 yuan she will earn each month as a wet nurse will "buy some good clothes for our daughter, and send her to a better kindergarten," says Mr. Wu.

As Chinese parents panic about the tainted milk—which authorities now admit began in late 2007—that has killed four and sickened more than 53,000 children, the fallout is breathing new life into an ancient profession. Wages for Chinese wet nurses, who post on-

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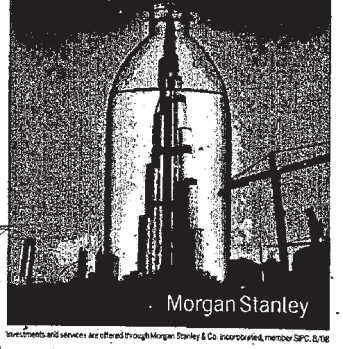
WORLD WISE:

Demand for water is growing twice as fast as the population. Our industry expertise can identify companies with the most promising new methods of providing this fundamental resource. To find the smart investments today, you need to be world wise.



Morgan Stanley

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THE WALL STREET JOURNAL.

DOWJONES A News Corporation Company **** THURSDAY, SEPTEMBER 25, 2008 ~ VOL. CCLII NO. 73 ★★★★ $2.00

DJIA 10825.17 ▼29.00 −0.3% **NASDAQ** 2155.68 ▲0.1% **NIKKEI** 12115.03 ▲0.2% **DJ STOXX 50** 2690.54 ▼0.7% **10-YR TREAS** ▲ 19/32 , yield 3.771% **OIL** $105.73 ▼$0.88 **GOLD** $889.00 ▲$3.50 **EURO** $1.4620 **YEN** 106.10

What's News—

Business & Finance

Democratic leaders considered imposing tough limits on the proposed $700 billion bailout that could break the pool of money into installments. Details were increasingly in flux as both parties' leaders scrambled to ascertain whether they had enough support to push the rescue through, amid discussions that reflected the tense environment on Capitol Hill. **A1**

■ **Goldman completed** a separate $5 billion stock offering, double the size of the initial offering. Buffett said he thinks the bailout will succeed. **A1, C14**

■ **The SEC ordered** over two dozen hedge funds to turn over trading data amid a probe into whether rumors were spread to manipulate shares. **A3**

■ **The Dow industrials fell** 29 points to 10825.17, the index's third-straight decline, in seesaw trading. Treasurys and the dollar rose. **C1, C8**

■ **Glitches on several** electronic exchanges last week led to thousands of canceled trades and unexplained losses. **D3**

■ **Hedge funds are cutting** back on trades and may have to revamp their models if the short-selling ban is extended. **C2**

■ **U.S. officials suggested** that a financial trader was responsible for Monday's jump in oil prices. Regulators are looking into the silver market. **C7, C1**

■ **Congress appears** set to pass a $25 billion loan package to help companies meet new fuel-efficiency standards. GM is accelerating a $10 billion cost-cutting plan. **A6, B4**

■ **Cerberus has approached** Daimler about taking over the remaining stake in Chrysler, which seeks closer alliances with other car makers. **B1**

■ **Countrywide made** large, previously undisclosed home loans to two additional executives of Fannie Mae. **A10**

■ **AIG may be under** even more pressure to sell big-ticket assets fast under terms of the government's loan. **C2**

■ **WaMu has approached** private-equity firms, including Carlyle and Blackstone, to gauge their interest in a potential takeover of the thrift. **C4**

■ **Existing-home sales fell** 2.2% in August from July, the Realtors said, but the backlog of unsold homes shrank. **A10**

■ **Medtronic gave** surgeons a variety of incentives to use its products, a former company lawyer's suit alleges. **B1**

■ **MySpace will introduce** new music features for users, including free audio streams, as part of a joint venture with major record labels. **B12**

■ **Google urged** the FCC to give companies unlicensed access to vacant TV channels before the election. The FCC is seeking a reauction of airwaves. **B9, B6**

■ **Neiman Marcus said** its quarterly loss more than doubled and offered a bleak outlook for the holidays. **B1**

■ **Beazer settled** SEC charges that it improperly set aside money during the housing boom to boost earnings. **B2**

■ **The strike idling Boeing's** commercial-airplane factories is showing signs of becoming a protracted standoff. **B3**

■ **Oracle is entering** the hardware business, with plans to sell a computer bundled with the company's software. **B6**

World-Wide

■ **Bush used a television address to rally support for the financial-bailout plan.** He called for a summit on the crisis to be held Thursday to include congressional leaders as well as the two major-party presidential candidates. Earlier, Obama declined McCain's offer to delay Friday's debate. The Republican said he would suspend campaigning to help tackle the bailout proposal; Democrats dismissed the move as political gimmickry. A Journal/NBC poll found that the race remains a statistical tie. **A1, A16**

The poll also showed that voters trusted Obama over McCain by 46% to 34% on "improving the economy."

■ **North Korea barred** U.N. nuclear inspectors from its main plutonium reprocessing plant and plans within a week to reactivate the facility. **A14**

■ **Iraq's parliament approved** a provincial-elections law in a boost to U.S.-backed national reconciliation efforts. **A14**

■ **Congress will let** an offshore-oil-drilling ban expire at the end of September, kicking the issue beyond the election. **A10**

■ **The House approved** a $600 billion spending bill and voted to block the expansion of the alternative minimum tax. **A10**

■ **An Islamic militant group** that claimed to be behind a deadly hotel bombing in Pakistan threatened more attacks.

■ **Afghanistan's Karzai** criticized the high rate of civilian casualties from foreign bombing raids in his address to the U.N.

■ **Iran is nearing** the ability to arm a nuclear warhead even as it insists its activities are peaceful, the EU warned.

■ **Indian police arrested** the founder of an Islamic militant group that claimed responsibility for deadly bombings.

■ **China is planning** to send three astronauts into orbit Thursday to conduct the nation's first spacewalk. **A12**

■ **Countries have banned** or stepped up testing of food imported from China following the tainted-milk scandal. **A12**

■ **Japan's Aso named** veteran politicians to key economic posts after being formally approved as prime minister. **A14**

■ **The Teamsters asked** Congress to add to any bailout plan protections for pensions hurt by the market turmoil. **A6**

■ **Galveston, Texas, reopened** to residents 10 days after Hurricane Ike, but officials warned them of hazards.

■ **Venezuelan authorities** said they arrested two people suspected of plotting to kill Chávez by blowing up his plane.

■ **Weather forecasters** warned that a storm was poised to hit North Carolina's coast with 40 mph wind gusts.

■ **Congress is poised** to clear legislation that would put mental-health coverage on par with physical illnesses. **D6**

■ **Clot-busting drug TPA** should be used in more patients than the FDA has so far approved, a study found. **D6**

■ **U.S. health officials urged** parents to have all children over six months get flu shots. **D6**

■ **The Senate passed** a bill to fund investigations of murders from the civil-rights era.

TODAY'S AGENDA

Fannie, Freddie Take Focus in House Hearing

Getty Images

Federal Reserve Chairman Ben Bernanke and Treasury Secretary Henry Paulson are back on Capitol Hill to testify on the Fannie Mae and Freddie Mac takeover at a House Financial Services Committee hearing. **12 p.m. EDT**

Economic Data Due; Rite Aid, RIM Results

Durable-goods orders are expected to be lower, while new-home sales are also forecast to be down. **Commerce Department 8:30 a.m., 10 a.m. EDT**

Rite Aid, **Discover Financial Services** and BlackBerry maker **Research In Motion** will report results.

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Financial Crisis Upends Campaign

Obama Rebuffs McCain's Request to Postpone Debate; Voters Divided Over Bailout

By Laura Meckler, Elizabeth Holmes And Christopher Cooper

Republican Sen. John McCain said he would suspend campaigning to help tackle a $700 billion bailout proposal and called on Democratic rival Sen. Barack Obama to postpone their debate Friday, as the roiling U.S. financial crisis took center stage in the presidential campaign.

Democrats dismissed the moves as political gimmickry, and Sen. Obama replied that the debate should go forward as planned. "Presidents are going to have to deal with more than one thing at a time...It's not necessary for us to think we can only do one thing and suspend everything else," Sen. Obama said.

But by day's end, the two men had agreed to issue a joint statement calling for bipartisan cooperation for swift action, and both agreed to come to the White House Thursday for a summit meeting with President George W. Bush and congressional leaders to try to achieve that goal. In recent days, both candidates have converged in their positions on the bailout, pushing for similar provisions, such as limits on executive pay at firms that take the help.

The latest twists in the neck-and-neck campaign landed in the middle of a week when troubles on Wall Street and Washington's reaction came to dominate the contest, leaving both Sens. McCain and Obama scrambling to figure out how best to respond.

Sen. McCain cast his actions Wednesday as bold moves that rise above partisanship. Barely a week ago, both men had suspended activities to mark the anniversary of the Sept. 11, 2001, terrorist attacks, and Sen. McCain evoked the event again. "Our national leaders came together in a time of crisis," he said in a statement. "We must show that kind of patriotism now."

It was unclear whether the return of Sens. McCain and Obama to the capital would provide the jolt needed to reach a bipartisan deal that gives cover to politicians of both parties. And it was unclear who would benefit most from the new jockeying between the presidential contenders.

The Arizona lawmaker also moved to take down his advertising Wednesday, and the dra-

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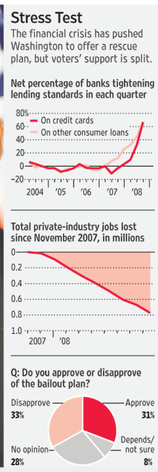

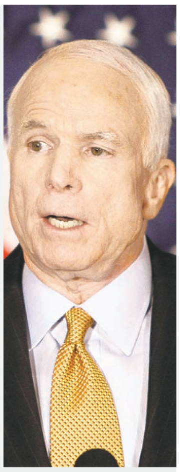

Getty Images (left); Associated Press (right)

Sources: Federal Reserve (lending); Labor Department (job losses); WSJ/NBC News poll of 1,085 registered voters conducted Sept. 19-22; margin of error: +/−3.0 percentage points

Push for Tough Restrictions Gains Ground in Bailout Talks

By Greg Hitt, Deborah Solomon And Damian Paletta

WASHINGTON—Democratic leaders in Congress are considering imposing tough new restrictions on a proposed $700 billion financial-market bailout that could break the pool of money into installments. The move was prompted by worries among leaders of both parties, who are scrambling to ascertain whether they have enough support in Congress to push the rescue through.

The discussions reflect the increasingly tense environment in Capitol Hill as the parties grapple with the many unknown implications of their deliberations.

In a televised address, President George W. Bush called for a summit meeting on the financial crisis to be held Thursday to include congressional leaders as well as the two major-party presidential candidates. Illinois Democratic Sen. Barack Obama agreed. Earlier in the day, Sen. John McCain, the Arizona Republican, had already said he would "suspend" his campaign and return to Washington to take part in the bailout negotiations.

> **Dead Heat**
>
> **Even as worries about the economy grow, Sens. McCain and Obama are locked in a statistical tie, the latest WSJ/NBC News poll shows** **A16**

The action capped a helter-skelter day in which myriad voices injected themselves into the debate, ranging from the presidential campaigns to investor Warren Buffett.

Treasury Secretary Henry Paulson and Federal Reserve Chairman Ben Bernanke testified once again before skeptical members of Congress—both Democrats and Republicans—following a similar hearing Tuesday in the Senate.

Adding to the pressure on lawmakers to do a deal, Mr. Buffett said he wouldn't have considered investing in Goldman Sachs Groups Inc., a move he announced Tuesday night, if he didn't think the bailout would be approved. "I really do think Congress will do the right thing, when it's terribly important, and they will do it fast," he

Please turn to page A8

Buffett Drove Hard Bargain With Goldman

By Susan Pulliam, Kate Kelly and Matthew Karnitschnig

For six months, as the credit crisis deepened, billionaire investor Warren Buffett turned away a string of Wall Street firms that came hat in hand looking for help.

On Tuesday, Mr. Buffett says, he was sitting with his feet on his desk in Omaha, drinking a Cherry Coke and munching on mixed nuts, when he got an unusually candid call from a Goldman Sachs Group Inc. investment banker. Tell us what kind of investment you'd consider making in Goldman, the banker urged him, and the firm would try to hammer out a deal.

That midday call from Goldman's Byron Trott, who had done deals with Mr. Buffett for years, touched off a rapid chain of events. Within hours, Goldman had announced that Mr. Buffett's Berkshire Hathaway Inc. would invest $5 billion in Goldman—a move viewed by many investors as a vote of confidence in the nation's reeling financial system.

Warren Buffett

The swiftness of the deal underscores the intense pressure now faced by Goldman, long regarded as one of the most financially secure firms on Wall Street. Over a 10-day stretch this month—amid federal bailouts of Fannie Mae, Freddie Mac and American International Group and a bankruptcy filing by Lehman Brothers Holdings Inc.—Goldman shares dropped 36%. Investors began asking questions about whether it had the capital to survive. On Sunday night, Goldman secured federal approval to become a bank holding company, ending 139 years as a securities firm.

On Wednesday, Goldman said it had completed a separate $5 billion stock offering, double the size of the offering announced on Tuesday. Its shares jumped $7.95 to $133 in 4 p.m. New York Stock Exchange trading, although they remain far below their 52-week high of more than $250. The deal with Mr. Buffett and the stock offering means Goldman shareholders could eventually have their stake diluted by as much as 20%.

Mr. Buffett's decision to invest now in Goldman gives an indication of how the famed investor believes the financial crisis might shake out. At a minimum, he regards Goldman as a survivor, although the firm's profits

Please turn to the next page

Even Heavy-Metal Fans Complain That Today's Music Is Too Loud!!!

* * *

They Can't Hear the Details, Say Devotees Of Metallica; Laying Blame on iPods

By Ethan Smith

Can a Metallica album be too loud?

The very thought might seem heretical to fans of the legendary metal band, which has been splitting eardrums with unrivaled power since the early 1980s.

But even though Metallica's ninth studio release, "Death Magnetic," is No. 1 on the album chart, with 827,000 copies sold in two weeks, some fans are bitterly disappointed: not by the songs or the performance, but the volume. It's so loud, they say, you can't hear the details of the music.

Rick Rubin

"Death Magnetic" is a flashpoint in a long-running music-industry fight. Over the years, rock and pop artists have increasingly sought to make their recordings sound louder to stand out on the radio, jukeboxes and, especially, iPods.

But audiophiles, recording professionals and some ordinary fans say the extra sonic wallop comes at a steep price. To make recorded music seem louder, engineers must reduce the "dynamic range," minimizing the difference between the soft and loud parts and creating a tidal wave of aural blandness.

"When there's no quiet, there can be no loud," said Matt Mayfield, a Minnesota electronic-music teacher, in a YouTube video that sketched out the battle lines of the loudness war. A recording's dynamic range can be measured by calculating the variation between its average sound level and its maximum

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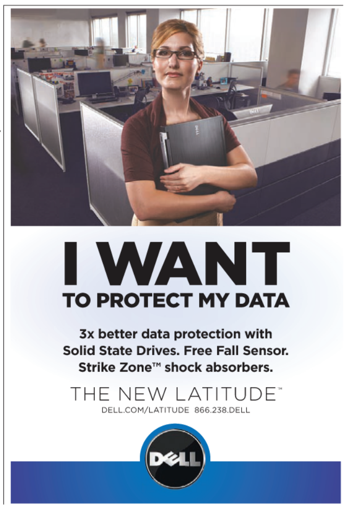

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Weekend Journal: How Green Is the Green Bag?

THE WALL STREET JOURNAL.

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WaMu Is Seized, Sold Off to J.P. Morgan, In Largest Failure in U.S. Banking History

By Robin Sidel, David Enrich And Dan Fitzpatrick

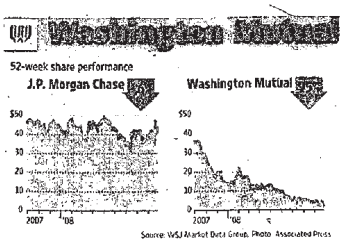
In what is by far the largest bank failure in U.S. history, federal regulators seized Washington Mutual Inc. and struck a deal to sell the bulk of its operations to J.P. Morgan Chase & Co.

The collapse of the Seattle thrift, which was triggered by a wave of deposit withdrawals, marks a new low point in the country's financial crisis. But the deal, as constructed by the Federal Deposit Insurance Corp., could hold some glimmers of hope for the beleaguered banking system because it averts any hit to the bank-insurance fund.

Instead, J.P. Morgan agreed to pay $1.9 billion to the government for WaMu's banking operations and will assume the loan portfolio of the $307 billion thrift. The full cost to J.P. Morgan will be much higher, because it plans to write down about $31 billion of the bad loans and raise $8 billion in new capital. All WaMu depositors will have access to their cash, but holders of more than $30 billion in debt and preferred stock will likely see little if any recovery.

The deal will vault J.P. Morgan into first place in nationwide deposits and greatly expand its franchise.

The seizure was another watershed event in a frenetic period for the U.S. banking system, and came while members of Congress wrangled over the Bush administration's proposed $700 billion bailout package. The tally of U.S. financial giants that have either been seized by the government or sold themselves off to stronger firms in recent weeks includes mortgage titans Fannie Mae and Freddie Mac, insurer American International Group Inc., and Wall Street firms Lehman Brothers Holdings Inc. and Merrill Lynch & Co.



Source: WSJ Market Data Group. Photo: Associated Press

The failure of WaMu eclipsed what had long been America's largest bank bust on record, the 1984 collapse of Continental Illinois, which had $40 billion in assets.

The fact that no bank was willing to buy WaMu until it failed shows how badly confidence has eroded in a banking system awash with record profits just a few years ago. Faced with deepening losses on mortgages, credit cards and other loans, big and small banks across the country are struggling with what many bank executives say is a crisis far deeper than the savings-and-loan debacle.

The seizure of Washington Mutual is likely to send tremors through the thrift industry. Many of WaMu's smaller brethren are also struggling with a wave of bad loans and some have already been ordered by regulators to raise capital and stop growing. Many community and regional financial institutions are also slashing dividends, selling branches and retreating in lending in order to preserve capital.

WaMu has suffered huge losses but still boasts a strong deposit base and a network of 2,239 branches that bigger banks would have paid dearly for when times were good. In March, with the credit crisis in full bloom, J.P. Morgan offered to acquire WaMu but was spurned in favor of a $7 billion infusion led by the private-equity firm TPG, considered one of the sawviest buyout firms. TPG, led by investor David Bonderman, said it will lose $1.35 billion, wiping out its investment.

This is the second time that J.P. Morgan, the second-largest U.S. bank in stock-market value, has been a buyer of last resort. In March, the New York company agreed to purchase Bear Stearns Cos. getting a $29 billion backstop from the federal government.

FDIC Chairman Sheila Bair said that WaMu's downward spiral "could have posed significant challenges without a ready buyer." Referring to J.P. Morgan's willingness to buy WaMu and absorb its shaky loans amid continuing debate over the $700 billion bailout package, she added: "Some are coming to

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What's News—

Business & Finance

Federal regulators seized Washington Mutual and struck a deal to sell the bulk of its operations to J.P. Morgan in by far the largest bank failure in U.S. history. J.P. Morgan agreed to pay $1.9 billion for WaMu's banking operations and will assume the loan portfolio of the $307 billion thrift, whose collapse was triggered by a run on deposits. A1

■ **Political wrangling threw** the $700 billion bailout plan into disarray, despite a dramatic day of negotiations that seemed to promise a deal. A1

■ **Economists and industry** figures are questioning whether the bailout would work as advertised. A3, C16

■ **The Dow industrials rose** 196.89 points, or 1.8%, to 11022.06, snapping a three-day losing streak, as financial components posted big gains. C1

■ **Short-term money** markets remained in turmoil, heightening the likelihood the credit pullback will harm the broader economy. C1

■ **Goodyear will draw** $600 million from its credit lines because of an inability to access some U.S. cash investments. B2

■ **New-home sales dropped** 11.5% in August from July amid a glut of unsold homes. Durable-goods orders fell 4.5%. A8

■ **GE** cut its forecast and said it will shrink its finance unit amid tough conditions in the financial-services markets. Shares rose 4.4%. B1, C16

■ **The SEC's short-selling ban** has effectively shut down the convertible-bond market, a crucial area of financing for struggling companies. C2

■ **New York state's** investigation into short-selling of stocks was expanded to encompass trading activity in the credit-default swap market. C2

■ **Pilgrim's Pride** warned of a "significant" quarterly loss and could end up in default with its lenders. Shares fell 40%. B1

■ **Chrysler is expected** to fire roughly 300 salaried employees as soon as Friday to meet a target of cutting 1,000 white-collar jobs by month's end. B3

■ **Occidental Petroleum** acquired assets for $1.25 billion amid emerging opportunities for cash-rich oil companies. B3

■ **The Justice Department** is set to meet next week with Google and Yahoo over their advertising deal amid signs the pact may be challenged. B5

■ **Chinese companies struck** deals to buy Syrian oil assets for $2 billion and take a significant stake in an Australian iron-ore producer. B4

■ **China's government** is moving closer to extending nationwide a tax change that would lower businesses' bills. A14

World-Wide

■ **Obama and McCain met with Bush for bailout talks.** The candidates joined congressional leaders at the White House to discuss the $700 billion package. By day's end, Democrats were blaming McCain for the collapse of what had appeared to be a deal. The setback left unclear the status of Friday's debate. McCain said he won't attend if an accord isn't reached in advance; Obama said he wants the event to proceed whether or not there is a deal. A10

If the debate is held, its focus could now include economics and the financial crisis.

■ **Pakistan said** its troops fired warning shots at two U.S. helicopters that crossed the border from Afghanistan. A13

■ **South Africa's parliament** elected Kgalema Motlanthe, the ANC's deputy leader, as the country's president. A13

■ **Carbon-dioxide output** jumped 2% in 2007, putting the world on track for a worst-case global-warming scenario.

■ **Stevens's lawyer blamed** an oil-services executive for financial irregularities related to the senator's home renovation. A8

■ **Mugabe lashed out** at Western powers in a U.N. speech and called for removing sanctions against Zimbabwe.

■ **China launched** a three-man crew into space, including one astronaut who will make the country's first spacewalk. A14

■ **The EU will increase** testing of Chinese products containing milk and ban those for infants and young children. A14

■ **A world health alliance** said it will add $3 billion to combat malaria, with most of the funds going to Africa. A15

■ **The U.S. asked** the IAEA for a report on alleged Syrian efforts to build a plutonium facility at a site bombed by Israel.

■ **Bush praised Lebanon's** reconciliation efforts and said there was still hope for an accord on a Palestinian state.

■ **A leading Israeli critic** of West Bank settlements was injured in a bomb attack. Police suspect Jewish extremists.

■ **A Guantanamo prosecutor,** who alleged his superiors suppressed evidence, refused to testify in a war-crimes case. A8

■ **Austria is probing** whether a foreign power tried to kidnap Kazakhstan's ex-intelligence chief from exile in Vienna. A13

■ **Putin called** for a open border with Georgia's breakaway South Ossetia, the Interfax news agency reported. A14

■ **GOP Sen. Coburn** is blocking a bill to mandate railroad collision-avoidance systems. A8

■ **Tropical Storm Kyle** formed south of Bermuda. Another storm headed for the Carolinas.

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Bailout Negotiations in Disarray

Treasury's $700 Billion Proposal Hits Stalemate; Dramatic Gesture by Paulson

On the Table The bailout proposal crafted mostly by congressional Democrats and hotly debated Thursday, included these highlights.

■ **$700 BILLION SCOPE** $250 billion available immediately to buy bad assets, $100 billion on Treasury secretary's request, $350 billion subject to a congressional joint resolution

■ **FORECLOSURE PREVENTION** More efforts to modify risky mortgages, compulsory modification for loans owned or controlled by government, some profits to go to affordable-housing fund

■ **EXECUTIVE COMPENSATION** Treasury secretary to set standards on pay and bonuses for participating companies

■ **EQUITY STAKES** All transactions must include equity sharing. Most profits must go toward national debt

■ **OVERSIGHT BOARDS** Creates board with "cease and desist" authority, requires audits on use of funds, establishes Inspector General to monitor Treasury authority

By Greg Hitt, Damian Paletta And Deborah Solomon

WASHINGTON—Wrangling among the nation's top political leaders threw the Bush administration's $700 billion bailout plan into disarray late Thursday, despite a dramatic day of negotiations on Capitol Hill that seemed to promise a deal.

Negotiators broke off talks Thursday night with no agreement and with plans to reconvene in the morning, without House Republicans. It was the Republicans' surprise championing of a competing plan late Thursday that derailed a carefully crafted compromise previously taking shape.

Also raising the stakes: The demise of Washington Mutual Inc., the largest banking failure in U.S. history, sent a fresh message to Washington of the fragility of the financial system.

In a sign of the extraordinary tension, at one point in the afternoon Treasury Secretary Henry Paulson interrupted a small gathering of Democratic leaders at the White House with a plea for them not to say anything that might blow up the troubled deal, according to three people familiar with the matter. In doing so, the Treasury secretary got down on one knee, a gesture that one of these people described as a moment of levity in a rough day.

Earlier in the day, congressional leaders had hammered together the outline of a compromise that involved allotting the bailout money in installments. It was widely expected to result in a deal. However a pivotal afternoon meeting at the White House, attended by President George W. Bush, congressional leaders and the two presidential candidates, broke with no agreement.

One cause of the delay: opposition from House Republicans who have tried to fashion an alternative plan that, instead of relying heavily on taxpayer money, would let banks buy insurance for the troubled assets weighing down their books.

The snafu spawned a round of political finger-pointing, with most Democrats blaming Sen. John McCain, whose decision to return to Washington and meet with congressional Republicans appears to have complicated

Please turn to the next page

Few Good Scenarios in View as Crisis Spreads

By Jon Hilsenrath, Joanna Slater And Justin Lahart

The Wall Street turmoil is shaking an already-weakened U.S. economy and could hit households and businesses in the form of fewer loans and higher interest rates in the months ahead—in turn sending unemployment higher and corporate profits lower.

Economic data released Thursday show the stress in the economy leading up to the crisis and hint at how it may have gotten worse since. Demand for manufactured goods fell sharply in August as new-home sales slid to their lowest monthly level in 17 years. And in the week ended Sept. 20, new unemployment filings hit the highest level since just after the 9-11 terrorist attacks. (Please see article on page A8.)

U.S. leaders hope the government's massive interventions, plus plans for a big bailout now being negotiated, will soften the blow. The economy also is running on a reassuring quarter-century path of mostly sustained growth that could reassert itself.

But ripple effects from a worsening credit crunch are already making their way from Wall Street to Main Street. General Electric Co. kicked off what could be a parade of profit warnings on Thursday. Many companies have seen their borrowing

Please turn to page A7

A Small League for Little Dudes Is the New Hope at Mansfield U.

Football Is the Name of the Game, But Everything Is Scaled Down

By Adam Thompson

MANSFIELD, Pa.—Like many college football players this time of year, Mansfield University wide receiver Kevin Valentine was doing all he could to keep the late-summer heat from melting off the hard-earned weight he had gained.

"Every day after lunch and dinner, I'd have a burger in one hand and ice cream in the other," he says. The 5-foot-6 Mr. Valentine added 13 pounds and now weighs a solid 134.

Kevin Valentine

Mr. Valentine surely is among the smallest players in history at a school that claims to have played college football's first night game, in 1892. But small is all the rage at Mansfield, a public college with a student body of 3,400 in the hills of north-central Pennsylvania. This year, for the first time, no member of the Mounties can play if he weighs more than 172 pounds.

Mansfield is the first new addition in more than 50 years to the only varsity league playing the niche game of sprint football. In the sport's college conference, the Collegiate Sprint Football League, member schools Cornell, Princeton, Penn, Army and Navy stick to the same weight limitations.

Mansfield will introduce its new lightweight squad Saturday, at home against Cornell. If the novel approach works, it could provide a path for smaller schools to battle the spiraling costs of college athletics.

Sprint players remind doubters that they play a full-fledged varsity college sport. They say their game hardly differs from

Please turn to page A16

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Associated Press

Is My America Gone?
By Peggy Noonan
Weekend

THE WALL STREET JOURNAL.

SATURDAY/SUNDAY, SEPTEMBER 27 - 28, 2008

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What's News—

Business & Finance

Wachovia entered into preliminary talks with a handful of possible buyers, the latest bank to look for safety in the arms of a suitor. Potential buyers include Wells Fargo, Spain's Banco Santander and Citigroup. Wachovia's shares fell 27% as investors fretted about its massive mortgage portfolio. A1

■ **J.P. Morgan's shares** surged 11% after it bought the assets of Washington Mutual. TPG's bad bet on the collapsed thrift illustrates the peril of investing in distressed banks. B1, B16

■ **The White House** and Congress were closing in on a new compromise aimed at stabilizing U.S. financial markets. A1

■ **The Dow industrials rose** 121.07 points, or 1.1%, to 11143.13 as hopes of a bailout plan helped reverse early losses. Oil fell $1.13 to $106.89. B1, B5

■ **The SEC missed** "numerous potential red flags" leading up to the shotgun sale of Bear Stearns, the agency's inspector general said in a report. A3

■ **The ECB is unlikely** to cut its key rate before it sees evidence inflation threats are waning. Central banks took more steps to calm money markets. A4

■ **A little-known brand** of instant coffees and teas became the first recalled product in the U.S. connected to China's tainted-milk scandal. A14

■ **Fortis** replaced its interim CEO just hours after he tried to assure investors that the Dutch bank was sound. B1, B16

■ **India's HCL bid** $811.2 million for U.K.-based technology consultancy Axon, topping an offer by Infosys. B6

■ **U.S. GDP was revised** down to 2.8% annualized growth in the second quarter from 3.3% as spending weakened. A8

■ **Municipal-bond yields** are soaring as nervous investors flee tax-exempt debt for safer Treasurys. B2

■ **Banks are seeking** to improve balance sheets before the quarter ends, adding to a squeeze in credit markets. B3

■ **HSBC is cutting** 1,100 jobs in its global-banking and -markets division worldwide. B3

—Markets—

Stocks (Friday):
DJIA 11143.13, ▲121.07;
Nasdaq 2183.34, ▼3.23;
S&P 500 1213.01, ▲3.63.

Bonds: 10-year Treas. ▲9/32, yield 3.827%; 30-year Treas. ▲ 29/32, yield 4.361%.

Dollar: 106.15 yen, -0.23; euro $1.4613, -0.13 cent vs. the dollar.

Commodities: Oil $106.89, ▼$1.13; Gold (Comex) $882.90, ▲$.20; DJ-AIG 176.790, ▼2.517

World-Wide

■ **The candidates clashed over taxes, war and the economy.** The financial crisis shifted their first debate's initial focus from foreign to domestic issues. Obama blamed the turmoil on GOP economic policies and tied his rival to Bush. McCain focused on earmarks and repeated his vow to veto pork-laden bills. The Republican portrayed Obama as naive on foreign policy and blasted his willingness to meet with leaders like Ahmadinejad. The Democrat challenged McCain's support for the Iraq war. A1

McCain didn't decide to attend the debate until Friday, having pledged to stay away if there was no bailout deal.

■ **The Senate** was set to approve a bill setting aside $487.7 billion to fund big defense contracts ahead of the next administration. A9

■ **Senate Republicans blocked** a $56 billion Democratic stimulus plan to fund public-works projects and aid to the jobless.

■ **Thousands of Shiites** rallied against a proposed U.S.-Iraqi security pact. Iran's former president denounced the deal.

■ **The U.S. and Russia** agreed to push forward a new Security Council resolution condemning Iran's nuclear efforts. A14

■ **Pakistan warned** U.S. troops not to intrude on its territory, a day after the two allies traded fire along the Afghan border.

■ **Medvedev said** Russia plans to upgrade its nuclear deterrent with a space defense system and new submarines. A15

■ **German police boarded** a plane minutes before takeoff and arrested two ethnic Somali terrorist suspects. A15

■ **North Korea proposed** military talks with South Korea in what would be the first official contact since February. A15

■ **Palin said she will donate** to charity over $1,000 in contributions from two politicians linked to a corruption probe.

■ **Seven Palin aides defied** subpoenas to testify in a probe of possible abuse of power.

■ **Venezuela has arrested** an Air Force general on charges he was seeking to kill President Chávez, a lawmaker said.

■ **Ecuador is set** to approve a constitution Sunday that would boost the power of populist President Rafael Correa. A14

■ **Somali pirates seized** a Ukrainian cargo ship loaded with 33 tanks and ammunition bound for Kenya. A15

■ **Thousands of Somalis fled** the capital last week in some of the worst fighting of the 19-month insurgency, the U.N. said.

■ **Turkey's military said** its warplanes attacked 16 Kurdish rebel targets in northern Iraq.

Inside—

THE WEEKEND INTERVIEW:
How Otellini is rebooting Intel | A17

Lessons of Wall Street's broken nest eggs | B1

Singing her own tune: After an Oscar and 'Idol,' Jennifer Hudson on music, movies and church | W2

Jennifer Hudson

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Obama, McCain Spar on War, Financial Crisis in First Debate

Associated Press

Sens. McCain and Obama had testy exchanges over Russia, Iraq and Iran in their first presidential debate Friday night, at the University of Mississippi.

By Laura Meckler, Elizabeth Holmes and Amy Chozick

Sens. John McCain and Barack Obama showcased different priorities for the nation's economy and foreign policy in the first of three presidential debates, an event that featured sharp exchanges, some agreement, and no knockout punches or major gaffes.

Their divergent views on the war in Iraq produced some of the sharpest displays. Sen. McCain chastised Sen. Obama for opposing an increase in troops that helped turn the war around. Sen. Obama slammed Sen. McCain for supporting the war in the first place.

The Iraq dispute underscored the fundamental messages each candidate hoped to communicate in the foreign-policy debate. The 72-year-old Sen. McCain, the Vietnam war hero, tried to paint his 47-year-old rival as dangerously naive, while Sen. Obama tried to paint his rival as a dangerous hawk.

"There are some advantages to experience and knowledge and judgment, and I honestly don't believe that Sen. Obama has the knowledge and experience," Sen. McCain said at the debate's close. "I don't think I need any on-the-job training. I'm ready to go at it right now."

For all the startling news about the state of the financial markets preceding the first debate, it was the state of the world that actually produced the drama, tension and real differences between the two men who would be president. GERALD SEIB, A6

Earlier, Sen. Obama blasted Sen. McCain for off-the-cuff hawkish statements. "John, you're absolutely right that presidents have to be prudent in what they say," he said, addressing his opponent directly. "But coming from you who in the past have threatened extinction for North Korea and sung songs about bombing Iran, I don't know how credible that is."

The candidates met amid a crisis rocking the nation's financial infrastructure, and the moment transformed the debate, which was supposed to be devoted entirely to foreign policy and national security—into a clash over their domestic agendas as well. Much of the first half centered on the economy, giving each candidate the chance to spotlight his intentions regarding taxes and spending.

In addition to contrasting agendas, the 90-minute event showcased their differing styles,

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Troubled Wachovia Seeks Out A Merger

By Robin Sidel, David Enrich and Dan Fitzpatrick

Wachovia Corp. has entered into preliminary talks with a handful of possible buyers—the latest in a parade of banks to look for safety in the arms of a suitor amid concerns that the weak economy is pushing them deeper into peril.

The talks came as Washington Mutual Inc.'s late-Thursday failure rattled the shares of other troubled banks. Shares in Wachovia fell 27% on Friday as investors fretted about its massive mortgage portfolio.

Investors are growing concerned that a host of banks nationwide, both large and small, could come under fresh pressure to either raise more capital or else find someone willing to buy them. The trouble stems in part from the fact that a broad range of borrowers, not just mortgage holders, are now starting to default on their debt. For instance, about 2.4% of payments on credit cards are more than 90 days overdue, according to the Federal Deposit Insurance Corp., the highest level since 1991.

Wachovia is talking to potential buyers including Wells Fargo & Co., Banco Santander SA of

Please turn to the next page

Bailout Compromise Gets New Life

Negotiations Resume, With Nod to Conservatives' Objections

By Greg Hitt, Sarah Lueck and Deborah Solomon

WASHINGTON—The Bush administration and Congress closed in on a new compromise aimed at stabilizing U.S. financial markets, a move designed to assuage conservatives who one day earlier had staged a revolt against the controversial $700 billion project.

The potential compromise isn't yet final, and details could change. But as of Friday night it appears that the plan's central elements, as originally envisioned by the Treasury Department, remain intact.

Congressional leaders were planning for possible votes Sunday.

The renewed effort represents a remarkable turnaround from the fracas that engulfed Washington Thursday night. In a sign of the political tensions at play, an earlier compromise plan was thrown into disarray after a White House meeting of top leaders—including the two presidential candidates—descended into a shouting match.

Republican nominee Sen. John McCain had returned to Washington to attend bailout negotiations. But the interjection of the presidential campaign, and the resulting finger-pointing, upset the delicate balance that had been struck in negotiations between congressional Democrats and Treasury Secretary Henry Paulson.

"I would hope the two presidentials would go to the debate tonight and leave us alone to get our work done here," said Sen. Harry Reid, a Nevada Democrat,

Please turn to page A6

The Earl of Bristol Didn't Sleep Here, But the Hotel May Be Named After Him

Inns With a Distinctively British Moniker Exist Around the World; Fans Try to Find Out Why

By Daniel Michaels

There's a hotel named Bristol in Thessaloniki, Greece. There's another in Panama City, and one in San Diego. There are still others in Warsaw, Paris and Berlin. All told, nearly 200 hotels worldwide are named Bristol.

And no one is quite sure why. Tim Arnold, a native of Bristol, U.K., has been on a quest to find out ever since he stumbled on the Bristol Hotel near Rimini, Italy, four years ago.

Tim Arnold

Most of the hotels are unrelated and most have no obvious link to the English port city, which was famous for its ships and trade in slaves, tobacco and rum—not fine hotels. In fact, there is no Bristol hotel in Bristol.

"It's a mystery," says the Marquess of Bristol, Frederick William Augustus Hervey, whose 18th-century ancestor, Frederick Augustus Hervey, is credited by some with inspiring the name.

The 8th Earl of Bristol and Bishop of Derry, who died in 1803, toured continental Europe with his own cook and entourage. Word of the earl's lavish tastes spread, so one theory for the popularity of "Bristol" hotels is that the earl's name became synonymous with luxury—just as hotelier César Ritz's did a century later.

Many Bristol hotels are indeed lavish, and several boast notable historical connections. Henri Cartier, founder of the eponymous jewelry company, proffered the giant "Hope

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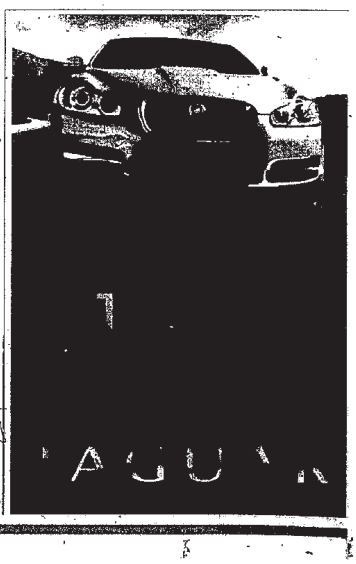

The Journal Report: The 2008 Tech Innovation Awards

THE WALL STREET JOURNAL.

DOWJONES A News Corporation Company

MONDAY, SEPTEMBER 29, 2008 - VOL. CCLII NO. 76 ★★★★ $2.00

Last week: DJIA 11143.13 ▼ 245.31 -2.2% NASDAQ 2183.34 ▼ 4.0% NIKKEI 12893.16 ▼ 0.2% DJ STOXX 50 2722.07 ▼ 3.1% 10-YR TREASURY ▼ 15/32, yield 3.827% OIL $106.89 ▲ $4.14 EURO $1.4613 YEN 106.15

What's News—

Business & Finance

The Bush administration and Congress agreed on a tentative deal to authorize the biggest banking rescue in U.S. history. The $700 billion program, on which Congress votes beginning Monday, would effectively nationalize an array of mortgages, other loans and securities backed by such loans. A1, A8

■ Wachovia was in advanced talks to sell itself to Wells Fargo, although terms of a proposed deal weren't clear. Discussions also continued with Citigroup. A1, C1

■ The consequences of the government's decision two weeks ago not to step in to prop up Lehman Brothers Holdings but instead let it collapse look more dire than almost anyone imagined. A1

■ The bailout plan is likely to speed plans to change the way the Fed manages interest-rate policy. A3

■ Fortis will receive a $16.37 billion injection from the Netherlands, Belgium and Luxembourg after BNP Paribas and ING Groep walked away from talks to acquire the company. A1

■ Bain Capital and Hellman & Friedman pushed to close an accord to purchase much of Lehman's investment-management unit. C4

■ ImClone is expected to announce that it is in talks to sell itself to a major pharmaceutical concern. C6

■ Small banks that invested heavily in stock of Fannie Mae and Freddie Mac are exploring survival options as the investments are likely to prove worthless. C1

■ Some vulture funds are ready to pounce on distressed commercial real-estate assets before the bailout is implemented. A10

■ Reserve Management is the latest entity in which investors have had trouble exiting from investments pitched as cashlike. C1

■ Rice futures gains might continue amid calculations on how much of the crop will be lost to hurricanes. C7

■ Steel buyers have pulled back sharply amid the credit crisis and slowdowns in key markets, boosting inventories at U.S. steelmakers. B1

■ Norilsk's chairman gained ground in a battle for control of the Russian miner, through a maneuver that boosted his voting shares. B2

■ AT&T is switching its satellite-television provider to DirecTV, costing rival Dish Network the last of its phone-company partners. B5

■ WiMax will debut in Baltimore Monday to test how consumers respond to the wireless technology. B8

World-Wide

■ McCain and Obama retool messages, back bailout plan. With the financial crisis dominating the media, both candidates have pivoted off Friday's debate with more populist themes and reluctant support for the $700 billion federal bailout. Political wrangling over the bill and the threat of a recession appeared to be playing to Obama's advantage. A16

Both candidates tried to take at least partial credit for the bailout agreement.

■ The votes of working-class white suburbanites in such swing states as Ohio, Michigan and Pennsylvania could decide this year's U.S. presidential election. A18

■ Dodd's role as the Senate Banking Committee chairman is testing the Democrat as Congress tries to craft critical economic legislation. A6

■ Bush's rescue plan for financial markets is prompting soul-searching within the conservative movement. A6

■ A Justice Department inquiry into the firings of U.S. attorneys is to end without resolving whether the White House acted improperly. A12

■ A Navy destroyer caught up with pirates who hijacked a cargo ship loaded with T-72 tanks off Somalia's coast. A21

■ Sudanese soldiers killed eight kidnappers of a group of missing European tourists and took two more into custody after a chase through Sudan's northern desert. A21

■ A car bomb ripped through a neighborhood in Damascus, Syria, on Saturday, killing at least 17 and injuring 14. A21

■ North Korea will meet with South Korean military leaders this week and is likely to host a visit from a U.S. official. A20

■ Support slumped for conservative allies of German Chancellor Merkel in Sunday's election in Bavaria. A20

■ The House approved a nuclear pact with India, bringing the Bush administration closer to a foreign-policy victory. A21

■ Three Chinese astronauts returned from their mission that carried out the country's first spacewalk and cemented its status as a space power.

■ Ecuadoreans voted on a new constitution that would broaden President Correa's powers and let him run for two more consecutive terms. A21

■ Japan's transport minister resigned after a string of gaffes in a blow to Prime Minister Aso's administration. A21

■ Former Japanese Prime Minister Koizumi said he is retiring from politics. A21

■ Two Taliban members on a motorbike shot and killed a senior Afghanistan policewoman outside her home in Kandahar and wounded her son. A21

■ Died: Paul Newman, 83, Oscar-winning actor, activist, race-car driver and philanthropist, of cancer in Connecticut.

Wells Fargo Eyes Wachovia; Crisis Hits European Banks

Wachovia Corp., which catapulted to the top of the U.S. banking industry with relentless acquisitions of weaker rivals, was in advanced discussions Sunday night to sell itself to Wells Fargo & Co., according to people familiar with the situation.

Wachovia was also holding talks with Citigroup Inc., but by late evening Wells Fargo appeared to be the preferred bidder. Details of the proposed transaction weren't immediately clear, and the discussions could fall apart at the last moment.

By Matthew Karnitschnig, Carrick Mollenkamp, Robin Sidel and Dana Cimilluca

The Wachovia developments came the same day that Congress and the Bush administration reached agreement on a $700 billion banking-rescue package. Meanwhile, the turmoil in the banking system spread to Europe over the weekend, as a major European bank was bailed out by a trio of governments, the U.K. was plotting the rescue of a British lender and Germany was trying to save a Munich-based lender.

San Francisco-based Wells Fargo has sent mixed signals in recent months about its appetite for acquisitions. CEO John Stumpf said in August that it was highly unlikely Wells Fargo would pursue a large East Coast rival.

AFTER THE MARATHON: Treasury Secretary Paulson, center, House Speaker Pelosi and Senate Majority Leader Reid announcing the deal; the House is expected to vote on it Monday. **Complete coverage starts on Page A2.**

Associated Press

Earlier this month, though, Wells Fargo Chairman Richard Kovacevich said that the bank "often buys fixer-uppers." He added: "Given the financial conditions today I feel like a kid in a candy store."

Citigroup and Wells Fargo both took a hard look at Washington Mutual Inc. before it was seized and sold to J.P. Morgan Chase & Co. for $1.9 billion.

Spain's Banco Santander SA also had expressed interest in Wachovia, but that scenario now appears less likely, people with knowledge of the discussions said Sunday.

The Netherlands, Belgium and Luxembourg agreed to inject €11.2 billion ($16.37 billion) into Fortis NV on Sunday, after France's BNP Paribas SA and Dutch financial firm ING Groep NV walked away from talks to ac

Please turn to page A8

Lehman's Demise Triggered Cash Crunch Around Globe

Decision to Let Firm Fail Marked a Turning Point in Crisis

Two weeks ago, Wall Street titans and the government's most powerful economic stewards made a fateful choice: Rather than propping up another failing financial institution, they let 158-year-old Lehman Brothers Holdings Inc. collapse.

Now, the consequences of that decision look more dire than almost anyone imagined.

By Carrick Mollenkamp and Mark Whitehouse in London, Jon Hilsenrath in Washington and Ianthe Jeanne Dugan in New York

Lehman's bankruptcy filing in the early hours of Monday, Sept. 15, sparked a chain reaction that sent credit markets into disarray. It accelerated the downward spiral of giant U.S. insurer American International Group Inc. and precipitated losses for everyone from Norwegian pensioners to investors in the Reserve Primary Fund, a U.S. money-market mutual fund that was supposed to be as safe as cash. Within days, the chaos enveloped even Wall Street pillars Goldman Sachs Group Inc. and Morgan Stanley. Alarmed U.S. officials rushed to unveil a more systemic solution to the crisis, leading to Sunday's agreement with congressional leaders on a $700 billion financial-markets bailout plan.

The genesis and aftermath of Lehman's downfall illustrate the difficult position policy makers are in as they grapple with a deepening financial crisis. They don't want to be seen as too willing to step in and save financial institutions that got into trouble by taking big risks. But in an age where markets, banks and investors are linked through a web of complex and opaque financial relationships, the pain of letting a large institution go has proved almost overwhelming.

In hindsight, some critics say the systemic crisis that has emerged since the Lehman collapse could have been avoided if the government had stepped in. Before Lehman, federal officials had dealt with a series of financial brushfires in a way designed to keep troubled institutions such as Fannie Mae, Freddie Mac and Bear Stearns Cos. in business. Judging them as too big to fail, officials committed billions of taxpayer dollars to prop them up. Not so Lehman.

"I don't understand why they didn't understand that the markets would be completely spooked by this failure," says Richard Portes, professor of economics at London Business School and president of the Centre for Economic Policy Research. Rather than showing the government's resolve, he says, letting Lehman fail only exacerbated the central problem that

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Associated Press

Palin Shake-Up

The McCain campaign moved its top officials inside Gov. Sarah Palin's operation to prepare for the most important event of her vice-presidential campaign so far, her debate on Thursday. *A16.*

Congress, Treasury Sign Off On Bailout Package

By Deborah Solomon, Damian Paletta and Greg Hitt

WASHINGTON—The White House and congressional leaders agreed on a deal to authorize the biggest banking rescue in U.S. history.

The $700 billion program would effectively nationalize an array of mortgages and securities backed by them—instruments whose deteriorating value has clogged the nation's financial system.

Lawmakers finished writing the bill late Sunday, after which Speaker of the House Nancy Pelosi declared it "frozen," meaning no changes would be made. The bill leaves many mechanics of the operation up to the Treasury. Among these are the crucial issues of how the U.S. government would decide which assets it will buy and how it would decide what to pay for them. The legislation leaves the Treasury 45 days to issue guidelines on those procedures. The bill awaits votes in Congress starting on Monday.

From big Wall Street houses to small community banks, executives have expressed an interest in signing up for the bailout. But some have said the extent of their involvement will depend on critical details.

The political fallout from the bailout could be substantial, given the enormous expenditure of taxpayer money. Some polls show wide opposition. But the legislation includes provisions designed to guard against ultimate losses for the government. And it calls on the Treasury, as an

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What's Ahead—

Monday, Sept. 29

■ Reports on August personal income and spending are due from the Commerce Department.

■ Earnings from Circuit City, which ousted its chief executive last week, and Walgreen may help shed light on consumer spending.

Tuesday, Sept. 30

■ September consumer confidence from the Conference Board takes focus.

Wednesday, Oct. 1

■ Vehicle sales from auto makers are expected to be weak again in September. A2

Thursday, Oct. 2

■ The vice presidential debate between Gov. Sarah Palin and Sen. Joe Biden is set to take place at Washington University in St. Louis at 9 p.m. EDT. A16

■ August factory orders may have taken a hit, while weekly jobless claims take focus again after a big surge last week.

■ The Food and Drug Administration will hold a public hearing on the safety and effectiveness of cough and cold products for children.

■ Marriott and Constellation Brands report earnings.

Friday, Oct. 3

■ The September report on employment is likely to be a blow to workers. The jobs report is the last one to be released before the Nov. 4 election. A2

In Sign of the Times, Global Village Gathers to Watch a Sign

Viewers Monitor a Front Yard in Oregon; Squirrels and Other Thrills

By Christopher Rhoads

Preston Posback and his mother, Kristine, were shocked when their Obama sign was stolen one night in April from the front yard of their Portland, Ore., home.

When they put up another one nine days ago, that, too, was swiped within hours. Undeterred, they made their own sign and put it up the next day.

But this time, 16-year-old Preston had a plan: He set up a video camera inside the house and trained it on the sign from behind a window. He figured he would catch the thief on film, should he return. He hooked up the camera to a Web site that provides live streaming. He wrote a few words on the site explaining its purpose.

Preston Posback

And then, the handmade sign with red, uneven letters went global.

A few people started watching the video, which shows the sign next to another sign endorsing a local candidate, beside a flowerbed. The only reliable action consists of the occasional car passing in the background.

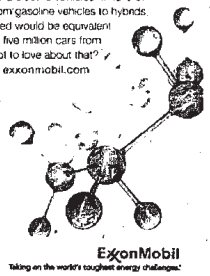
Still, by that first evening, more than 100 people were watching. The next day, when Preston checked the site during lunch at school, more than 450 were there, not only from around the U.S. but as far away as Australia, Sri Lanka and Japan.

"We had no intention of making this so public," says Preston,

Please turn to page A22

if you like hybrids, you'll love our new separator film.

Another ExxonMobil innovation is a new separator film that enables high-powered lithium-ion batteries to be used in hybrid and electric vehicles. If 10% of Americans switched from gasoline vehicles to hybrids, the CO_2 emissions saved would be equivalent to removing more than five million cars from the road. And what's not to love about that? The story continues at exxonmobil.com



Mobil Source of Innovation

ExxonMobil Taking on the world's toughest energy challenges.

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THE WALL STREET JOURNAL.

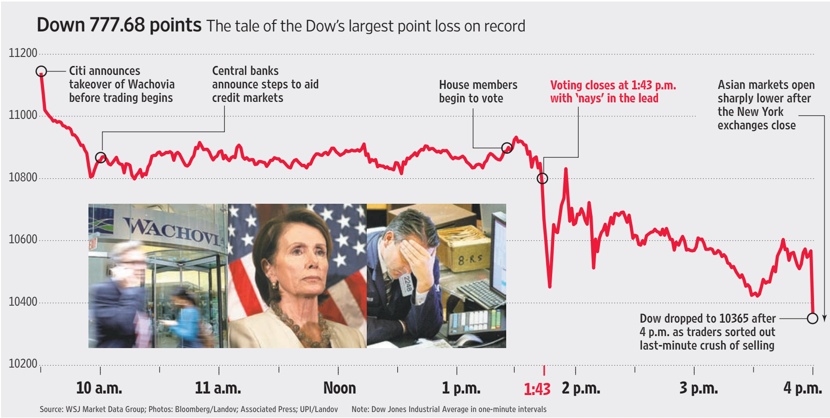
DOWJONES A News Corporation Company **** TUESDAY, SEPTEMBER 30, 2008 ~ VOL. CCLII NO. 77 ★★★★ $2.00

DJIA 10365.45 ▼777.68 −7.0% **NASDAQ** 1983.73 ▼9.1% **NIKKEI** 11743.61 ▼1.3% **DJ STOXX 50** 2588.72 ▼4.9% **10-YR TREAS** ▲1 21/32, yield 3.630% **OIL** $96.37 ▼$10.52 **GOLD** $888.20 ▲$5.30 **EURO** $1.4441 **YEN** 104.29

Bailout Plan Rejected, Markets Plunge, Forcing New Scramble to Solve Crisis

By Sarah Lueck, Damian Paletta And Greg Hitt

Down 777.68 points The tale of the Dow's largest point loss on record



Source: WSJ Market Data Group; Photos: Bloomberg/Landov; Associated Press; UPI/Landov Note: Dow Jones Industrial Average in one-minute intervals

WASHINGTON—The House of Representatives defeated the White House's historic $700 billion financial-rescue package—a stunning turn of events that sent the stock market into a tailspin and added to concerns that the U.S. faces a prolonged recession if the legislation isn't revived.

The Dow Jones Industrial Average sustained its biggest point drop in history and its biggest closing decline since the day the markets re-opened after the Sept. 11, 2001, terrorist attacks. The Dow, which had opened sharply lower on fears of more possible bank failures, finished the day down 7%, with a 777.68 point drop to 10365.45. Losses to shares on the broader Dow Jones Wilshire 5000 index amounted, on paper, to $1.2 trillion—eclipsing the size of the proposed bailout package. The Nasdaq Stock Market finished down 9.1%.

The widely watched VIX index, a measure of market volatility often called "the fear index," closed at its highest levels in its 28-year history. In early trading in Asia Tuesday, Japan's Nikkei was off 4.5%, and other markets also were down.

The 228-205 vote, which defied a full-court press from the president and the Treasury secretary, marked a dark moment in a month that has shaken the financial system to its core and forced the government to take a host of ad hoc measures to shore up confidence. Earlier Monday, U.S. authorities helped arrange the sale of Wachovia Corp. to Citigroup Inc., while the Federal Reserve joined other central banks in injecting more funds into credit markets.

The bailout was designed in part to get financial institutions lending again by ridding the market of the toxic mortgage-backed securities and other holdings that lenders fear could cause borrowers to default. If credit markets continue to seize, the impact on businesses and consumers could be widespread. Access to loans would be reduced, crimping spending and investment. Economists said the credit crunch could lead to increased layoffs in the U.S. and prompt a hefty rate cut from the Federal Reserve.

"The legislation may have failed," said House Speaker Nancy Pelosi, a California Democrat. "The crisis is still with us."

The bill's failure puts the Treasury Department in a bind. Officials there considered the rescue plan as a last-ditch effort to come up with a systemic approach to tackling the financial crisis. The Treasury can take some incremental steps, such as expanding a program to buy mortgage-backed securities issued by mortgage giants Fannie Mae and Freddie Mac, or using other administrative tools. But none of these measures would be as comprehensive in tackling the problems at the heart of the financial system.

In lieu of legislation, Treasury is likely to revert to addressing problems institution by institution, according to a person familiar with the matter, while waiting to see whether Congress will revisit Monday's vote. The government is likely to continue trying to extinguish fires by lending money to troubled institutions, aiming to prevent failures that could ripple through the financial sector. That could result in the government taking on the same toxic assets, but by a different route. The Federal Insurance Deposit Corp., which resolves failed banks, could also play a greater role.

"Our tool kit is substantial but insufficient," Treasury Secretary Henry Paulson said after the bill's failure.

Ever since Mr. Paulson unveiled the proposal two weekends ago, the rescue package had helped buoy financial markets. But it also sparked deep unease among lawmakers over what would be an unprecedented government intervention in the private sector.

The bill's failure marks a stinging defeat for the nation's political leadership. Both Republican and Democratic leaders in Congress and the White House had

Please turn to page A2

What's News—

Business & Finance

The House defeated the Bush administration's $700 billion rescue package, a stunning turn of events that sent the Dow industrials to their biggest point drop ever. The 228-205 vote split both parties and is a setback for the Treasury and the Fed, which are stuck for now with taking incremental steps to stem the financial crisis. **A1, A3**

■ **The Dow industrials** plunged 777.68 points, or 7%, to 10365.45, as fears grew that more banks could fail. Oil fell $10.52 to $96.37. **C1, C8**

■ **European stocks slid** after a wave of bank bailouts sparked concern about the Continent's banking system. **C5**

■ **Citigroup acquired** most of Wachovia for nearly $2 billion in a U.S.-engineered takeover. Included is a $312 billion mortgage portfolio saddled with bruising losses. **A1, A7, C18**

■ **The U.S. banking system** is undergoing a big change through recent consolidation. Last year's $101 billion deal for ABN is weighing on Fortis and Royal Bank of Scotland. **A1, C1**

■ **Japan's MUFG sealed** a deal to acquire a 21% stake in Morgan Stanley for $9 billion. **C8**

■ **Parts of the credit markets** regressed as corporate bonds slumped and investors sought out U.S. Treasurys. **C2**

■ **The U.S. economy,** already hurt by the credit crunch, could worsen without some form of bailout. Consumer spending held flat last month. **A7B, A8**

■ **The Treasury unveiled** a $50 billion insurance plan for money-market mutual funds that lasts for three months. **B9**

■ **Sovereign Bancorp plans** to name Paul Perrault, former head of Chittenden Corp., to be CEO starting next year. **C7**

■ **Fannie Mae** and Freddie Mac said they received grand-jury subpoenas seeking data on accounting, disclosures and corporate-governance matters. **A8**

■ **Pfizer plans** to announce it will abandon efforts to develop medicines for heart disease. **B1**

World-Wide

■ **McCain and Obama now face tough political choices.** The presidential candidates struggled to mitigate the political damage of the House rejection of the financial rescue package. Both had tepidly supported the plan the day before, saying it was an unpleasant package but necessary for the health of the economy. McCain arguably has more to lose in this crisis after inserting himself into the negotiations last week. **A14**

Both called on fellow members of Congress to return to work and get some kind of aid deal through.

■ **The defeat** of a U.S. bailout plan followed an outpouring of voter anger that overwhelmed calls from Bush and lawmakers to pass the deal. **A4, A14**

■ **Congress seemed** increasingly unlikely to extend expiring tax breaks for individuals and businesses before the end of the year after failing to break an impasse over the issue. **A8**

■ **Mukasey appointed** a prosecutor to investigate whether administration officials violated the law when they fired nine U.S. attorneys. **A8**

■ **U.S. and Syrian diplomats** met over the past week in New York in a sign of a potential thaw between the countries. **A9**

■ **A car bomb detonated** near a military bus carrying soldiers in northern Lebanon, killing at least five people and injuring over two dozen. **A13**

■ **Belarus elections** that failed to elect a single opposition lawmaker fell short of democratic standards, observers said. **A12**

■ **Tribal militias** backed by Pakistan's army are rising to battle pro-Taliban groups. **A13**

■ **NASA is delaying** its mission to the Hubble Space Telescope until next year due to a breakdown of its orbit. **A8**

■ **A federal court** overturned the Bush administration's decision to remove gray wolves from the endangered species list in the Great Lakes region.

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Citi, U.S. Rescue Wachovia

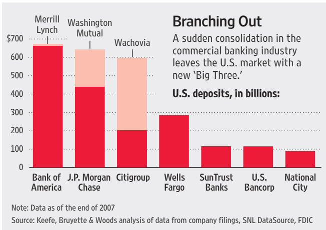
Latest Shotgun Deal Creates Nation's Third-Largest Bank

By David Enrich and Matthew Karnitschnig

Branching Out

A sudden consolidation in the commercial banking industry leaves the U.S. market with a new 'Big Three.'

U.S. deposits, in billions:



Note: Data as of the end of 2007

Source: Keefe, Bruyette & Woods analysis of data from company filings, SNL DataSource, FDIC

Citigroup Inc. acquired most of Wachovia Corp. for nearly $2 billion in a government-engineered takeover that shows how quickly once-mighty U.S. banks are succumbing to a growing mountain of bad mortgages and other loans.

Wachovia wasn't doomed by the same sort of customer exodus that led regulators to seize Washington Mutual Inc.'s banking operations last week. But federal officials intervened before dawn Monday after concluding that the Charlotte, N.C., bank's deteriorating condition posed a threat to the already fragile U.S. financial system.

As part of the deal, Citigroup will inherit a $312 billion mortgage portfolio saddled with bruising losses. Citigroup's future losses on those loans will be capped at $42 billion, with the government agreeing to absorb any additional losses. In return, the government got $12 billion worth of warrants for Citigroup stock and preferred shares.

The takeover was hammered out in frenetic negotiations that lasted all weekend. The immediate catalyst was that major credit agencies were poised to cut Wachovia's ratings, just as the bank had billions of dollars in debt coming due this week.

Wells Fargo & Co. initially said it was prepared to buy Wachovia for more than $20 billion and wouldn't require any government assistance, according to people familiar with the talks. Late Sunday, the San Francisco bank abruptly changed its mind. That set in motion a desperate scramble through the night that ended with the government presiding over Wachovia's shotgun marriage to Citigroup early Monday morning.

Citigroup's transformation from one of the financial system's biggest losers just six months ago into what Citigroup executives now call "a pillar of strength" shows how quickly the pecking order among U.S. banks is being upended by the headlong rush to cull the industry of its weakest institutions.

Vikram Pandit, who took over at Citigroup in December, has told colleagues in recent days that he doesn't want Citigroup to be "too long the U.S. con-

Please turn to page A6

Industry Is Remade In a Wave Of Mergers

By Robin Sidel And Damian Paletta

The notoriously fragmented American banking system is going through a decade's worth of consolidation in a matter of weeks, with the U.S. government often acting as matchmaker.

At the end of last year, the three lenders that are now the largest in U.S. banking—Bank of America Corp., J.P. Morgan Chase & Co. and Citigroup Inc.—collectively held 21.4% of all U.S. deposits. Now, with this month's government-backed sales of the banking assets of Washington Mutual Inc. to J.P. Morgan and of Wachovia Corp. to Citigroup, the Big Three instantly have a combined 31.3% of U.S. deposits.

For more than a decade, banking experts have predicted an industry that is shaped like a "barbell"—a few big banks at one end, thousands of tiny ones at the other and little in the middle. But

Please turn to page A5

India's Cram-School Confidential: Two Years, One Test, 40,000 Students

* * *

Town Fills With Teens Studying Full-Time For a College Entrance Exam; 'Bansalites Rock'

By Eric Bellman

KOTA, India—Hoping to boost his chances of getting into a top college, Rohit Agarwal quit his high school and left home.

The 16-year-old moved from the far northeast corner of India in June, with two suitcases and a shoulder bag. He took a two-hour flight and a six-hour train ride to the dusty town of Kota, India's cram-school capital.

Vinod Kumar Bansal

More than 40,000 students show up in the arid state of Rajasthan every year, looking to attend one of the 100-plus coaching schools here. These intensive programs, which are separate from regular high school, prepare students for college-entrance exams. In Kota, most of the schools focus on the prestigious Indian Institutes of Technology.

The seven IITs nationwide are statistically tougher to get into than Harvard or Cambridge. While around 310,000 students took the entrance exam this April, only the top 8,600 were accepted. A whopping one-third of those winners in the current academic year passed through Kota's cramming regimen.

"If we stayed at home, we just wouldn't be able to study enough," says Mr. Agarwal as he takes a break from lessons. "If you don't study hard, you won't get admission."

Today, he starts studying at 7 a.m., works on practice problems until noon. After lunch, he goes to class, where he gets the answers to the problems, gets home around 8 p.m. and does

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THE WALL STREET JOURNAL.

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What's News—

Business & Finance

The Bush administration and Congress are hashing out an agreement to raise deposit-insurance limits, an idea they hope might revive the president's planned rescue of financial markets. The Senate will vote on a new version of the plan Wednesday if a compromise can be reached on this and other issues. **A1**

■ **The Dow industrials surged** 485.21 points, or 4.7%, to 10850.66, but ended the quarter down 4.4%. Uncertainty over the rescue plan continues to weigh on investors. **C1**

■ **The dollar rose** against the euro and yen, aided by the recovery in U.S. stocks. **C3**

■ **Ireland took** the ambitious step of guaranteeing all the debt of its top six financial institutions, while another European lender was bailed out. **A1**

■ **European shares ended** a dismal quarter on a positive note as more government rescues aided bank stocks. **C3**

■ **U.S. home prices** in the 20 areas tracked by an S&P/Case-Shiller index fell more than expected in July. Consumer confidence improved slightly. **A12**

■ **Short-term credit markets** stayed fragile as interest rates shot up and banks hoarded cash at the quarter's end. **C2**

■ **U.S. regulators issued** guidance that will allow companies to use more flexibility when valuing securities in a market that has dried up. **C2, C22**

■ **Public pension funds** and other big investors that made money by lending stock in their portfolios are feeling squeezed by the financial turmoil. **C1**

■ **Credit-market disruptions** are forcing utilities to delay new borrowing or devise costly ways to raise cash. **B4**

■ **Hedge-fund managers** are taking drastic steps such as lowering their fees in an effort to hold on to investors. **C2**

■ **Questions persist** about the viability of Wachovia's remaining businesses and whether they can still be sold. **C2**

■ **Hank Greenberg made** a request to AIG for the chance to bid on any assets the insurer plans to sell off. **C2**

■ **Reserve Primary Fund** said it will return at least one-third, or $20 billion, of investors' money in the fund soon. **C1**

■ **Stocks of REITs fared** well in the quarter, especially those that had properties that attracted bargain hunters. **C17**

■ **General Growth executives** faced margin calls and sold portions of their holdings amid falling share prices. **C14**

■ **AT&T put** wireless chief Ralph de la Vega in charge of all consumer offerings as part of a reorganization. **B1**

■ **Slide, a start-up known** for social-networking software, plans to sign distribution partnerships with Warner Bros., CBS and others. **B7**

■ **Tesco's first-half net rose** 11% as overseas sales helped the U.K. retailer defy tough conditions in its home market. **B5**

■ **Disney's theme parks** and resorts could take a hit if global economic woes continue. **B2**

■ **Netflix struck** a deal with Starz Entertainment, a move that expands its offerings for viewing on the Internet. **B7**

■ **Global deal volume** in the quarter rose 1% to $968 billion despite market turmoil. In the U.S., volume jumped 27%. **C8**

World-Wide

■ **The bailout bill's failure looms over Washington.** Proponents of the financial rescue plan failed to close the gap between their own desire to fix the problem and the public's rising mistrust of Wall Street. The resulting period of inaction, however brief, could increase the risks to global financial markets. Meanwhile, House and Senate leaders see political risks in addressing a problem that has no easy or popular solution. **A5**

The struggle to overcome a hostile public reaction reflects a political vacuum ahead of the November elections.

■ **McCain and Obama backed** proposals to boost federal deposit insurance as their campaigns looked for political advantage in the wreckage of the failed bailout plan. **A16**

■ **Voters in the key** battleground of Ohio cast their first ballots Tuesday amid a continuing controversy over the state's election procedures. **A18**

■ **EU cease-fire monitors** won't enter a Russian-declared security zone in Georgia as early as planned, prompting Georgia to accuse Moscow of stalling a pullback. **A22**

■ **At least 168 people** were killed and 100 others injured when thousands of pilgrims, panicked by false rumors of a bomb, stampeded at a Hindu temple in western India. **A22**

■ **A federal policy** mandating that young female immigrants take cervical cancer drug Gardasil has angered some advocates and health policy experts. **A10**

■ **Homeland Security** will proceed with the first phase of a satellite-surveillance program despite a report citing gaps in privacy safeguards. **A10**

■ **The Pentagon** formally notified Congress it wants to sell Israel up to 75 fighter jets being developed under a contract led by Lockheed. **A21**

■ **New York City's Mayor** Bloomberg hopes to reverse a term-limits law he had long supported so he can seek a third term next year. **A20**

■ **Parents of an infant** allegedly sickened by tainted milk powder filed suit against Sanlu, challenging China's efforts to keep the scandal out of courts. **A21**

■ **Pakistan named** a new chief for its main intelligence service, part of a leadership shake-up by army chief Kayani. **A22**

■ **Three Somali pirates** were killed in a shootout aboard a hijacked Ukrainian cargo ship laden with 33 tanks and weapons, a maritime group said. **A22**

■ **Italian police made** sweeping arrests against the mob, targeting a powerful clan and three suspects linked to a gangland-style slaying of six African immigrants near Naples. **A22**

■ **A nonprofit group** has filed complaints with the IRS against six pastors who endorsed political candidates from their pulpits in protest of tax laws. **A13**

■ **Rescuers saved** six men trapped for a week in a gold mine in the northern Philippines, but eight others remained unaccounted for. **A22**

■ **The leader of Bavaria's** ruling conservatives will resign Oct. 25 after a dismal state election showing for his party.

■ **NASA's Phoenix spacecraft** has discovered evidence of past water at its Martian landing site and spotted falling snow for the first time.

TODAY'S AGENDA

Auto Makers' Troubles Expected to Deepen

Auto makers are likely to post double-digit declines for September sales as car buyers continue to get hit by high gasoline prices and financing difficulties. The pace of new-vehicle deliveries is expected to remain at a 15-year low.

Manufacturing Index May Show Weakness

The Institute for Supply Management's manufacturing index is expected to come in at 49.5 for September, compared with a previous reading of 49.9. A reading below 50 indicates contraction in the sector. **ISM, 10 a.m. EDT**

Micron Technology will report earnings.

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U.S., Europe Push to Limit Crisis

Senate Plans Vote on Revised Rescue Package That Raises Limits on Deposit Insurance

By Greg Hitt And Damian Paletta

WASHINGTON—Congress and the Bush administration are hashing out an agreement to raise the level of consumers' bank deposits guaranteed by the government, an idea they hope might bring enough support to revive President George W. Bush's planned rescue of financial markets.

The Senate will vote on a new version of the rescue bill Wednesday if a compromise can be reached on this and other issues. Congressional leaders expect the vote could build momentum for passage of the bill in the House, which stunned Washington Monday by rejecting the $700 billion banking-rescue package.

Congressional leaders were also considering changing an accounting rule known as "mark to market" that some lawmakers blame for the financial system's volatility. The legislation would back up the Securities and Exchange Commission, which Tuesday gave companies more leeway to figure out the value of assets for which there are no buyers. (Please see related article on Page C2.) Other possible additions: jobless benefits and homeowner tax breaks.

The move to boost deposit-insurance limits, which the White House has raised with industry players, received a boost Tuesday when presidential candidates Sens. John McCain and Barack Obama endorsed the idea. Both candidates planned to return to Washington Wednesday for the possible Senate vote.

Sheila Bair, chairwoman of the Federal Deposit Insurance Corp., which oversees the program, said she would support temporarily raising the coverage.

"I'm willing to do this given

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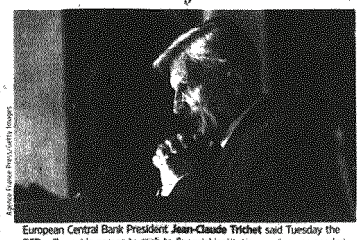
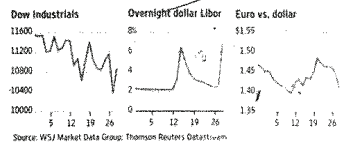


Agence France-Presse/Getty Images

European Central Bank President **Jean-Claude Trichet** said Tuesday the ECB will provide access to cash to financial institutions as long as needed.

Another Wild Ride

The Dow rebounded Tuesday while the cost of interbank lending spiked and the Euro dropped amid concerns over European banks.



Source: WSJ Market Data Group; Thomson Reuters Datastream

Ireland, France Aid Banks, As Jitters Go Global

Ireland took the extraordinary step of guaranteeing all the debt of its top six financial institutions, while governments in Europe bailed out another major lender and central banks in Asia

By Neil Shah and Sara Schaefer Muñoz in London, Peter Stein in Hong Kong and Evan Ramstad in Seoul

injected cash into their banking systems, as the ripple effects from the U.S. financial crisis intensified around the world.

In one of the most ambitious measures taken by a government since the crisis began more than a year ago, Ireland said Tuesday it would guarantee payments on as much as €400 billion ($563 billion) in bank debt, including securities, short-term borrowings and individual deposits without any limit. The figure, which the government said guaranteed nearly its entire banking system, is twice the country's gross domestic product.

"We are in the eye of the storm...It's time for swift and decisive action," said Irish Finance Minister Brian Lenihan, warning other governments against allowing "catastrophic" bank failures.

Meanwhile, French-Belgian bank Dexia SA became the fifth European financial institution to succumb to a bailout or nationalization since Sunday. The Belgian, French and Luxembourg governments Tuesday said they will inject €6.4 billion into struggling Dexia. The bank's default "would have been dangerous for the stability of the whole system," said French Finance Minister Christine Lagarde, citing the bank's €650 billion balance sheet.

Tensions in the markets on which banks depend to borrow money surged Tuesday, a day after the House of Representatives rejected a $700 billion financial-system bailout package in the U.S., spurring renewed concerns about bank failures in America and elsewhere. Ireland's move came amid rising pressure on governments and central banks to act, as market turmoil renders many financial institutions unable to borrow the money they need to conduct business.

In one sign of the strains, the London interbank offered rate, or Libor, a measure designed to reflect the rates at which banks lend to one another, spiked upward Tuesday as banks hoarded cash to make their financial positions look stronger on the last day of the quarter. Overnight dollar Libor jumped to 6.88% from 2.57%, its largest one-day rise ever. Three-month dollar Libor climbed to 4.05% from 3.88%.

Meanwhile, the dollar rose 2.58% against the euro, its third-straight daily gain and the big-

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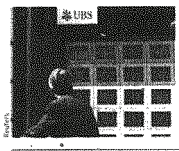


Reuters

Rage and Support

■ Central banks as lenders of first resort A3
■ Businesses urge passage of rescue plan B1
■ Quarterly Markets Review: The third quarter was full of startling moves in the U.S. and globally C1, C7-10
■ James B. Stewart on anger over the bailout D1

Loyalty Pays a Bitter Dividend

Longtime Bank Investors Take a Hit; Mrs. Pace's Lost Nest Egg

By E.S. Browning

Grace Pace, a 72-year-old widow, says her husband invested years ago in a local bank in Biloxi, Miss. Over time, that tiny bank was acquired and re-acquired, until it became part of giant Wachovia Corp. Still, Mrs. Pace and her husband, a Biloxi physician, held on: It was a point of family pride to have a stake in the local bank.

On Monday, the day Wachovia was broken up in a forced sale to Citigroup, Mrs. Pace was in tears. Wachovia's dividend once provided a third of her income. That money is now gone. "You just think, 'This can't be happening,' " she said. "What is secure any more?"

Mrs. Pace said her son recently reassured her that if things get really bad, she can move out of her home and into his basement, which has a window. Then she began to cry again.

Grace Pace

Variations of Mrs. Pace's story are playing out in households nationwide. The financial crisis is overwhelming some of America's most loyal investors: individuals who've held on to bank stocks for years or even generations.

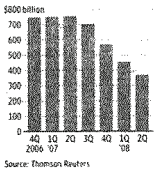
After World War II, as the American middle class embraced stock investing, hometown banks were often a first choice. The honor of bank ownership became a part of small-town mythology, expressed in movies like "It's a Wonderful Life," the holiday-season fixture about a beloved local banker and his guardian angel.

In the decades after the Great Depression and the bank failures of the 1930s, financial stocks rebuilt their prestige and earned investor confidence as the industry became a major part of the nation's blossoming service economy. Banks now employ 2.2 million people—more people, and at higher wages, than McDonald's Corp. (whose restaurants employ 1.6 million worldwide).

Families often hesitated to part with bank shares that spouses, parents or grandparents had accumulated, even as the nature of the original institutions changed almost beyond recognition. By June 2007, ordinary individuals and small institutional investors owned roughly $750 billion in the stock of financial institutions, according to Thomson Reuters.

Shrinking Investments

Value of S&P 500 financial stocks held by small investors



Source: Thomson Reuters

By the end of June 2008, however, individuals' holdings in financial stocks had fallen by $380 billion—more than half their value. Values have fallen further since then, of course.

In the first half of this year, bank-stock dividends fell by $35 billion, or 53%, according to the Federal Deposit Insurance Corp. Roughly a quarter of that stock was held by small investors, according to Thomson Reuters.

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The Solution to Hunting's Woes? Setting Sights on Women

Industry Shoots for New Role Models; Sarah Palin Hunts, and Hits the Target

By Kevin Helliker

PARIS, Tenn.—Brenda Valentine was running a beauty shop in rural Tennessee when her shooting skills came to the attention of the hunting industry. Today, she is a television star and paid speaker at hunting conventions, where fans wait in lines for her autograph.

Brenda Valentine

"People will bring me their grandpa's shotgun to sign or even kiss," she says. "Some have named their children after me."

Mrs. Valentine, 58 years old, is perhaps the most visible face of an industry effort to draw more women into the woods. As the number of male hunters has declined, the sport has targeted women with everything from pink guns to gender-specific hunting courses. Now, they're seeking out spokesmodels and pushing weapons tailored for women, such as lighter crossbows. Television shows starring women shooters include "American Huntress" and "Family Traditions with Haley Heath," chronicling the hunting adventures of a young woman and her tag-along husband and children.

The campaign received a boost in recent weeks from the Republican Party's vice presidential nomination of Alaska Gov. Sarah Palin. Photographs have since emerged of the governor posing beside a caribou she'd shot, and supporters boasted that she knew how to field-dress a moose. Gov. Palin is an ideal role model, say some women hunters, because she de-

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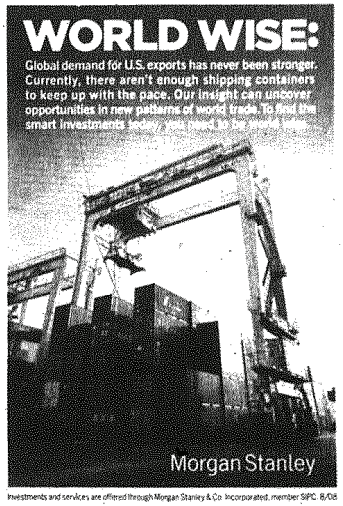

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THE WALL STREET JOURNAL.

DOW JONES A NEWS CORPORATION COMPANY **** THURSDAY, OCTOBER 2, 2008 ~ VOL. CCLII NO. 79 ★★★★ $2.00

DJIA 10831.07 ▼ 19.59 −0.2% NASDAQ 2069.40 ▼ 1.1% NIKKEI 11368.26 ▲ 1.0% DJ STOXX 50 2663.08 ▲ 1.1% 10-YR TREAS ▲ 16/32, yield 3.770% OIL $98.53 ▼ $2.11 GOLD $880.70 ▲ $6.50 EURO $1.4013 YEN 106.04

What's News–

Business & Finance

The Senate passed a financial-rescue package by a 74-25 vote, giving the bill its first legislative victory but adding provisions that could complicate efforts to push the $700 billion plan through the House. The compromise bill included a host of measures to win over reluctant lawmakers. Meanwhile, the Fed is weighing further rate cuts, even if the bill becomes law. **A1**

■ **GE turned** to Buffett to inject at least $3 billion into the company. GE also said it will sell at least $12 billion in stock to other investors. **B1, C16**

■ **The Dow industrials fell** 19.59 points to 10831.07, recovering from steep losses, as financial components gained on hopes of a bailout. **C1**

■ **Crude declined** $2.11 to $98.53. China's demand and Saudi Arabia's ability to rein in output stand in the way of a steep drop in oil prices. **A12**

■ **The Justice Department** is looking into whether Lehman defrauded clients as part of a probe into the collapse of the auction-rate market. **A6**

■ **The SEC extended** the short-selling ban until three days after the financial rescue bill is enacted into law. **C1**

■ **U.S. auto sales hit** a new low for the year with a 27% decline in September. Japanese auto makers posted sharp drops. Ford's sales fell 34%. **B1**

■ **Eli Lilly is in advanced** talks to buy ImClone for about $6.1 billion. A formal offer could prompt a higher bid from Bristol-Myers. **B3**

■ **The average diversified** mutual fund holding U.S. stocks fared worse than the Dow, losing 10.3% in the third quarter, Lipper data show. **R1**

■ **Sigma Finance**, a $27 billion investment fund that held Lehman debt, faced imminent liquidation after a default. **C2**

■ **Hewlett-Packard agreed** to buy computer-storage-software maker LeftHand Networks for $360 million. **B5**

■ **Embarq put** itself up for sale in recent weeks, but plans were thwarted when the credit crunch hurt capital-raising efforts by potential acquirers. **B5**

■ **Roche said** it remains confident it can raise the money it needs for its $43.7 billion bid for full control of Genentech. **B4**

■ **The financial turmoil** is adding to the woes of newspaper publishers, which risk falling into default or making a trip to bankruptcy court. **B6**

■ **Colleges and schools** are scrambling to make sure they have money for payroll and other bills after a fund they invested in froze withdrawals. **C1**

■ **UniCredit voiced** support for its CEO, as Italy said it was prepared to take measures to stabilize the nation's banks. **C3**

■ **Reserve Primary Fund's** investors could get much less than expected, with a troubled market weighing on assets. **C2**

■ **Yum Brands will start** posting calorie information on menu boards at its fast-food chains across the U.S. **B16**

■ **Congress sought** data from Medtronic over payments to doctors working as consultants on a bone-graft product linked to complications. **B4**

■ **Wal-Mart plans** to cut prices on some popular toys and speed up the opening of Christmas shops in its stores. **B11**

World-Wide

■ **Obama and McCain voted for the financial-rescue bill.** Both senators, who have missed hundreds of votes during the campaign, returned to Washington to cast their yes votes and prod reluctant members of their parties to do the same. The economic crisis appears to have helped Obama's campaign, with a new poll showing support for the Democrat surging in the battleground states of Florida, Ohio and Pennsylvania. **A3, A11**

The polls suggest that Palin, who is scheduled to debate Biden Thursday, is suffering from sliding popularity.

■ **The top U.S. commander** in Afghanistan said he needs more troops to battle insurgents amid an increase in foreign fighters from Pakistan.

■ **A U.S. missile strike** on a Taliban commander's home in Pakistan killed six people, intelligence officials said. **A14**

■ **Pakistan's spy service** helped arm Taliban insurgents, a Spanish intelligence report from 2005 charged.

■ **Iraq took** command from the U.S. of thousands of mostly Sunni fighters who have turned against al Qaeda. **A14**

■ **EU monitors began** patrolling Georgian territory. Russian troops let some into a buffer zone around South Ossetia. **A14**

■ **Germany dismissed** France's call for a coordinated Europe-wide response to the financial crisis. **A3**

■ **Russia's president said** he sees no ideological grounds for a new cold war despite strained relations with the U.S.

■ **The top U.S. nuclear envoy** went to North Korea with a proposal aimed at persuading it to honor a disarmament deal.

■ **The two Koreas hold** military talks this week, the first official contact since February.

■ **The Senate passed** a nuclear deal with India that opens the door for U.S. companies to enter the Indian market. **A10**

■ **The Supreme Court** reaffirmed its ruling that capital punishment is unconstitutional for crimes short of murder. **A10**

■ **The train engineer** in last month's deadly crash used his cellphone seconds before the accident, investigators said. **A11**

■ **The Senate passed** a five-year, $13 billion bill that boosts funding for Amtrak and mandates rail-safety technology.

■ **Somalia said** it would let foreign powers use force against pirates who are holding for ransom a ship loaded with tanks.

■ **Melamine was found** in Chinese candy in U.S. stores. Fifteen more firms were named as makers of tainted food. **A12**

■ **Chinese gymnasts** were old enough to compete in the 2008 Beijing Olympics, the sport's governing body said. **A14**

■ **Designers of a transit hub** near Ground Zero have been paid $174 million, yet almost no construction has begun. **A16**

■ **Iran is** two to five years away from being able to build nuclear weapons, the former Iraq Survey Group head said.

■ **Russia's high court ruled** that the last czar and his family, shot by Bolsheviks in 1918, were victims of political repression.

NOTICE TO READERS

■ Personal Journal begins on B9 today.

TODAY'S AGENDA

Palin, Biden Face Off In St. Louis Debate

The debate between the vice presidential candidates—Republican Gov. Sarah Palin of Alaska and Democratic Sen. Joe Biden of Delaware—is scheduled to take place at Washington University in St. Louis. PBS senior correspondent Gwen Ifill will moderate the proceedings. **9 p.m. EDT.**

FDA to Hold Hearing On Cold Medicine

The Food and Drug Administration will hold a public hearing on the safety and effectiveness of over-the-counter cough and cold products for children. **Beltsville, Md., 8 a.m. EDT**

Weekly jobless claims take focus again after a big surge last week. **Labor Department, 8:30 a.m. EDT**

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Fed Considers Rate Cut As Recession Fears Mount

Feeling the Pinch New signals that the economy may be nearing recession:

Getty Images (3)

Source: AutoData (vehicle sales); Institute for Supply Management (manufacturing activity); U.S. Census Bureau (construction spending)

BY SUDEEP REDDY, JON HILSENRATH AND TIMOTHY AEPPEL

Federal Reserve officials are weighing further interest-rate cuts, even if Congress passes a $700 billion rescue plan, in the face of a deteriorating economic outlook and severely strained financial conditions.

The Fed's willingness to consider additional cuts marks a turnaround from the past few months, when soaring food and energy prices turned its attention to inflation risks. At a regular September meeting, after oil prices had receded, officials still declined to move the central bank's federal-funds target rate from 2%.

A reduction in rates is still far from certain, in part because of inflation worries. But in just the past few weeks, as the credit crisis pummeled the financial system, economic data have become steadily worse, raising fears of a recession.

The latest signals were abundant Wednesday.

Auto makers were hammered in September by tight credit conditions and lower consumer demand. Monthly car and light-truck sales were the worst since April 1992, with both Toyota Motor Corp. and Ford Motor Co. posting sales declines of more than 30% from a year ago.

Manufacturing also lurched downward in September. The Institute for Supply Management's monthly gauge of the sector dropped to its lowest since October 2001. The index fell to 43.5 in September from 49.9 in August. Figures below 50 indicate a contraction for the sector, and the latest level generally corresponds to overall economic growth of about 0.8% a year, the ISM said.

"Manufacturing had avoided much of the decline that we'd seen brought on by the financial-services sector," said Norbert Ore, a Georgia-Pacific Corp. exec-

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Senate Vote Gives Bailout Plan New Life

Passage Gets Boost From Tax Breaks; Back to the House

BY GREG HITT AND SARAH LUECK

WASHINGTON—The Senate handily passed a controversial financial rescue package Wednesday, giving the bill its first legislative victory but adding provisions that could complicate efforts to push the $700 billion plan through the House of Representatives.

The compromise bill represented a marriage of the rescue proposal with a host of measures designed to win the support of reluctant lawmakers. Additions include an increase in bank deposit insurance limits, a suggested change to accounting rules, and a $150.5 billion package of unrelated personal and corporate tax cuts.

The additions boosted support in the Senate, which voted 74 to 25 in favor, the latest twist in the proposal's roller-coaster ride this week. Opposition came from conservatives, populists and senators facing tight races where the rescue bill is drawing criticism.

Senate Majority Leader Harry Reid of Nevada said he expected the House would pass the bill, a sentiment echoed by other senators. House leaders expressed cautious optimism they could secure passage, but couldn't be definitive.

President George W. Bush has called the plan vital to secure the proper functioning of financial markets. But lawmakers and the administration have spent more than a week wrangling over the proposal amid a backlash from voters. The disagreements culminated in the unexpected rejection by the House on Monday, in defiance of congressional leaders and the White House, triggering the stock market to sink.

Stunned by the market response, lawmakers regrouped and added new items to the bill to win votes. Senate leaders took up the bill, which had stronger support in that chamber, with the aim of putting pressure on the House. Presidential rivals Republican Sen. John McCain and Democratic Sen. Barack Obama flew back to the Capitol to cast votes in favor.

The 10-year, $150.5 billion package of tax proposals includes a measure to ease the bite of the alternative minimum tax, as well as research-and-development tax credits coveted by high-tech companies and drug makers. Its addition is designed to secure the support of Republicans, who were overwhelmingly opposed in the House. But it could irk conservative House Democrats because the measure will add to the deficit.

The bill also reaffirms the Securities and Exchange Commission's authority to suspend so-called mark-to-market accounting, an issue that gained surprising traction among lawmakers looking for less costly alterna-

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Associated Press

Grappling With the Crisis

■ Rifts emerge in Europe's response A3
■ GE gets infusion of at least $3 billion from investor Warren Buffett B1
■ Impact of SEC's new short-selling rules C1
■ Investing in Funds: Lessons from 9 painful months R1

Left, Warren Buffett

Latest Immigration Wave: Retreat

An Illegal Worker Realizes Dream, Briefly; Fewer Are Sneaking In

BY MIRIAM JORDAN

SAN JUAN ALOTENANGO, Guatemala—In 2004, Ambrosio Carrillo made a perilous and illegal journey to the U.S. in search of opportunity. Earlier this year, he made the equally wrenching decision to return home.

Once a construction worker earning about $15 an hour in Maryland, Mr. Carrillo barely worked in the fall of 2007 as plentiful jobs evaporated. As winter set in, the illegal immigrant, who had mastered masonry, carpentry and drywalling in the U.S., didn't land a job for two months. There was no money to send to his wife and three children in Guatemala.

So in January, Mr. Carrillo sliced open the green plastic piggy bank he'd bought at Wal-Mart and counted $3,100 in change and bills. "There was enough to buy a plane ticket home and ship my truck to Guatemala," recalls Mr. Carrillo, 37 years old. Now back in San Juan Alotenango, a town of dirt streets and sporadic running water, he hauls fruit, firewood and recyclable metal for a few dollars a trip.

Ambrosio Carrillo

With his journey to the U.S. and back, Mr. Carrillo is helping to write the latest chapter in the American immigrant story. After years of growth, illegal immigration to the U.S. from Mexico and Central America has slowed sharply. At the same time, say demographers and immigrant advocates, more Latin American immigrants like Mr. Carrillo are apparently returning home. The impact of this shifting migration pattern is felt in the U.S. and beyond, in towns like San Juan Alotenango that depend to some degree on cash sent home by those working in the U.S.

It is difficult to track short-term changes in the population of the estimated 12 million immigrants who are in the U.S. illegally. But a new study by the Pew Hispanic Center, an independent think tank in Washington, D.C., estimates that annual undocumented arrivals

Please turn to page A16

Mackerel Economics in Prison Leads to Appreciation for Oily Fillets

* * *

Packs of Fish Catch On as Currency, Former Inmates Say; Officials Carp

BY JUSTIN SCHECK

When Larry Levine helped prepare divorce papers for a client a few years ago, he got paid in mackerel. Once the case ended, he says, "I had a stack of macks."

Mr. Levine and his client were prisoners in California's Lompoc Federal Correctional Complex. Like other federal inmates around the country, they found a can of mackerel—the "mack" in prison lingo—was the standard currency.

Larry Levine

"It's the coin of the realm," says Mark Bailey, who paid Mr. Levine in fish. Mr. Bailey was serving a two-year tax-fraud sentence in connection with a chain of strip clubs he owned. Mr. Levine was serving a nine-year term for drug dealing. Mr. Levine says he used his macks to get his beard trimmed, his clothes pressed and his shoes shined by other prisoners. "A haircut is two macks," he says, as an expected tip for inmates who work in the prison barber shop.

There's been a mackerel economy in federal prisons since about 2004, former inmates and some prison consultants say. That's when federal prisons prohibited smoking and, by default, the cigarette pack, which was the earlier gold standard.

Prisoners need a proxy for the dollar because they're not allowed to possess cash. Money they get from prison jobs (which pay a maximum of 40 cents an hour, according to the Federal Bureau of Prisons) or family members goes into commissary accounts that let them buy things such as food and toiletries. After

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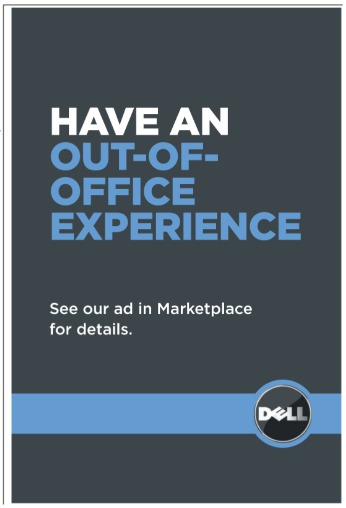

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Weekend Journal: The Secret Success of Classical Music

THE WALL STREET JOURNAL.

DOW JONES — A News Corporation Company ****** FRIDAY, OCTOBER 3, 2008 ~ VOL. CCLII NO. 80 ★★★★ $2.00

DJIA 10482.85 ▼348.22 –3.2% NASDAQ 1976.72 ▼4.5% NIKKEI 11154.76 ▼1.9% DJ STOXX 50 2629.17 ▼1.3% 10-YR TREAS ▲1 1/32, yield 3.646% OIL $93.97 ▼$4.56 GOLD $839.00 ▼$41.70 EURO $1.3794 YEN 105.22

What's News–

Business & Finance

The Dow industrials slid 348.22 points, or 3.2%, to 10482.85 as fears of recession overshadowed hopes that a plan to shore up the financial system would pass. The selloff in stocks and commodities sent investors fleeing to Treasurys. Data showed a seven-year high in jobless claims and a sharp decline in factory orders. **C1, A2**

■ **The financial-rescue plan** appeared to gather momentum in the House as leaders of both parties stepped up efforts to corral support. **A3**

■ **Gold declined** nearly 5% as investors' need to raise cash and sharp gains by the dollar triggered massive selling. **C14**

■ **New signs are emerging** that suggest the credit crisis is deepening as lenders grow more distrustful of their own customers and each other. **A1**

■ **The ECB kept** its key rate steady at 4.25%, but in a major shift signaled that the next move would be down. **A4**

■ **Businesses in the U.S.** are dumping office space at the fastest pace since the months after the Sept. 11 attacks. **A2**

■ **Home builder D.R. Horton** is unloading land across California at big discounts. **B1**

■ **Shares of some big insurers** have tumbled this week as concerns grow the sector could be the next to suffer. **C1**

■ **Ford said** it will sell up to $500 million of stock to buy back debt owed by its credit arm, building on a strategy to shore up its bottom line. **B1**

■ **Merrill's CEO will remain** with Bank of America after the $48 billion deal closes, but the future of Thain's inner circle is undecided. **C1**

■ **J.P. Morgan told** WaMu employees that many top executives, including CEO Fishman, will leave the company. **C2**

■ **UBS said** it expects a small third-quarter profit after substantially cutting its U.S. mortgage-related positions. **C2**

■ **Some Google executives** have been pushing for the company to broaden its marketing strategy, a move that is creating internal debate. **B6**

■ **Sprint has received** interest from a Latin American carrier and several private-equity firms for its Nextel unit, but a potential deal faces hurdles. **B4**

■ **Merck halted** development of experimental antiobesity drug taranabant due to side effects found in clinical trials. **B2**

■ **Microchip Technology** and ON Semiconductor disclosed a $2.3 billion unsolicited bid to buy chip maker Atmel. **B4**

■ **Toshiba said** it isn't interested in SanDisk but would be open to Fujitsu's hard-disk-drive unit, if approached. **B4**

■ **Marriott posted** a 28% drop in profit and warned of more difficult times ahead for the hotel industry. **B7**

■ **Amgen was granted** a permanent injunction prohibiting Roche from selling a competing anemia drug in the U.S. **B7**

■ **Sirius XM is offering** new options to let subscribers choose from both of the recently merged rival services. **B6**

■ **Nintendo plans** to release a new version of its hand-held videogame player that will include a camera. **B4**

World-Wide

■ **Palin held her own against Biden in their only debate.** The Republican took a folksy approach as she attacked the Democrats over tax hikes, Iraq and partisanship. Though Biden showed a deeper understanding of many issues, Palin was more fluent than she had been in TV interviews. Biden kept his focus on the top of the ticket, charging McCain wants to give tax breaks to the rich, recklessly deregulate the economy and keep the U.S. mired in Iraq. **A1**

The debate came as polls suggest the Obama-Biden ticket is pulling ahead in several battleground states.

■ **McCain conceded** the battleground state of Michigan, canceling a planned event there and halting ads after spending millions of dollars. **A8**

■ **Suicide bombers killed** at least 24 people at two Shiite mosques in Baghdad. Gunmen killed six members of a Sunni family north of the capital. **A14**

■ **The U.N. ordered** children of its international staff to leave Pakistan in the wake of September's deadly hotel bombing. **A14**

■ **A U.S. soldier** was sentenced in a plea deal to eight months in prison for his role in the killing of four Iraqi prisoners.

■ **The Army and Marines** spent nearly $640 million on recruitment bonuses in fiscal 2008, a 25% increase from 2007.

■ **A federal appeals court** overturned the convictions of a Yemeni cleric and his deputy for supporting terrorism.

■ **Bloomberg said** he will work with New York's City Council to change rules so he can seek a third term as mayor. **A8**

■ **Designs for a transit hub** near the World Trade Center site were scaled back and other projects were delayed.

■ **The FDA will rewrite** rules on marketing cold and cough medicines to children amid safety and efficacy concerns. **B6**

■ **The TSA said** it will likely relax restrictions on carrying liquids through airport security checkpoints in a year.

■ **The White House said** Bush will sign legislation that boosts funding for Amtrak and other passenger-rail services. **A6**

■ **NATO won't give** Georgia and Ukraine a road map to membership this year, German Chancellor Merkel said. **A14**

■ **A U.S. judge rejected** a defense bid for a mistrial in the Sen. Ted Stevens case despite finding prosecutors broke rules.

■ **Somali pirates refused** to release a hijacked arms ship for less than $20 million and warned against rescue efforts.

■ **A U.S. envoy stayed** in North Korea for a second day of talks on dismantling Pyongyang's nuclear program.

■ **Rice will travel** to India to commemorate congressional approval of a landmark nuclear-cooperation accord.

■ **Colorado business leaders** agreed to help defeat antiunion measures in return for labor dropping measures it backs. **A6**

■ **Algeria said** 30 people died in flash floods caused by torrential rains in the Sahara. **A14**

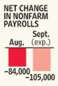
■ **Cambodia is likely** to delay the first trial of a Khmer Rouge official for genocide until 2009.

■ **The U.S. said it plans** to sell its London embassy and build a safer suburban facility.

TODAY'S AGENDA

Workers Likely Took Big Hit in September

The September report on employment is likely to be a blow to workers. Analysts predict that U.S. nonfarm payrolls declined more than 100,000 last month—a deterioration from 84,000 in August and 60,000 in July. **Labor Dept., 8:30 a.m. EDT**



Services Sector Index May Have Lost Ground

The ISM nonmanufacturing index, a barometer of the services sector, is expected to have slipped in September. The August index stood at 50.6. Figures below 50 indicate a contraction. **10 a.m. EDT**

American International Group will hold an investor update conference call. **8:30 a.m.**

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Associated Press (2)

Sen. Joe Biden and Gov. Sarah Palin at their vice-presidential debate Thursday night in St. Louis.

Biden, Palin Clash on Taxes, Iraq in Sharp-Edged Debate

By Laura Meckler And Christopher Cooper

ST. LOUIS—A confident, folksy Alaska Gov. Sarah Palin attacked the Democratic presidential ticket Thursday over tax hikes and partisanship, holding her own against her vice-presidential rival, Delaware Sen. Joe Biden.

Sen. Biden, assiduously avoiding any direct attacks on his opponent in their only debate, kept his focus trained on the top of the ticket. He charged again and again that Gov. Palin's partner, Republican Sen. John McCain, wants to give tax breaks to the rich, recklessly deregulate the economy, and keep the nation mired in Iraq.

Gov. Palin was more fluent on issues than she has been in televised interviews, throwing out facts, figures and names of foreign leaders with ease. She echoed her running mate's talking points, and didn't make the glaring mistakes that many had anticipated. But her citing of facts sometimes came across as rote, she twice misstated the name of the top American general in Afghanistan, and she was chided at times for not sticking to the subject at hand.

The vice-presidential debate between Sarah Palin and Joe Biden turned out to be a tug of war between opposites, pitting not just woman versus man, but outsider versus insider. **GERALD SEIB, A15**

At a time of high economic anxiety, both candidates repeatedly invoked their middle-class roots, saying they understood economic pain. Gov. Palin noted her family once went without health insurance.

The debate came as a batch of recent polls suggested that the Obama-Biden ticket was pulling ahead in several battleground states, building on a small national lead. On Thursday, the McCain campaign pulled its ads and staff in Michigan, essentially ceding the state to the Democrats.

Gov. Palin brought to the Washington University stage a homespun tone that she has showcased on the campaign trail. Asked about the economy, she suggested talking to a parent at a soccer game. "I'll betcha you're going to hear some fear in that parent's voice," she said. Asked who was to blame for the subprime-lending crisis, she said, "Darn right, it was the pred-

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Associated Press

McCain Abandons Michigan, Page A8

■ House gathers support for revised rescue plan A3

■ Behind the plan's latest provisions: The same financial industry lobbyists being blamed for the mess A5

■ Vote on who you think won the debate, read the transcript and see video clips at WSJ.com/Politics

Left, Sen. John McCain

Uncertainty Over Rescue Intensifies Credit Crisis

By Liz Rappaport, Serena Ng And Peter Lattman

A slew of new data suggest the effects of the credit crisis are ricocheting around the globe as lenders grow increasingly distrustful of their own customers and each other.

In both the U.S. and Europe, uncertainty about the ability of governments to push through comprehensive financial-system rescue plans continued to weigh on bond and stock markets. On Thursday, the rate on government debt maturing in three months fell to just 0.6%—indicating investors are willing to accept low returns simply to avoid the risk of losing their principal.

The most worrying aspect of the crisis is a growing reluctance among financial institutions to offer basic loans that are the lifeblood of the economic system. The Federal Reserve said Thursday the situation had worsened over the past week. Its data showed lenders reduced short-term loans to companies by a record $94.9 billion, bringing the total decline to $208 billion over the past three weeks.

These loans, known as "commercial paper," run anywhere

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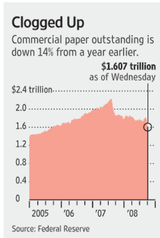


Failed Lender Played Regulatory Angles

Red Flags Flew but Lamb's Banks Kept Pouring Out Loans, Till They Collapsed

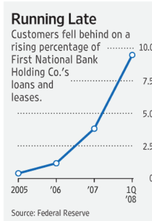
By David Enrich And Damian Paletta

SCOTTSDALE, Ariz.—One key focus in the financial crisis is the way the U.S. regulates banks, a patchwork often criticized as outdated and leaky. To those who say it needs an overhaul, Exhibit A could be a twin bank failure in the Southwest in July.

Despite repeated red flags, regulators didn't stop the lenders from churning out billions of dollars in risky loans until it was too late.

The banks' second-in-command had been cited by a federal agency for "unsafe" loan practices, and barred from accepting a lending-officer job. He soon became a bank executive anyway.

Later, he and the banks' founder were essentially banned for life from part of the lending industry. Yet even as the dispute that led to the ban was percolating, the founder got a license, from a different regulator, to open a new bank elsewhere.



The Federal Deposit Insurance Corp. has estimated the bank failure will cost $862 million.

The Treasury Department has been pushing for an overhaul of the fragmented system of regulating banks. Its proposal, made in March, gained little traction, then faded into the background as the financial crisis worsened. But the crisis itself reflects "a flawed regulatory structure, built for a different model for a different financial system," Treasury Secretary Henry Paulson told Congress last week, saying: "The financial system changed; the regulatory system didn't."

The bank collapse in July involved First National Bank of Nevada and First Heritage Bank in Southern California, units of closely held First National Bank Holding Co. in Scottsdale. The impresario behind them was Raymond Lamb, a hard-charging executive who at age 68 remains a devotee of the strenuous sport of helicopter skiing.

Mr. Lamb grew up in a small North Dakota town, working as a teen picking rocks out of a farmer's fields and serving customers at the family-owned Lamb's Bank. He opened a law office in his 20s, then at 29 acquired part of a small bank. A man of charm but a quick temper, he became an avid banking investor, buying and selling a handful of institutions in his home state and Minnesota before moving to the fast-growing Phoenix area.

There he met Gary Dorris, a former officer of a bank that had failed. Mr. Lamb hired him. After Mr. Lamb acquired an Arizona bank in 1992, he sought to make Mr. Dorris its chief loan officer.

The FDIC wouldn't permit it. Mr. Dorris's "unsafe and unsound" methods had contributed to his earlier employer's failure, the FDIC said in legal filings,

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When Stocks Tank, Some Investors Stampede to Alpacas and Turn to Drink

* * *

Parking Space Is Real-Estate Investment; Can Comic-Book Index Outpace the Market?

By Jennifer Levitz

Who can blame an investor for taking to the bottle?

Andy Pick, a 49-year-old stay-at-home father in Atlanta, recently bypassed the stock market for liquid assets—$120,000 in champagnes. He bought 400 bottles, mostly 1996 vintage, that he says he plans to "sit on" for 10 or 15 years and then sell at a profit.

Bob Sale

"It sure beats looking at a Merrill Lynch monthly statement," he says, adding, "The worst thing that could happen is that I drink all of it."

Given the gyrations in the financial markets, some investors are abandoning stocks and bonds and seeking refuge in unusual alternatives—parking spaces, for instance, and condos in Peru. Sales of exotic livestock are up. The U.S. Mint has seen a gold-coin rush.

Investors have long turned to hard assets in market downturns, the idea being that if you invest in something real, it won't disappear, even if its value declines. But analysts say this downturn is different in that real estate, the most traditional safe haven, is also sinking. Between July 2006 and July this year, home prices dropped 19.5%, according to the S&P/Case-Shiller 20-city composite home price index.

After the market dropped in January, Steve Borter, the 56-year-old president of a heating-and-air-conditioning company, did invest in real estate, but not the usual sort. He became landlord of a single parking space in Chicago. He bought a 12-by-20-foot

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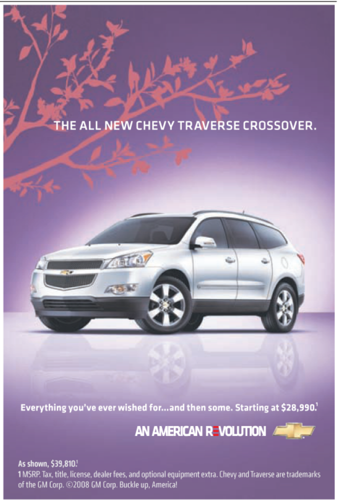

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The Drive to Create The Next Tiger

Weekend

THE WALL STREET JOURNAL.

SATURDAY/SUNDAY, OCTOBER 4 - 5, 2008

VOL. CCLII NO. 81 ****** WEEKEND EDITION ★★★★ $2.00

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What's News–

Business & Finance

Bush signed into law an unprecedented $700 billion plan to rescue the U.S. financial system, one of the largest-ever government interventions in the nation's economy. The Treasury is expected to move quickly to start buying distressed assets from struggling institutions, although any impact might not be felt for some weeks. **A1, A3, B16**

■ **Altria said** it may postpone its $10.3 billion purchase of UST amid funding difficulties, the latest deal to succumb to tightness in credit markets. **B1**

■ **Wells Fargo agreed** to buy Wachovia for $15.4 billion, upending Citigroup's government-aided takeover. The new deal could be challenged. **A1, B16**

■ **Citigroup shares fell** 18% as the surprise bid left the bank in limbo and spurred criticism of its handling of the matter. **B1**

■ **Payrolls declined** 159,000 in September, the fastest pace in five years. The jobless rate remained at 6.1%. **A5**

■ **The Dow industrials fell** 157.47 points to 10325.38 as a decline in financial stocks and weak jobs data wiped out early gains from the bailout. **B1**

■ **AIG's CEO laid out** a plan for significantly shrinking the insurer by selling assets, including all of its domestic life-insurance operations. **B3**

■ **Lehman's unsecured** creditors sought a court's permission to investigate how the firm ran out of money. **B3**

■ **The Netherlands will buy** most of Fortis for $23 billion after an earlier rescue plan failed to stabilize the bank. **A4**

■ **Iceland's markets** continued to be roiled by concerns the government won't be able to bail out its banks. **B7**

■ **Countrywide won** a victory in one of the suits filed by a U.S. agency accusing the lender of "bad faith conduct" that has hurt debtors in bankruptcy. **B6**

■ **Tata is abandoning** a plant site where it planned to build the world's cheapest car after weeks of protests there. **B5**

■ **General Growth suspended** its dividend and said its finance chief resigned amid the mall owner's heavy debt. **B5**

–Markets–

Stocks (Friday): DJIA 10325.38, ▼157.47; Nasdaq 1947.39, ▼29.33; S&P 500 1099.23, ▼15.05.

Bonds: 10-year Treas. unch, yield 3.646%; 30-year Treas. ▲ 17/32, yield 4.123%.

Dollar: 105.14 yen, −0.08; euro $1.3806, +0.12 cent vs. the dollar.

Commodities: Oil $93.88 a barrel, ▼$0.09; Gold (Comex) $828.90 ▼10.10; DJ-AIG 159.017 ▼0.855.

World-Wide

■ **Obama and McCain focused on the ailing economy.** Both candidates praised passage of the $700 billion bailout but jousted over economic issues. Obama cited job data to argue that GOP policies "are killing jobs in America every single day." McCain retorted that Democratic tax and spending plans would hurt the economy. Palin released her tax returns, showing her to be the lowest earner of the four candidates. **A6**

Thursday night's debate was the most-watched vice-presidential matchup ever, according to preliminary data.

■ **California hoped** passage of the rescue plan would avert a financial crisis for the state, which Thursday had called for a possible emergency loan. **A3**

■ **U.S.-led forces said** they killed a leader of al Qaeda in Iraq who masterminded recent deadly bombings in Baghdad.

■ **Iraq's presidential council** ratified a law that paves the way for provincial elections.

■ **A U.S. missile strike** in a Pakistani tribal region known as a haven for militants killed at least nine people, officials said.

■ **A Houston security firm** was indicted on charges of defrauding the government for work in Afghanistan.

■ **A car bomb** near Russian military headquarters in South Ossetia killed seven people, the region's government said. **A10**

■ **The House voted** 368-28 to extend jobless benefits, but the bill's chances of becoming law this year are slim.

■ **The White House** announced plans to sell $6 billion in arms to Taiwan, a decision likely to anger China.

■ **North Korea is continuing** to restore its nuclear facilities despite a U.S. envoy's visit, the State Department said.

■ **Syria said** it won't give U.N. inspectors access to military sites, hurting efforts to uncover an alleged nuclear program. **A8**

■ **The rescue package** includes insurance parity for mental-health treatment, a bill long pushed by Sen. Domenici. **A5**

■ **The FDA said** trace amounts of melamine, the chemical in the tainted-milk scandal, aren't harmful in most foods. **A10**

■ **U.K. Prime Minister Brown** named a political rival to his cabinet, one of several steps to cope with the financial crisis. **A8**

■ **Six U.S. warships circled** a ship hijacked by pirates off Somalia and a Russian vessel headed toward the standoff.

■ **U.S. prosecutors say** they have uncovered familiar abuses in the financial crisis, including insider trading and fraud. **A5**

■ **The government** is appealing the case of a Muslim cleric who won his fight to stay in the U.S.

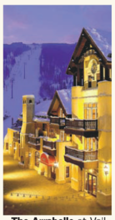
—Inside—

TRAVEL

Slowdown speeds up resort discounts | W1

The Intelligent Investor: Mix cash, courage | B1

Roller-skating with Disney, confiding in Einstein: the letters of Thornton Wilder | W8



The Arrabelle at Vail Square in Colorado

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Historic Bailout Passes As Economy Slips Further

Associated Press

House Speaker Pelosi called the landmark bill 'only the beginning' of government rescue efforts.

By Greg Hitt And Deborah Solomon

WASHINGTON—President George W. Bush signed into law an unprecedented $700 billion plan to rescue the U.S. financial system, one of the largest-ever government interventions in the nation's economy—and almost certainly not the last.

The Treasury Department is expected to move quickly to start buying distressed assets from struggling financial institutions, although any impact might not be felt for some weeks. Many details—such as who will administer the program and how—are still to be worked out.

That lingering uncertainty cast a pall over stock and bond markets. Credit markets remained stressed as lenders continued to worry about getting repaid. The three-month Libor rate, a measure of the rate that banks charge to lend to one another, rose to 4.33% Friday from 4.21% the day before.

Stocks, which had been up more than 300 points before the voting began, ended down 157 points at 10325.38. The decline capped the worst week for the Dow Jones Industrial Average in more than six years, and left the market trading where it was nearly three years ago.

Passage of the bill came amid new evidence from the labor market that the U.S. is tilting further toward recession. Companies shed 159,000 workers in September, the fastest pace in more than five years, the Labor Department reported.

The legislation ranks alongside other broad federal attempts to prop up the economy, such as Roosevelt's New Deal and the resolution of the Savings and Loan debacle of the late 1980s and early 1990s.

It will likely be followed by other moves. The Federal Reserve could cut interest rates and take further steps to ensure there are enough funds coursing through the financial system. Congress has already beefed up jobless benefits and is expected next year to push for new stimulus efforts, such as spending on infrastructure.

Looking to next year, Democratic lawmakers are planning to revamp financial-system regulations, with hedge funds, private-equity funds and investment banks all likely to come in for tighter scrutiny. House Speaker Nancy Pelosi (D, Calif.) portrayed the legislation as "only the beginning" of the legislative response to the faltering economy.

The process picked up speed on Monday after the House rejected an earlier version, sending markets into a tailspin and highlighting deep public opposition to the president's plan.

President Bush and the leadership of Congress closed ranks and sweetened the bill with tax cuts. The compromise won wide

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The Crisis Spreads

■ Credit crunch hits state governments A3

■ Dutch bank giant Fortis is nationalized A4

■ Russian oligarch takes a tumble A4

■ Dow Industrials: Worst week in 7 years B1

■ Crisis sweeps Iceland .B7

Wachovia Chooses Wells Fargo, Spurns Citi

Deal Avoids Need For Taxpayer Cash; Pandit Vows a Fight

By David Enrich And Dan Fitzpatrick

Citigroup Inc.'s takeover of Wachovia Corp. was torpedoed on Friday when San Francisco-based Wells Fargo & Co. agreed to pay $15.4 billion to buy Wachovia.

Wells Fargo's offer upended the government's hastily arranged effort last weekend to match New York-based Citigroup with Wachovia of Charlotte, N.C.—a federal effort to prevent the bank from joining the growing ranks of failed financial institutions.

Wells Fargo's deal on Friday marked a stunning turn of fortunes for Wachovia, the nation's fourth-largest bank in market value as recently as last year. Wells Fargo had been among the leading suitors for Wachovia during a tense period of negotiations last weekend that ended, in the wee hours Monday morning, with a government deal to sell most of Wachovia to Citigroup.

The Citigroup deal, which included a provision for the government to possibly absorb hundreds of billions of dollars in future Wachovia losses, was warmly received by Citigroup shareholders but nearly wiped out Wachovia's. Now, in forcing Wachovia back into play, Wells Fargo sets the stage for one of the most dramatic takeover battles in recent memory, pitting against each other the No. 3 and No. 4 U.S. banks in terms of stock-market value.

The Wells Fargo offer provides a glimmer of support for the fundamental value of troubled U.S. banks: It signals that there is still a market, albeit lim-

Please turn to page A5

Christophe Agou for The Wall Street Journal

In Some Cultures, Cancer Stirs Shame

By Lucette Lagnado

When Mildred Wong received a diagnosis of breast cancer last year, she faced two tough decisions: what treatment to pursue and whom, if anyone, to tell about it.

In Mrs. Wong's native China, people often keep illnesses like cancer a secret. That tradition continues even here in America, where her family settled in the 1950s. Years ago, Mrs. Wong's infant daughter developed a brain tumor and her own mother insisted she tell no one. When the baby died, the grandmother tried to dissuade Mrs. Wong from attending the funeral, so great was the stigma.

Now, as she stares down her own health crisis, memories of her family's long-buried wounds are rushing in. "I

Please turn to page A11

Mildred Wong let go of long-held cancer stereotypes.

Is the Rescue Plan Socialism? The Far Left Says, 'No Way, Comrade'

* * *

Throwing a Lifeline to Banks, Corporations Is a Far Cry From the Revolution They Crave

By Michael M. Phillips

COLLEGE PARK, Md.—If conservative Republicans are right and the $700 billion financial-sector rescue plan signals America's slide into socialism, you'd think Seth Dellinger would be celebrating.

But Mr. Dellinger, a Socialist Workers Party candidate for Congress, says that what might smell like communism to free-market purists looks like just another capitalist shell game to him.

"They can reorganize capitalism in different ways, and they will," says Mr. Dellinger, a college graduate turned working-class meat cutter. "But it is above all with a view toward continuing a system in which a small minority of super-rich families controls everything."

To Mr. Dellinger, 32, capitalism's crisis may be socialism's opportunity. He's making the case to anyone who will listen that the U.S. should adopt a Cuban-style government before the Bush administration and Congress empty the treasury in order to keep workers from storming the barricades. "What they're trying to do, above all, is prevent millions of workers from lining up outside banks all over the country, because they know they'll have to send troops and cops," says Mr. Dellinger. "That kind of scenario could unfold quicker than people think."

On Wednesday, as he does once a week or so, he and an-

Please turn to page A11

Seth Dellinger

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C M Y K

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"All the News That's Fit to Print"

The New York Times

Late Edition

Today, warm, breezy, partly sunny, high 85. **Tonight,** cooler and partly cloudy, low 62. **Tomorrow,** partly sunny, light winds, high 74. Weather map appears on Page D6.

VOL. CLVII . . No. 54,434 © 2008 The New York Times NEW YORK, MONDAY, SEPTEMBER 15, 2008 $1.50

LARRY W. SMITH/EUROPEAN PRESSPHOTO AGENCY

Residents of Galveston Island, in Texas, lacking services like power and water after Hurricane Ike, were evacuated Sunday.

After Surviving Storm, Fleeing A Fetid, Devastated Galveston

By IAN URBINA

GALVESTON, Tex. — For thousands of people stuck on an increasingly fetid Galveston Island, the aftermath of Hurricane Ike is proving to be far worse than the storm itself.

With no water or power, no working toilets, no food or phones, people faced growing public health concerns here on Sunday. More than 2,000 residents who had defied an evacuation order were taken off the island, and state officials tried to ensure that no one could return.

"The storm was easy," said Brenda Shinette, 51, who rode out the hurricane in her home but went to a shelter Sunday hoping to be taken to the mainland. "It's what came after that was terrible."

"We have no showers, and the food is spoiled," Ms. Shinette added. "I feel like I want to pass out, but I can't tell if it is from too much heat or too little food."

Across coastal areas of Texas, officials on Sunday mounted the largest rescue operation in the state's history. [Page A21.]

Five people were found dead in Galveston on Sunday, including one person in a submerged vehicle near the airport. Officials expressed fears that more would be found as other areas of flooding were searched, particularly on the west end of the island, where there was "horrendous" devastation, said the city manager, Steve LeBlanc.

"We had been taking rescue calls" from the west end, Mr. LeBlanc said at a news conference, "but we have lost all communication with them. We know there were people out there. What happened to them, I'm not sure."

The authorities said that it

Continued on Page A20

New Donors Help Obama Raise A Record $66 Million in a Month

By JEFF ZELENY and MICHAEL LUO

CHICAGO — Senator Barack Obama raised more money in August than any presidential candidate has ever recorded in a one-month period, with his campaign disclosing on Sunday that it collected $66 million and drew 500,000 first-time donors to his candidacy.

The record-setting figures and particularly the new supporters who can contribute again before Election Day were crucial for Mr. Obama, who was heading into the general election as the first major-party candidate to forgo public financing. The campaign amassed its millions of dollars through an aggressive Internet drive, by attracting some of Senator Hillary Rodham Clinton's donors and as concerns increased over a tightening contest.

David Plouffe, the Obama campaign manager, said more than 2.5 million people had contributed since the race began.

"The 500,000 new donors to the Obama campaign demonstrate just how strongly the American people are looking to kick the special interests out and change Washington," Mr. Plouffe said in an e-mail message on Sunday.

While the amount surpassed the previous record of $55 million set in February by Mr. Obama, it is in line with ambitious goals his campaign set in June, when he

Continued on Page A22

EMMANUEL DUNAND/A.F.P. — GETTY IMAGES

Barack Obama is on track to meet bold fund-raising goals.

BIDS TO HALT FINANCIAL CRISIS RESHAPE LANDSCAPE OF WALL ST.

NEWS ANALYSIS

Jittery Road For Markets

By FLOYD NORRIS and VIKAS BAJAJ

Wall Street and the federal government played a game of chicken over the weekend, and neither side backed down, pushing Lehman Brothers toward bankruptcy and setting off worries of a worldwide sell-off when markets open on Monday.

While some feared a precipitous decline in the markets, others hoped that Bank of America's surprise announcement Sunday that it was buying Merrill Lynch might provide enough reassurance to calm investors.

"That would be seen as very good news," Liz Ann Sonders, the chief investment strategist for Charles Schwab & Company, said of Bank of America's $50 billion or $29 a share offer, a price far higher than Merrill's close on Friday but less than a third of what the stock was worth early last year, before the mortgage crisis began to damage financial firms.

With major Asian markets closed for a holiday on Monday, the answer regarding investor response could wait until European markets open, and, after that, the American exchanges.

In the Lehman talks on Sunday, the government, worried about the precedents it had set in helping to rescue the investment bank Bear Stearns and the mortgage finance giants, Fannie Mae and Freddie Mac, wanted Wall Street to collectively take on the risk that Lehman's assets were worth far less than the firm claimed. The firms, worried about their own capital, balked, though in the end they may take on some of the risk as Lehman's investments are unwound.

Both the government and Wall Street announced steps to make a repeat less likely. The Federal Reserve said it would lend against more assets, including stocks, thus providing an additional cushion for a troubled firm. And the banks said they would set up a facility to buy assets from troubled firms in the future.

But none of that will help Lehman. Now, the risk for the financial firms is that investors will respond by trying to do exactly what they are trying to do — minimize their risk. If enough investors do that and choose to sell, stocks could plummet in markets worldwide, thus increasing the risks rather than easing them.

"We don't want to be the first one in," said Thomas Atteberry, a partner at First Pacific Advisors, an investment firm in Los Ange-

Continued on Page A18

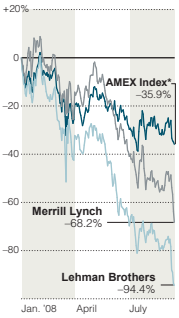
KEVIN WOLF/ASSOCIATED PRESS

FRED R. CONRAD/THE NEW YORK TIMES

DANIEL ACKER/BLOOMBERG NEWS

Clockwise from top left, Richard Fuld Jr. of Lehman, John Thain of Merrill Lynch and Kenneth Lewis of Bank of America.

Percent change in share price
Since Dec. 31, 2007



**The American Express Securities Broker/Dealer Index is an index of major financial institutions.*

Source: Bloomberg THE NEW YORK TIMES

WALL STREET SHAKE-UP

WATCHING THE MARKETS Coverage of initial investor reaction in Europe and the United States markets, and details of what happened behind the scenes in the weekend talks:

nytimes.com/business

BANK FULFILLS A QUEST By agreeing to buy Merrill Lynch, Bank of America is close to fulfilling its dream of adding a dominant brokerage business. PAGE A18

SAFETY NET Concerns over what may unfold in the market on Monday led the Fed to dramatically loosen its standards on making emergency loans to major Wall Street investment banks. PAGE A19

INSURER SEEKS CASH Before seeking a lifeline from the Fed, American International Group weighed a range of options to stabilize its finances. PAGE C1 For the latest: nytimes.com/business

Stunning Fall for Main Street's Brokerage Firm

By LOUISE STORY

It's the end of an era for Merrill Lynch, the brokerage firm that brought Wall Street to Main Street.

Merrill, which has lost more than $45 billion on its mortgage investments, agreed to sell itself to Bank of America for $50.3 billion in stock, according to people briefed on the negotiations.

It is a remarkable fall from grace for the 94-year-old Merrill, whose corporate logo — a bull — has long symbolized the fundamental optimism of Wall Street. After a frantic weekend of talks between Wall Street executives and federal officials over the fate of the teetering Lehman Brothers, fear spread on Sunday that Merrill, staggered by losses, might also falter. The merger would combine Bank of America's banking and lending strength with Merrill Lynch's wealth management expertise.

"It is an enormous shock," said Steve Fraser, a Wall Street historian and author of "Wall Street: America's Dream Palace."

"Merrill was a kind of bedrock institution whose stability and longevity was taken for granted and was reassuring to people," Mr. Fraser said. "Even in these very highly erratic and speculative marketplaces like we've been living through, you didn't think Merrill would be vulnerable."

The sale, if completed, would open a new chapter for Merrill, which was founded in 1914 and promoted the idea that anyone, not just the rich, should invest in markets. Merrill's brokers would be combined with Bank of America's smaller group of wealth advisers into an entity called Merrill Lynch Wealth Management, these people said. Customers with brokerage accounts at Merrill are unlikely to be financially affected.

Merrill, the nation's largest brokerage firm, was one of the earliest Wall Street firms to go public, in 1971. Its executives, traditionally former stockbrokers, have long been viewed as spokespeople for the entire industry. After the crash of 1987, for instance, Merrill's chief executive appea-

Continued on Page A18

MERRILL IS SOLD

Failing to Find Buyer, Lehman Bros. Is Set to Wind Down

This article was reported by ***Jenny Anderson, Eric Dash*** *and* ***Andrew Ross Sorkin*** *and was written by Mr. Sorkin.*

In one of the most dramatic days in Wall Street's history, Merrill Lynch agreed to sell itself on Sunday to Bank of America for roughly $50 billion to avert a deepening financial crisis, while another prominent securities firm, Lehman Brothers, hurtled toward liquidation after it failed to find a buyer.

The humbling moves, which reshape the landscape of American finance, mark the latest chapter in a tumultuous year in which once-proud financial institutions have been brought to their knees as a result of hundreds of billions of dollars in losses because of bad mortgage finance and real estate investments.

But even as the fates of Lehman and Merrill hung in the balance, another crisis loomed as the insurance giant American International Group appeared to teeter. Staggered by losses stemming from the credit crisis, A.I.G. sought a $40 billion lifeline from the Federal Reserve, without which the company may have only days to survive.

The stunning series of events culminated a weekend of frantic around-the-clock negotiations, as Wall Street bankers huddled in meetings at the behest of Bush administration officials to try to avoid a downward spiral in the markets stemming from a crisis of confidence.

"My goodness. I've been in the business 35 years, and these are the most extraordinary events I've ever seen," said Peter G. Peterson, co-founder of the private equity firm the Blackstone Group, who was head of Lehman in the 1970s and a secretary of commerce in the Nixon administration.

It remains to be seen whether the sale of Merrill, which was worth more than $100 billion during the last year, and the controlled demise of Lehman will be enough to finally turn the tide in the yearlong financial crisis that has crippled Wall Street and threatened the broader economy.

Questions remain about how the market will react Monday, particularly to Lehman's plan to wind down its trading operations, and whether other companies, like A.I.G. and Washington Mutual, the nation's largest savings and loan, might falter.

Indeed, in a move that echoed Wall Street's rescue of a big hedge fund a decade ago this week, 10 major banks agreed to create an emergency fund of $70 billion to $100 billion that financial institutions can use to protect themselves from the fallout of Lehman's expected failure.

The Fed, meantime, broadened the terms of its emergency loan program for Wall Street banks, a move that could ultimately put taxpayers' money at risk.

Though the government took control of the troubled mortgage finance companies Fannie Mae and Freddie Mac only a week ago, investors have become increasingly nervous about whether major financial institutions can recover from their losses.

How things play out could affect the broader economy, which has been weakening steadily as the financial crisis has deepened over the last year, with unem-

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NATIONAL A13-22

Inquiry Into Fatal Train Crash
Federal investigators said a collision warning system could have prevented the head-on crash of a passenger train and a freight train last week in Los Angeles, which killed 25 people. PAGE A13

Children and Schizophrenia
A study has found that the medicines most often prescribed for schizophrenia in children are no more effective than older, less expensive drugs. PAGE A17

INTERNATIONAL A6-12

Crisis Deepens in Bolivia
As deaths from violence in rebellious northern Bolivia increased over the weekend, Evo Morales faced the worst crisis of his presidency. PAGE A6

ARTS E1-10

David Foster Wallace's Magic
The writer died Friday at 46. An appreciation by Michiko Kakutani. PAGE E1

SPORTSMONDAY D1-10

Second-Stringer Is First Rate
The Jets could not take advantage of a Patriots team playing its first full game without Tom Brady, losing at home, 19-10. The Giants rolled over the Rams, 41-13, and the Broncos and the Colts each won in dramatic fashion. PAGE D1

METRO B1-7

Firing Up Wood for Winter

With the increased cost of heating oil and natural gas, many are turning to wood-burning stoves. PAGE B1

WELL H1-8

A Guide to Children's Health
Advice for parents on food and nutrition, behavior and development, exercise and play. PAGE H1

ONLINE

Tan's Novel as an Opera
Excerpts from the San Francisco Opera production of "The Bonesetter's Daughter," based on the Amy Tan novel.
nytimes.com/arts

EDITORIAL, OP-ED A24-25

William Kristol PAGE A25
Paul Krugman PAGE A25

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"All the News That's Fit to Print"

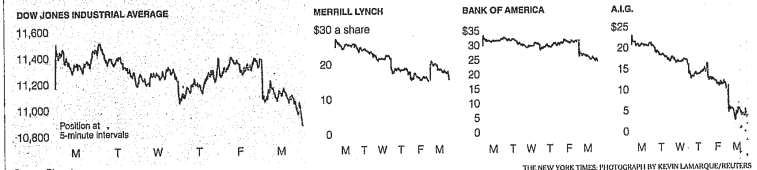
The New York Times

Late Edition
Today, variable clouds, some sunshine, light winds, cooler, high 73. **Tonight,** clear and cool, low 57. **Tomorrow,** plentiful sunshine, high 76. Weather map appears on Page B8.

VOL. CLVII . . No. 54,435 © 2008 The New York Times NEW YORK, TUESDAY, SEPTEMBER 16, 2008 $1.50

WALL ST. IN WORST LOSS SINCE '01 DESPITE REASSURANCES BY BUSH

Stocks fell sharply Monday as investors tried to digest the turmoil on Wall Street. **Henry M. Paulson Jr.**, above, the Treasury secretary, said the financial system was sound.



THE NEW YORK TIMES. PHOTOGRAPH BY KEVIN LAMARQUE/REUTERS

The Heart of the Problem

How can this be happening? After you get past the complexity of the derivatives that are at the heart of the current crisis, the failure of Lehman Brothers and the troubles at Fannie Mae and Freddie Mac are the result of something we are familiar with: denial.
BY JOE NOCERA, PAGE A25

A Race for Cash at A.I.G.

A.I.G. was racing to arrange a $75 billion line of credit after major credit agencies cut their ratings on its debt.
BY MARY WILLIAMS WALSH AND MICHAEL J. de la MERCED, PAGE C1

A Shrinking Wall Street

In the future, investment banks will shrink and Wall Street's role in the economy will be smaller.
BY LOUISE STORY AND EDMUND L. ANDREWS, PAGE C1

Letting Go of Lehman

Richard S. Fuld Jr., the chief executive, worked the phones until the end.
BY BEN WHITE AND MICHAEL M. GRYNBAUM, PAGE C1

Impact on New York City

Job losses in the securities industry, 25,000 already and possibly 10,000 more as the crisis unfolds, will have a deep and broad effect on New York City.
BY PATRICK McGEEHAN, PAGE B1

For the Consumer

The personal finance columnist Ron Lieber discusses what customers and investors of Merrill Lynch and Lehman Brothers can expect. PAGE C6

nytimes.com/yourmoney

GEORGIA OFFERS FRESH EVIDENCE ON WAR'S START

RECORDED PHONE CALLS

Tracing Troop Moves — Russia Rejects Claim It Was Aggressor

This article was reported by ***Dan Bilefsky, C. J. Chivers, Thom Shanker*** *and* ***Michael Schwirtz*** *and written by Mr. Chivers.*

TBILISI, Georgia — A new front has opened between Georgia and Russia, now over which side was the aggressor whose military activities early last month ignited the lopsided five-day war. At issue is new intelligence, inconclusive on its own, that nonetheless paints a more complicated picture of the critical last hours before war broke out.

Georgia has released intercepted telephone calls purporting to show that part of a Russian armored regiment crossed into the separatist enclave of South Ossetia nearly a full day before Georgia's attack on the capital, Tskhinvali, late on Aug. 7.

Georgia is trying to counter accusations that the long-simmering standoff over South Ossetia, which borders Russia, tilted to war only after it attacked Tskhinvali. Georgia regards the enclave as its sovereign territory.

The intercepts circulated last week among intelligence agencies in the United States and Europe, part of a Georgian government effort to persuade the West and opposition voices at home that Georgia was under invasion and attacked defensively. Georgia argues that as a tiny and vulnerable nation allied with the West, it deserves extensive military and political support.

Georgia also provided audio files of the intercepts along with English translations to The New York Times, which made its own independent translation from the original Ossetian into Russian

Continued on Page A12

On Peninsula In the Storm: No Way Out

After 4 Days, 'Miracle' for a Texas Couple

By SHAILA DEWAN

HIGH ISLAND, Tex. — First three cages containing seven birds were unloaded from the rescue boat. Then two dogs. Then the figures of a man and a woman uncurled from their huddle at the bottom of the boat and stepped onto dry land.

"I'm a miracle standing here talking to you," said the woman, Deeann Sherman, hovering over the bird cages.

Full of shaky relief and gratitude, the couple told of their four-day ordeal on the Bolivar Peninsula, the fragile barrier beach community that was virtually destroyed by the storm surge of Hurricane Ike beginning on Friday. Like several hundred other Bolivar residents, the Shermans were trapped by high water, praying that the boats of rescue crews would eventually find them.

Rescuers who finally made it on Monday to the peninsula, home to nearly 5,000 residents and a seasonal playground for thousands more college students and beach revelers, found row after row of concrete slabs where houses used to be. They said they made contact with at least 100 residents living there, but found no bodies. They expressed fears, though, that some of those who tried to ride out the storm may have been washed out to sea. The only way to account for them may be to determine every resident's whereabouts.

The Shermans own a wrecker service on the peninsula, and so are usually among the last to leave before a storm, they said. As the surge that preceded the hurricane hit the peninsula Friday morning, they were busy rescuing stranded cars and trucks. By 9:30 a.m., well before the storm was supposed to make landfall, they were ready to leave. Then Ms. Sherman got a call. Rollover Pass, which separates much of the peninsula from the mainland, was already flooded. There was no way out.

The couple, hurricane-ready after more than 30 years in Crystal Beach, the commercial hub of Bolivar, hunkered down in their house, which is perched on 16-foot pilings on the bay side of the thin finger of land. Then the storm hit.

"This was the meanest — the meanest — ugliest, longest storm I've ever seen," Ms. Sherman

Continued on Page A20

Before Big Fire, A City Warning Over Contractor

By WILLIAM K. RASHBAUM and CHARLES V. BAGLI

In early 2006, New York State development officials approved the hiring of an unknown firm, the John Galt Corporation, to help demolish the Deutsche Bank building near ground zero.

More than a year later, a blaze in the building killed two firefighters, and questions immediately emerged about Galt. Some of its top executives, it turned out, had worked at another company, the Safeway Environmental Corporation, which officials in the city's Department of Investigation said had a history of problems with integrity, competence and financial issues.

A recently obtained document shows that on April 11, 2006, city investigators accused state development officials of not only knowing about Galt's questionable ties before they approved its hiring, but also misleading the investigators about the subcontractor, possibly to avoid questions that might have slowed or blocked its hiring.

In that document, a six-page letter, city investigators said they found it "shocking and disturbing" that state officials had — despite city warnings — knowingly allowed people associated with

Continued on Page B6

CARLOS BARRIA/REUTERS

GALVESTON, TEX. Christopher Cox amid the remnants of his trailer, which was destroyed in Hurricane Ike. City officials warned of a health crisis for residents who remained behind. Page A21.

In Candidates, 2 Approaches To Wall Street

By JACKIE CALMES

WASHINGTON — The crisis on Wall Street will leave the next president facing tough choices about how best to regulate the financial system, and although neither Senator Barack Obama nor Senator John McCain has yet offered a detailed plan, their records and the principles they have set out so far suggest they could come at the issue in very different ways.

On the campaign trail on Monday, Mr. McCain, the Republican presidential nominee, struck a populist tone. Speaking in Florida, he said that the economy's underlying fundamentals remained strong but were being threatened "because of the greed by some based in Wall Street and we have got to fix it."

But his record on the issue, and the views of those he has always cited as his most influential advisers, suggest that he has never departed in any major way from his party's embrace of deregulation and relying more on market forces than on the government to exert discipline.

While Mr. McCain has cited the need for additional oversight when it comes to specific situations, like the mortgage problems behind the current shocks on Wall Street, he has consistently characterized himself as fundamentally a deregulator and he has no history prior to the presidential campaign of advocating steps to tighten standards on investment firms.

He has often taken his lead on financial issues from two outspoken advocates of free market approaches, former Senator Phil Gramm and Alan Greenspan, the former Federal Reserve chairman. Individuals associated with Merrill Lynch, which sold itself to Bank of America in the market

Continued on Page A24

DOW DROPS 4.4%

Officials Try to Stem Crisis — Concern on Big Insurer

By STEPHEN LABATON

WASHINGTON — In another unnerving day for Wall Street, investors suffered their worst losses since the terrorist attacks of 2001, and government officials raced to prevent the financial crisis from spreading.

Trading opened sharply down Monday morning, and the mood later turned even gloomier, despite efforts by President Bush and Treasury Secretary Henry M. Paulson Jr., in separate appearances at the White House, to reassure markets that Wall Street's deepening problems would not weaken an already anemic economy.

Amid worries that the bankruptcy of Lehman Brothers and the sale of Merrill Lynch over the weekend might not be enough to stop the downward spiral, stocks fell sharply in the last half hour of trading. By the end of the day, the Dow Jones industrial average had dropped 504.48 points, or 4.4 percent, as a record volume of more than 8 billion shares traded hands on the New York Stock Exchange. It was the biggest decline since Sept. 17, 2001 — the day the index reopened after the 9/11 terrorist attacks — when it fell 7 percent, or 684.81 points.

A concern hanging over the market is the fate of other financial companies, most notably the American International Group, one of the world's largest insurers. After the Fed rebuffed a request by the company for a $40 billion temporary loan, federal and state officials worked on Monday to stabilize A.I.G., with the State of New York relaxing rules to allow the company to borrow as much as $20 billion in

Continued on Page A24

INTERNATIONAL A6-16

Accord Signed in Zimbabwe

President Robert Mugabe, second from left, gave Morgan Tsvangirai, second from right, the authority to shape policies as prime minister. PAGE A13

EDITORIAL, OP-ED A28-29

David Brooks PAGE A29

NATIONAL A17-26

Putting a Price on Pollution

Ten states from Maryland to Maine are about to put limits on carbon dioxide emissions from utilities and make them pay for each ton of pollutants. PAGE A17

Interest Groups Step Up Role

Independent groups are flooding back in the sprint to the fall election, financing provocative messages. PAGE A23

METRO B1-6

Free Stadium Suites Draw Fire

City officials are being criticized for receiving free suites and first claim on the best available seats at the new Yankees and Mets stadiums. PAGE B1

SCIENCE TIMES F1-8

112 Years of Weather History

Every day since Grover Cleveland was president, people have trekked up a gray outcropping in New Paltz, N.Y., to record weather conditions, adding to a climatological treasure chest. PAGE F1

BUSINESS DAY C1-12

Layoffs at Hewlett-Packard

Hewlett-Packard said it would cut 24,600 jobs as a result of its acquisition of Electronic Data Systems. PAGE C5

SPORTSTUESDAY D1-6

Football Fills a Void

Historically black Lincoln University has restored its team. PAGE D1

ONLINE

Critics' Picks: Coen Brothers

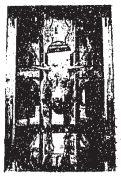
A.O. Scott views one of the team's early films, "The Hudsucker Proxy."

nytimes.com/movies

ARTS E1-8

Market Rise

Sales in the two-day auction of art by Damien Hirst, including "The Golden Calf," are far exceeding estimates. PAGE E1



More Inside The Times.
PAGES A2-3 ➤

HEALTH/FITNESS F5 OBITUARIES B6-7 CLASSIFIED ADS D6

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"All the News That's Fit to Print"

The New York Times

Late Edition

Today, ample sunshine, seasonable, light winds, high 77. **Tonight,** patchy clouds, low 60. **Tomorrow,** partly cloudy, isolated showers, high 76. Weather map appears on Page D6.

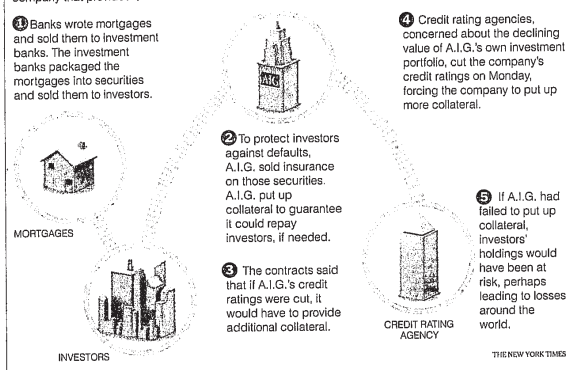
VOL. CLVII . . No. 54,436 © 2008 The New York Times NEW YORK, WEDNESDAY, SEPTEMBER 17, 2008 $1.50

FED IN AN $85 BILLION RESCUE OF AN INSURER NEAR FAILURE

STEPHEN CHERNIN/EUROPEAN PRESSPHOTO AGENCY

The American International Building on Pine Street in Lower Manhattan.

A.I.G.'s Troubles and Why They Matter American International Group is a giant insurance company that provided $440 billion of insurance to investors who bought securities backed by mortgages.



THE NEW YORK TIMES

U.S. GETS CONTROL

Policy Reversal Arises From Growing Fear of Global Crisis

This article was reported by Edmund L. Andrews, Michael J. de la Merced and Mary Williams Walsh and written by Mr. Andrews.

WASHINGTON — Fearing a financial crisis worldwide, the Federal Reserve reversed course on Tuesday and agreed to an $85 billion bailout that would give the government control of the troubled insurance giant American International Group.

The decision, only two weeks after the Treasury took over the federally chartered mortgage finance companies Fannie Mae and Freddie Mac, is the most radical intervention in private business in the central bank's history.

With time running out after A.I.G. failed to get a bank loan to avoid bankruptcy, Treasury Secretary Henry M. Paulson Jr. and the Fed chairman, Ben S. Bernanke, convened a meeting with House and Senate leaders on Capitol Hill about 6:30 p.m. Tuesday to explain the rescue plan. They emerged just after 7:30 p.m. with Mr. Paulson and Mr. Bernanke looking grim, but with top lawmakers initially expressing support for the plan. But the bailout is likely to prove controversial, because it effectively puts taxpayer money at risk while protecting bad investments made by A.I.G. and other institutions it does business with.

What frightened Fed and Treasury officials was not simply the prospect of another giant corporate bankruptcy, but A.I.G.'s role as an enormous provider of esoteric financial insurance contracts to investors who bought complex debt securities. They effectively required A.I.G. to cover losses suffered by the buyers in the event the securities defaulted. It meant A.I.G. was potentially on the hook for billions of dollars' worth of risky securities that were once considered safe.

If A.I.G. had collapsed — and been unable to pay all of its insurance claims — institutional investors around the world would have been instantly forced to reappraise the value of those securities, and that in turn would have reduced their own capital and the value of their own debt.

Continued on Page A22

Abortion Issue Again Dividing Catholic Votes

A Theological Dispute Felt in a Swing City

By DAVID D. KIRKPATRICK

SCRANTON, Pa. — Until recently, Matthew Figured, a Sunday school teacher at the Holy Rosary Roman Catholic Church here, could not decide which candidate to vote for in the presidential election.

He had watched progressive Catholics work with the Democratic Party over the last four years to remind the faithful of the party's support for Catholic teaching on the Iraq war, immigration, health care and even reducing abortion rates.

But then his local bishop plunged into the fray, barring Senator Joseph R. Biden Jr. of Delaware, the Democratic vice-presidential nominee, from receiving communion in the area because of his support for abortion rights.

Finally, bishops around the country scolded another prominent Catholic Democrat, House Speaker Nancy Pelosi of California, for publicly contradicting the church's teachings on abortion, some discouraging parishioners from voting for politicians who hold such views.

Now Mr. Figured thinks he will vote for the Republican candidate, Senator John McCain of Arizona. "People should straighten out their religious beliefs before they start making political decisions," Mr. Figured, 22, said on his way into Sunday Mass.

A struggle within the church over how Catholic voters should think about abortion is once again flaring up just as political partisans prepare an all-out battle for the votes of Mass-going Catholics in swing-state towns like Scranton.

The theological dispute is playing out in diocesan newspapers and weekly homilies, while the campaigns scramble to set up phone banks of nuns and private

Continued on Page A20

McCAIN LABORING TO HIT RIGHT NOTE ON THE ECONOMY

STRUGGLE FOR A BALANCE

Remarks About 'Strong' Fundamentals Draw Democrats' Fire

By MICHAEL COOPER

VIENNA, Ohio — On Monday morning, as the financial system absorbed one of its biggest shocks in generations, Senator John McCain said, as he had many times before, that he believed the fundamentals of the economy were "strong."

Hours later he backpedaled, explaining that he had meant that American workers, whom he described as the backbone of the economy, were productive and resilient. By Tuesday he was calling the economic situation "a total crisis" and denouncing "greed" on Wall Street and in Washington.

The sharp turnabout in tone and substance reflected a recognition not only that Mr. McCain had struck a discordant note at a sensitive moment but also that he had done so with regard to the very issue on which he can least afford to stumble.

With economic conditions worsening over the course of this year and voter anxiety on the rise, Mr. McCain has had to labor to get past the impression — fostered by his own admissions as recently as last year that the subject is not his strongest suit — that he lacks the experience and understanding to address the nation's economic woes.

In the most recent case, he first sought to explain away his remarks about the economy's fundamental soundness by saying he had been referring to the American people, almost daring his Democratic rival, Senator Barack Obama, to contradict him on that score. But within hours his aides were scheduling appearances for him Tuesday on all the morning television news shows so that he could try to erase the notion, being promoted aggressively by Democrats, that he was out of touch.

His campaign also sent to reporters the text of a speech he was delivering later Monday that included much starker language about the nation's financial troubles, and by Tuesday had produced a new advertisement asserting that his experience and leadership were necessary in a "time of crisis." Aides and advis-

Continued on Page A21

Perhaps, Time to Play Offense

DAVID LEONHARDT

ECONOMIC SCENE

WASHINGTON — Late last week, as Lehman Brothers was collapsing, an all-star group of economists was meeting here to ponder the lessons of the financial crisis. The group included Donald Kohn, the vice chairman of the Fed, and Edward Lazear, the top White House economist, as well as Lawrence Summers, the former Treasury secretary, and a few dozen others.

The discussion revolved around a handful of academic research papers, but it really boiled down to this: How do we get out of this mess?

At one point, Benjamin Friedman of Harvard raised his placard to inject a little sunshine into the room. If somebody had told the economists a year and a half ago what was about to befall Wall Street and then asked them to predict the economic impact, Mr. Friedman said, they almost certainly would have forecast a steeper downturn, with many more layoffs, than has occurred.

The fact that it hasn't, so far, should be considered a victory for Ben Bernanke and Henry Paulson, the point men on the crisis. After some early missteps, they have acted aggressively to keep the financial system functioning — including Tuesday's stunning takeover of A.I.G. — while still forcing Wall Street to suffer for its sins. The problem, unfortunately, is that neither man has done much to deal with the problems that caused the crisis in the first place.

For the past two and a half months, I've been on a break from column writing, and I'm struck by how much has changed during that time — and yet how little the big picture has changed. Lehman Brothers, Merrill Lynch, Fannie Mae and Freddie Mac have all essentially collapsed. But just as at the start of the summer, economists can't even agree whether the country is in a recession.

The Bush administration, the Fed and Congress, meanwhile, continue to focus on the immediate crises, with little attention to the underlying reasons that the economy has gotten into this mess — a stagnation of incomes, an explosion of debt and a decid-

Continued on Page A23

ECONOMY IN TURMOIL

STEADY ON INTEREST RATES The Federal Reserve board left its benchmark interest rate unchanged, reflecting the tug of war between the financial crisis and inflation. PAGE C1

LEHMAN SELLS A UNIT Lehman Brothers reached a tentative deal to sell its capital markets business to Barclays, the British bank, for $2 billion, less than it had hoped for. PAGE C1

SOME POSITIVE NEWS Goldman Sachs and Morgan Stanley, the nation's two remaining major investment banks, posted quarterly results that were better than expected. PAGE C1

As Long-Term Answer, Some Seek Agency to Buy Bad Debt

By STEPHEN LABATON

WASHINGTON — As the Bush administration has lurched from pillar to post in the financial crisis, some lawmakers and experts were considering a longer-term legislative solution that would create a new agency to dispose of the mortgage-related assets at the core of Wall Street's woes.

Proponents of a more systematic government role to help relieve financial institutions of their toxic securities range from Lawrence H. Summers, the former Treasury secretary under President Clinton, to former Federal Reserve chairmen Paul A. Volcker and Alan Greenspan.

In Congress, the idea that is gaining traction centers on the creation of a new agency that would buy troubled assets from hobbled companies. The idea was floated on Tuesday by Barney Frank, Democrat of Massachusetts, who heads the House Financial Services Committee. Among those signaling that it merited serious consideration were Senate Majority Leader Harry Reid and the House speaker, Nancy Pelosi.

With seven weeks until the presidential elections, no one expects Congress or the White House to move quickly to create a new federal agency that puts taxpayers at risk for hundreds of billions of dollars in bad assets. Steny H. Hoyer, the House majority leader, said there was no time to consider any new proposals in the two weeks before Congress adjourns.

But in its ad hoc approach to

Continued on Page A22

Laramie Killing Given Epilogue A Decade Later

By PATRICK HEALY

LARAMIE, Wyo. — Near the end of "The Laramie Project," the widely praised and frequently staged play about how this small city grappled with the notorious murder of the gay college student Matthew Shepard, one of the characters wonders if the convictions in the killing will help Laramie heal.

"Maybe now we can go on and we can quit being stuck, you know?" says Reggie Fluty, a local policewoman. She is one of the real-life characters whose words, collected on tape, make up the actors' entire script.

Ms. Fluty was among 200 people interviewed in 1998 by the Tectonic Theater Project, a New York City company that created "The Laramie Project" shortly after Mr. Shepard was tied to a fence by two Laramie men, pistol-whipped and left to die in the frigid Wyoming night. And Ms. Fluty is among those whom the theater company is re-interviewing this week to explore whether Mr. Shepard has a legacy here on the high plains, 10 years later.

"Hurt's hurt and pain's pain, and I think people in Laramie see that now," Ms. Fluty, now retired, told Moisés Kaufman, the artistic director of Tectonic, during a conversation in her sun-splashed liv-

Continued on Page A23

SCOTT OLSON/GETTY IMAGES

Power Still Out for 2 Million in Texas

Without utilities since Hurricane Ike, Odilon Loubet of Galveston, Tex., used a chair as kindling to cook breakfast. Page A18.

INTERNATIONAL A6-16

China Dairy Scandal Widens

China reported a third death from tainted baby formula and said more than 1,300 babies were hospitalized, including 158 for acute kidney failure. PAGE A12

Israeli Party to Choose Leader

Polls indicate that Foreign Minister Tzipi Livni, left, is likely to be the next leader of Kadima, the main party in Israel's governing coalition. PAGE A16

SPORTSWEDNESDAY D1-6

Tackling a City's Problems

Roynell Young, who was a Philadelphia Eagle for nine seasons, is assisting at-risk youngsters in Houston. PAGE D1

Jeter's Newest Milestone

Derek Jeter broke Lou Gehrig's record for hits at Yankee Stadium. PAGE D1

ONLINE

Lincoln Center at 50

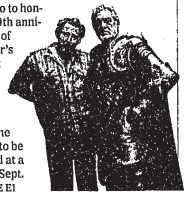
Images of Lincoln Center past and present, including a video from its archives with performances and footage of its construction in 1959.

nytimes.com/arts

ARTS E1-8

Painting a Tenor, Presto

In several hours at his studio in the West Village, Julian Schnabel, below left, painted a portrait of Plácido Domingo to honor the 40th anniversary of the tenor's debut at the Metropolitan Opera, where the work is to be unveiled at a gala on Sept. 28. PAGE E1



METRO B1-7

More A's for New York Schools

Mayor Michael R. Bloomberg points to more schools with A's under the city's grading system, but critics say that the wild fluctuations in the process signal flaws. PAGE B1

NATIONAL A18-24

House Approves Drilling Bill

The House approved a measure that would both ease a longstanding ban on offshore drilling and try to spur greater use of alternative fuels. PAGE A18

EDITORIAL, OP-ED A26-27

Thomas L. Friedman PAGE A27

DINING F1-9

Nutrients, Undercover

Mixing fish extracts into orange juice and broccoli into chocolate, companies are plugging nutrients from one food into others and claiming the health benefits of both. PAGE F1

More Inside The Times.

PAGES A2-3 ➤

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"All the News That's Fit to Print"

The New York Times

Late Edition

Today, mostly sunny, afternoon breezes, high 75. **Tonight,** mainly clear, patchy fog, low 53. **Tomorrow,** mostly sunny and cooler, high 67. Weather map appears on Page D8.

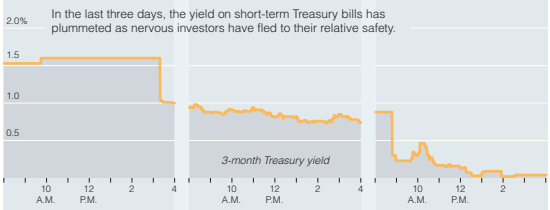
VOL. CLVIII . . No. 54,437 © 2008 The New York Times NEW YORK, THURSDAY, SEPTEMBER 18, 2008 $1.50

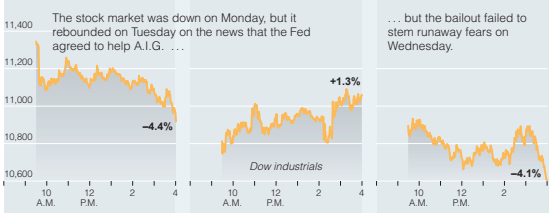
NEW PHASE IN FINANCE CRISIS AS INVESTORS RUN TO SAFETY

On Monday, a bankruptcy
Lehman Brothers collapses; Merrill Lynch is sold to Bank of America.

On Tuesday, a bailout
The Federal Reserve provides $85 billion to keep American International Group out of bankruptcy.

On Wednesday, credit tightens
Washington Mutual puts itself up for sale; Morgan Stanley and Wachovia enter merger talks.





Source: Bloomberg THE NEW YORK TIMES

McCain Seen as Less Likely To Bring Change, Poll Finds

Margin in Race About Same as Before Conventions

By ROBIN TONER and ADAM NAGOURNEY

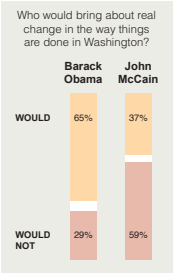
WASHINGTON — Despite an intense effort to distance himself from the way his party has done business in Washington, Senator John McCain is seen by voters as far less likely to bring change to Washington than Senator Barack Obama. He is widely viewed as a "typical Republican" who would continue or expand President Bush's policies, according to the latest New York Times/CBS News poll.

Polls taken after the Republican convention suggested that Mr. McCain had enjoyed a surge of support — particularly among white women after his selection of Gov. Sarah Palin of Alaska as his running mate — but the latest poll indicates "the Palin effect" was, at least so far, a limited burst of interest. The contest appeared to be roughly where it was before the two conventions and before the vice-presidential selections: Mr. Obama had the support of 48 percent of registered voters, compared with 43 percent for Mr. McCain, a difference within the poll's margin of sampling error, and statistically unchanged from the tally in the last New York Times/CBS News poll, in mid-August.

The poll showed that Mr. McCain had some enduring strengths, including a substantial advantage over Mr. Obama as a potential commander in chief. It found that for the first time, 50 percent of those surveyed in the Times/CBS News poll said they considered that the troop buildup in Iraq, a policy that Mr. McCain championed from the start, had made things better there.

The poll also underlined the extent to which Mr. McCain's convention, and his selection of Ms. Palin, had excited Republican base voters about his candidacy, which is no small thing in a contest that continues to be so tight: 47 percent of Mr. McCain's supporters described themselves as enthused about the Republican Party's presidential ticket, almost twice what it was before the conventions. As often happens at

Continued on Page A24



Source: New York Times/CBS News Poll

U.S. Court, a Longtime Beacon, Is Now Guiding Fewer Nations

By ADAM LIPTAK

WASHINGTON — Judges around the world have long looked to the decisions of the United States Supreme Court for guidance, citing and often following them in hundreds of their own rulings since the Second World War.

But now American legal influence is waning. Even as a debate continues in the court over whether its decisions should ever cite foreign law, a diminishing number of foreign courts seem to pay attention to the writings of American justices.

"One of our great exports used to be constitutional law," said Anne-Marie Slaughter, the dean of the Woodrow Wilson School of Public and International Affairs at Princeton. "We are losing one of the greatest bully pulpits we have ever had."

From 1990 through 2002, for instance, the Canadian Supreme Court cited decisions of the United States Supreme Court about a dozen times a year, an analysis by The New York Times found. In the six years since, the annual citation rate has fallen by half, to about six.

AMERICAN EXCEPTION
A Loss of Influence

Australian state supreme courts cited American decisions 208 times in 1995, according to a recent study by Russell Smyth, an Australian economist. By 2005, the number had fallen to 72.

The story is similar around the globe, legal experts say, particularly in cases involving human rights. These days, foreign courts in developed democracies often cite the rulings of the European Court of Human Rights in cases concerning equality, liberty and prohibitions against cruel treatment, said Harold Hongju Koh, the dean of the Yale Law School.

Continued on Page A30

CHINA PHOTOS, VIA GETTY IMAGES

A Scandal Builds in China
Babies awaited ultrasounds in Wuhan to see if they had developed kidney stones from drinking tainted formula. Page A6.

As Fears Grow, Wall St. Titans See Shares Fall

By BEN WHITE and ERIC DASH

Even Morgan Stanley and Goldman Sachs, the two last titans left standing on Wall Street, are no longer immune.

To the surprise of executives within those firms, and their rivals, the stocks of these powerful companies were drawn into the crisis of investor confidence on Wednesday. Morgan Stanley, whose stock fell almost 25 percent, was considering a merger with Wachovia or another bank to help shore up its finances. Goldman Sachs's stock fell almost 14 percent, and it had to rebuff rumors that it was seeking a capital infusion.

The assault on these two companies underscored how quickly a sense of fear is spreading through Wall Street. Both firms just reported respectable profits on Tuesday, and were considered in a separate class from weaker banks like Bear Stearns and Lehman Brothers that saw the value of their businesses evaporate.

"Stop the Insanity," wrote Glenn Schorr, a brokerage analyst at UBS, in an e-mail message to clients on Wednesday.

A tie-up with a bank would restore Morgan Stanley to its structure during the Depression, when the firm split from the Morgan banking empire. It would also leave Goldman Sachs as the last major American investment bank after a global financial crisis that

Continued on Page A33

ECONOMY IN TURMOIL

A VIEW FROM ABROAD European policy makers are stunned by the United States government's seeming abandonment of capitalist principles. PAGE C1

HELP FOR DETROIT Support seemed to be growing on Capitol Hill for $25 billion in loan guarantees for the auto industry. PAGE C1

ASSESSING BLAME With just 47 days until the election, the blame game is hard-fought because the stakes are so high. PAGE C10

NEW REGULATIONS Federal officials issued a raft of rules aimed at shoring up financial markets and strengthening the balance sheets of banks. PAGE C10

GLOBAL REACTION

Credit Markets Suffer — Borrowing Costs Soar as Result

By VIKAS BAJAJ

The financial crisis entered a potentially dangerous new phase on Wednesday when many credit markets stopped working normally as investors around the world frantically moved their money into the safest investments, like Treasury bills.

As a result, the cost of borrowing soared for many companies, while the stocks of Wall Street firms like Goldman Sachs and Morgan Stanley that only a couple of weeks ago were considered relatively strong came under assault by waves of selling. Investors were so worried that they snapped up three-month Treasury bills with virtually no yield and they pushed gold to its biggest one-day gain in nearly 10 years. Stocks fell by nearly 5 percent in New York.

The stunning flight to safety, away from other kinds of debt as well as stocks, could cause serious damage to an already weakened economy by making it more expensive for businesses to finance their daily operations.

Some economists worry that a psychology of fear has gripped investors, not only in the United States but also in Europe and Asia. While investors' decision to protect themselves may be perfectly rational, the crowd behavior could cause a downward spiral with broader ramifications.

"It's like having a fire in a cinema," said Hyun Song Shin, an economics professor at Princeton. "Everybody is rushing to the door. You are rushing to the door because everyone is rushing to the door. Clearly, as a collective action, it is a disaster."

Faltering confidence could have an infectious effect in Asia, whose savings has essentially bankrolled America for decades. "Asia, perhaps more than other markets, is a bit more volatile, a bit more based on sentiment," said Dan Parr, the head of Asia-Pacific for brandRapport, a consulting firm with an office in Hong Kong. "It doesn't take

Continued on Page A32

A New Role for the Fed: Investor of Last Resort

By EDMUND L. ANDREWS

WASHINGTON — The mighty Federal Reserve is being stretched to its limits, both in the range of problems it is being asked to fix and in its financial firepower.

The central bank has also transformed itself almost overnight into the Fed Inc. by essentially taking over American International Group after already taking on hundreds of billions of dollars in mortgage securities to help ailing financial institutions.

Instead of just setting monetary policy in its Ivory Tower-like setting, the Fed now must wear several hats — that of insurance conglomerate, investment banker and even hedge fund manager.

"This is unique, and the Fed has never done something like this before," said Allan Meltzer, a professor of economics at Carnegie-Mellon University and author of a sweeping history of the Federal Reserve. "If you go all the way back to 1921, when farms were failing and Congress was leaning on the Fed to bail them out, the Fed always said 'It's not our business.' It never regarded itself as an all-purpose agency."

The Fed has often been described as the nation's lender of last resort — the one institution that would lend money when everything else had failed. But by acquiring almost 80 percent of A.I.G. in exchange for lending it $85 billion, and holding $29 billion in securities once owned by Bear Stearns, the Fed is now becoming the investor of last resort as well.

That could put the central bank in an increasingly complicated and contradictory position. It will be responsible for stabilizing the financial system, but also for minimizing losses to taxpayers.

Continued on Page A32

WIN McNAMEE/GETTY IMAGES

The Federal Reserve, with help from the Treasury Department, led by Henry Paulson, above, is taking more risk from markets.

INTERNATIONAL A6-20

U.S. Embassy Attack Kills 10
Militants disguised as soldiers detonated two car bombs outside the American Embassy in Sana, Yemen, killing 10 people. Six attackers also died. PAGE A6

Tougher U.S. Stance on Russia
Washington stepped up criticism of Russia, which deepened ties with Georgia's breakaway regions. PAGE A14

ONLINE

New Commander in Iraq
The Baghdad Bureau blog takes a look at Gen. Ray Odierno, the new commander of multinational forces in Iraq.
nytimes.com/baghdadbureau

NATIONAL A21-33

Rights Bill for Disabled
Congress gave final approval to a major civil rights bill, expanding protections for disabled people and overturning several Supreme Court decisions. PAGE A21

METRO B1-7

Pact on Shelter for Families
A deal between New York City and the Legal Aid Society ends a 25-year legal battle and guarantees emergency shelter for homeless families. PAGE B1

Police Convictions Restored
The convictions of two former New York City detectives found guilty of killing for the mob were reinstated. PAGE B1

STYLES G1-11

A Look You Just Can't Kill
Goth style endures, both in high school and high fashion (Givenchy's take is at left), because alienation will always be chic. PAGE G1

ARTS E1-9

Swan Song For Musical Spoof
The latest edition of "Forbidden Broadway" may well be its last. A review by Ben Brantley. PAGE E1

SPORTSTHURSDAY D1-7

For Mets, a Draining Victory
The Mets built a big early lead, then needed seven relief pitchers to hold off Washington, 9-7. They retained their half-game lead in the National League wild-card race. PAGE D1

BUSINESS DAY C1-15

A Meter for the Internet
A Time Warner experiment, charging for online use by the gigabyte, might suggest how Internet providers could charge for use in the future. PAGE C6

EDITORIAL, OP-ED A34-35

Nicholas D. Kristof PAGE A35

HOME F1-9

Design Bloggers' Picks for Fall
A diverse group of bloggers, expert sifters and seekers who have seen it all in design, pick their favorite new furnishings for fall, including this doorstop, bookend or accent piece. PAGE F1

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PAGES A2-3 ➤

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C M Y K

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"All the News That's Fit to Print"

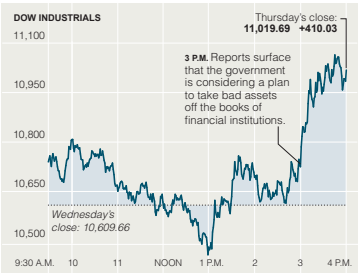
The New York Times

Late Edition

Today, cool breezes, mostly sunny, high 67. **Tonight,** mainly clear, light winds, patchy fog, low 53. **Tomorrow,** partly sunny, pleasant, high 71. Weather map appears on Page B8.

VOL. CLVIII . . No. 54,438 © 2008 The New York Times NEW YORK, FRIDAY, SEPTEMBER 19, 2008 $1.50

VAST BAILOUT BY U.S. PROPOSED IN BID TO STEM ECONOMIC CRISIS



Sources: Associated Press; Bloomberg THE NEW YORK TIMES

A MONEY MARKET UNSETTLED For the second time in a week, a multibillion-dollar money market fund has been forced to take extraordinary steps to deal with sudden cash withdrawals by institutional investors. PAGE C1

A TEST FOR THE CANDIDATES The financial crisis has turned the race between Senators John McCain and Barack Obama into an audition for who could best handle a national economic emergency. PAGE A15

A RALLY IN BANKING STOCKS Investors raced back into beaten-down banking shares, heartened by reports that the federal government is taking steps to tamp down problems in the financial markets. PAGE C1

QUESTIONS AND ANSWERS In a video feature, the personal finance columnist Ron Lieber answers questions from people on the street.

nytimes.com/business

Hundreds of Billions in Distressed Mortgages Could Be Purchased

By EDMUND L. ANDREWS

WASHINGTON — The head of the Treasury and the Federal Reserve began discussions on Thursday with Congressional leaders on what could become the biggest bailout in United States history.

While details remain to be worked out, the plan is likely to authorize the government to buy distressed mortgages at deep discounts from banks and other institutions. The proposal could result in the most direct commitment of taxpayer funds so far in the financial crisis that Fed and Treasury officials say is the worst they have ever seen.

Senior aides and lawmakers said the goal was to complete the legislation by the end of next week, when Congress is scheduled to adjourn. The legislation would grant new authority to the administration and require what several officials said would be a substantial appropriation of federal dollars, though no figures were disclosed in the meeting.

Democrats, having their own desire for a second round of economic aid for struggling Americans, see the administration's request as a way to win White House approval of new spending to help stimulate the economy in exchange for support for the Treasury request. Democrats also say they will push for relief for homeowners faced with foreclosure in return for supporting any broad bailout of struggling financial institutions.

"What we are working on now is an approach to deal with systemic risks and stresses in our capital markets," said Henry M. Paulson Jr., the Treasury secretary. "And we talked about a comprehensive approach that would require legislation to deal with the illiquid assets on financial institutions' balance sheets," he added.

One model for the proposal could be the Resolution Trust Corporation, which bought up and eventually sold hundreds of billions of dollars' worth of real estate in the 1990s from failed savings-and-loan companies. In this case, however, the government is expected to take over only distressed assets, not entire institutions. And it is not clear that a new agency would be created to manage and dispose of the assets, or whether the Federal Reserve or Treasury Department would do so.

The bailout discussions came on a day when the Federal Reserve poured almost $300 billion into global credit markets and barely put a dent in the level of alarm.

Hoping to shore up confidence with a show of financial shock and awe, the Federal Reserve stunned investors before dawn on Thursday by announcing a

Continued on Page A17

Drug Label, Maimed Patient And Crucial Test for Justices

By ADAM LIPTAK

MARSHFIELD, Vt. — When Diana Levine starts talking about her rock 'n' roll days, she plays a little air guitar, mimicking the way she used to handle her electric bass in bands like the Re-Bops and Duke and the Detours. But Ms. Levine is missing much of her right arm, which was amputated below the elbow after a medical disaster.

Diana Levine

She sits at her kitchen table, strumming an imaginary guitar with a phantom hand.

In November, the Supreme Court will hear arguments about whether Ms. Levine may keep more than $6 million that a Vermont jury ordered Wyeth, a pharmaceutical company, to pay her for failing to warn her adequately about the risks of one of its drugs. The case, the latest in a brisk parade of similar ones, will help define the contours of a signature project of the Roberts court.

In legal jargon, the cases concern "pre-emption," a doctrine that can bar injured consumers like Ms. Levine from suing in state court when the products that hurt them had met federal standards. The issue is less boring and more consequential than it sounds, and Ms. Levine's case is shaping up to be the most important business case of the term.

"Federal pre-emption is the fiercest battle in products liability law today," said Catherine M. Sharkey, a law professor at New York University. "The court clearly recognizes this, as it has agreed to hear so many cases and seems eager to give clarity to what has been, to date, an undisputably muddled area of law."

A second pre-emption case, this one concerning cigarette labels, is scheduled for the first argument of the new term, on Oct. 6.

Business groups, often supported by the Bush administration, have vigorously pursued pre-emption arguments, hoping to build a barrier against many kinds of injury suits. Plaintiffs' lawyers oppose broad pre-emption doctrines, saying they short-circuit valid claims arising from terrible injuries.

Ms. Levine is a trim, elegant 62-year-old who now favors three-quarter length sleeves, just long enough to cover what re-

Continued on Page A12

MOSES SAMAN FOR THE NEW YORK TIMES

Bamian Province, in central Afghanistan, is short on food for the winter and has been neglected by aid agencies, its governor says.

Pain Spreads As Credit Vise Grows Tighter

By LOUIS UCHITELLE

The latest outgrowth of the housing crisis, the breakdown on Wall Street, threatens to gradually corrode economic activity on Main Street, mainly by disabling the credit on which so many everyday transactions depend — but also by frightening people.

Lenders of all types had already been raising the bar for borrowers, turning away all but the best customers. This week, they became even less willing to part with their money, further crimping budgets and family spending.

An economy propelled by easy credit for more than a decade is fraying as credit disappears. American Express, to take one striking example, is reducing the maximum credit limit for half of its tens of millions of cardholders.

The credit shock is in some ways reminiscent of the 1973 oil embargo, which "came into people's lives right away," said Andrew Kohut, director of the Pew Research Center, the public opinion pollster. Then, Americans were forced to line up for gasoline and turn down their thermostats in winter. Though less visible, the credit squeeze, if it persists, will force businesses and consumers to cut spending more than they already have.

"We have moved into a decline in consumer spending, which normally happens only in a major recession," said Ethan Harris, chief domestic economist at Lehman Brothers. He calls the experience "a slow-motion recession in which economic growth will be near zero for an extended period of time."

Consumer spending accounts

Continued on Page A16

A Bid to Curb Profit Gambit As Banks Fall

By VIKAS BAJAJ and JONATHAN D. GLATER

Traders who have sought to profit from the financial crisis by betting against bank stocks were attacked on two continents on Thursday.

The Securities and Exchange Commission is considering a temporary ban on short sales of some or all shares and an announcement could be made as early as Friday morning. Earlier Thursday, the S.E.C. scrambled to put together an emergency rule to force major investors to disclose their short sales daily.

Christopher Cox of S.E.C.

In Britain, regulators announced new rules to bar short selling.

Short selling — a bet that a stock price will decline — is the practice of selling stock without owning it, hoping to buy it later at a lower price, and thus make a profit. It has often been blamed for forcing prices down in times of market stress, but the level of anger has intensified as the American government has been forced to bail out major financial institutions and the leaders of some investment banks have asked for action to protect their shares.

Both the S.E.C. and the New York State attorney general promised to intensify investigations into short selling abuses. "They are like looters after a hurricane," said Andrew M. Cuomo,

Continued on Page A16

Cornered by War and Drought, Afghans Fear Hungry Winter

By CARLOTTA GALL

YAKOWLANG, Afghanistan — A pitiable harvest this year has left small farmers all over central and northern Afghanistan facing hunger, and aid officials are warning of an acute food shortage this winter for nine million Afghans, more than a quarter of the population.

The crisis has been generated by the harshest winter in memory, followed by a drought across much of the country, which come on top of the broader problems of deteriorating security, the accumulated pressure of returning refugees and the effects of rising world food prices.

The failure of the Afghan government and foreign donors to develop the country's main economic sector, agriculture, has compounded the problems, the officials say. They warn that the food crisis could make an already bad security situation worse.

The British charity Oxfam, which conducted a provisional assessment of conditions in the province of Daykondi, one of the most remote areas of central Afghanistan, has appealed for international assistance before winter sets in. "Time is running out to avert a humanitarian crisis," it said.

That assessment is echoed by villagers across the broader region, including in Bamian Province. "In all these 30 years of war, we have not had it as bad as this," said Said Muhammad, a 60-year-old farmer who lives in Yakowlang, in Bamian. "We don't have

Continued on Page A8

DAMMAM JOURNAL

Veiled Saudi Women Find Unlikely Role Model: Oprah

By KATHERINE ZOEPF

DAMMAM, Saudi Arabia— Once a month, Nayla says, she writes a letter to Oprah Winfrey.

A young Saudi homemaker who covers her face in public might not seem to have much in common with an American talk show host whose image is known to millions. Like many women in this conservative desert kingdom, Nayla does not usually socialize with people outside her extended family, and she never leaves her house unless chaperoned by her husband.

Ms. Winfrey has not answered the letters. But Nayla says she is still hoping.

"I feel that Oprah truly understands me," said Nayla, who, like many of the women interviewed, would not let her full name be used. "She gives me energy and hope for my life. Sometimes I think that she is the only person in the world who knows how I feel."

Nayla is not the only Saudi woman to feel a special connection to the American media mogul. When "The Oprah Winfrey Show" was first broadcast in Saudi Arabia in November 2004 on a Dubai-based satellite channel, it became an immediate sensation among young Saudi women.

Continued on Page A9

INTERNATIONAL A6-10

Iraq Security Deal at Risk
An agreement to extend the American military mandate in Iraq could be in danger, Iraqi and Bush administration officials say. PAGE A6

Iran's Leader and Israelis
President Mahmoud Ahmadinejad of Iran said he opposed the state of Israel, but not the Israeli people. PAGE A8

NATIONAL A11-17

In California, a Budget Deal
California legislative leaders and the governor have come to an agreement on the state budget, which is now roughly three months late. PAGE A17

METRO B1-5

New York's Jobless Rate Jumps
The August unemployment rate in New York City showed the largest monthly increase in more than 30 years. PAGE B1

SPORTSFRIDAY D1-

America the Underdog

With strong Ryder Cup veterans like Sergio García, left, the European team is considered a strong favorite over the United States squad this weekend in Louisville, Ky. PAGE D1

ESCAPES F1-8

Natural Wonders
A trip through Northern California and Oregon to see the centuries-old towering redwoods can also take in beaches, mountains and outpost-like towns. PAGE F1

BUSINESS DAY C1-13

Interior Department Scrutiny
The interior secretary told a House committee that he might fire employees involved in ethics abuses at an agency that collects oil royalties. PAGE C8

ONLINE

A Museum in Brooklyn
A video preview of the renovated Brooklyn Children's Museum, featuring scenes of children giving the new exhibits a test run before the official opening.
nytimes.com/design

EDITORIAL, OP-ED 18-19

Paul Krugman PAGE A19

WEEKEND E1-35

The Poetry in a Stillness

A retrospective at the Metropolitan Museum of Art examines the still lifes of Giorgio Morandi, self-portrait at right. A review by Holland Cotter. PAGE E27

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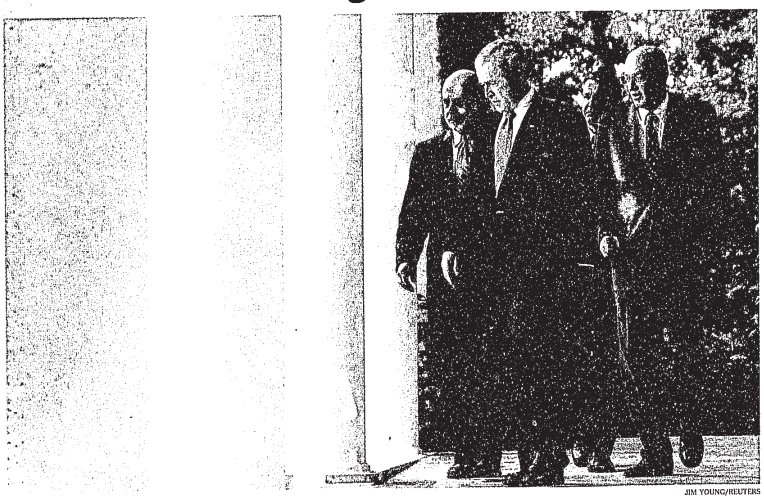
The New York Times

Late Edition

Today, mostly sunny, very pleasant, light winds, high 72. **Tonight,** mainly clear, patchy fog, low 58. **Tomorrow,** warmer, ample sunshine, high 80. Weather map is on Page B16.

VOL. CLVIII . . No. 54,439 © 2008 The New York Times NEW YORK, SATURDAY, SEPTEMBER 20, 2008 $1.50

Bush Officials Urge Swift Action on Broad Rescue Powers

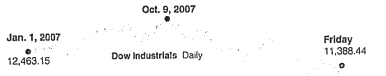


JIM YOUNG/REUTERS

President Bush walking to the Rose Garden to make a statement, with Ben Bernanke, left, Christopher Cox and Henry Paulson.

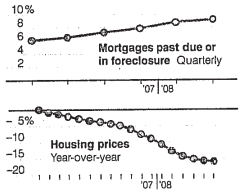
From Crisis, to Crisis, to a Rescue Plan

Since the beginning of last year, the stock market has fallen 8.6 percent, but since the market peak on Oct. 9, 2007, it has fallen 19.6 percent.



Warning Signs JAN. 2007 – JUNE 30, 2008

Mortgage woes grew and regulators used traditional responses to economic problems: lowering interest rates and injecting money into credit markets.



Case-by-Case Approach MARCH 14 – TUESDAY

As Wall Street firms stumbled because of losses on mortgage investments, regulators decided whom to help on a case-by-case basis, starting with Bear Stearns.

Bear Stearns Facilitated sale to JPMorgan Chase **$29 bil.**

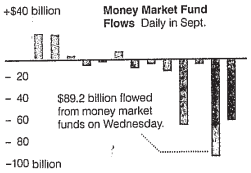
Lehman Brothers Let it fail **$0**

American International Group Took 80 percent stake **$85 bil.**

Fannie Mae/ Freddie Mac Put companies into conservatorship **$200 bil.**

Confidence Shaken SEPT. 2008

The collapse of two financial icons shook confidence across markets. Even the safest of investments, money market funds, saw big outflows.



THE NEW YORK TIMES

Sources: Mortgage Bankers Association; Bloomberg; iMoneyNet

Huge Cost and Many Questions — Democrats Vow Cooperation

By EDMUND L. ANDREWS

WASHINGTON — The Bush administration, moving to prevent an economic cataclysm, urged Congress on Friday to grant it far-reaching emergency powers to buy hundreds of billions of dollars in distressed mortgages despite many unknowns about how the plan would work.

Henry M. Paulson Jr., the Treasury secretary, made it clear that the upfront cost of the rescue proposal could easily be $500 billion, and outside experts predicted that it could reach $1 trillion.

The outlines of the plan, described in conference calls to lawmakers on Friday, include buying assets only from United States financial institutions — but not hedge funds — and hiring outside advisers who would work for the Treasury, rather than creating a separate agency. Democratic leaders immediately pledged to work closely with Mr. Paulson to pass a plan in the next week, but they also demanded that the measure include relief for deeply indebted homeowners, not just for banks and Wall Street firms.

At the end of a week that will be long remembered for the wrenching changes it brought to Wall Street and Washington, Mr. Paulson and Ben S. Bernanke, the Federal Reserve chairman, told lawmakers that the financial system had come perilously close to collapse. According to notes taken by one participant in a call to House members, Mr. Paulson said that the failure to pass a broad rescue plan would lead to nothing short of disaster. Mr. Bernanke said that Wall Street had plunged into a full-scale panic, and warned lawmakers that their own constituents were in danger of losing money on holdings in ultra-conservative money market funds.

People involved in the discussions on Friday said that Mr. Paulson said he did not want to create a new government agency to handle the rescue plan. Rather, he said, the Treasury Department would hire professional investment managers to oversee what could be a huge portfolio of mortgage-backed securities.

He indicated that he wanted to buy securities only from United States financial institutions, a decision that could anger legions of foreign institutions that poured hundreds of billions of dollars into the American mortgage market in the housing boom, and have customers located here.

Basic questions remained unanswered as of Friday evening,

Continued on Page A14

POLITICAL MEMO

Dazed Capital Feels Its Way, Eyes on Nov. 4

By JACKIE CALMES

WASHINGTON — The huge bailout of the financial system that the Bush administration and Congress are rushing to draft will leave taxpayers with at least part of the bill at a time when high gasoline prices, job losses and stagnant incomes have already helped produce an overwhelming sense that the nation is on the wrong track.

Policy makers cannot say where it all ends. News reports are unrelentingly talking of "crisis." After decades of deregulation and free-market fealty, anti-regulation, small-government Republicans are putting the government in control of a big chunk of the financial sector.

All of which has left Washington in the midst of a political convulsion that both parties are struggling to understand and turn to their advantage — or at least keep from turning against them.

The capital almost had the feel of wartime. President Bush appeared in the Rose Garden and gravely appealed for bipartisanship. Democrats, starting with their presidential nominee, Senator Barack Obama, responded in kind. Congressional assistants spent their days glued to cable television, while across the city, people who a few days ago had few contacts with Wall Street outside of their 401(k) statements

Continued on Page A15

Markets Soar, But New Rules Upset Traders

This article was reported by ***Vikas Bajaj, Andrew Ross Sorkin*** *and* ***Michael J. de la Merced*** *and written by Mr. Bajaj.*

After a week of escalating panic in the markets, stocks soared for the second consecutive day on Friday, and many investors rejoiced. But below the surface, a new sense of turmoil set in. When Washington changed the rules of Wall Street, winners were turned into losers and losers were turned into winners, and both camps were left fearful about what would come next.

In a day of chaotic trading, the currents in the financial world changed course on Friday morning after the Bush administration moved to prop up faltering financial institutions.

Stocks that had been beaten down soared. Treasuries and gold, where investors had sought safety in recent days, plunged. Junk bonds shot up.

"Clients and advisers are almost giddy," said Sallie L. Krawcheck, the head of Citigroup's Global Wealth Management division. "It's a sense of massive relief. Everyone feels like they looked over the edge and saw the abyss, and have been pulled back."

The Standard & Poor's 500-stock index soared 4 percent to 1,255.08, while financial shares rose 11 percent, in the busiest day of trading in the New York Stock Exchange's history. The American International Group, which the government essentially took

Continued on Page A14

Cellular Alert: As Texts Fly, Danger Lurks

By JENNIFER STEINHAUER and LAURA M. HOLSON

LOS ANGELES — Senator Barack Obama used one to announce to the world his choice of a running mate. Thousands of Americans have used them to vote for their favorite "American Idol" contestants. Many teenagers prefer them to actually talking. Almost overnight, text messages have become the preferred form of communication for millions.

But even as industry calculations show that Americans are now using mobile phones to send or receive more text messages than phone calls, those messages are coming under increasing fire because of the danger they can pose by distracting users. Though there are no official casualty statistics, there is much anecdotal evidence that the number of fatal accidents stemming from texting while driving, crossing the street or engaging in other activities is on the rise.

"The act of texting automatically removes 10 I.Q. points," said Paul Saffo, a technology trend forecaster in Silicon Valley. "The truth of the matter is there are hobbies that are incompati-

Continued on Page A17

Meanwhile, the Other No. 2 Keeps On Punching

By MARK LEIBOVICH

FLAT ROCK, Mich. — As the economy reels, Senator Joseph R. Biden Jr. — the Other Running Mate — has been absolutely butchering Senator John McCain across the Rust Belt this week. It is not clear who has noticed.

"John is so out of touch, he just has no idea," charged Mr. Biden, the Democratic vice-presidential nominee, who called his "old, dear friend" someone who "just doesn't think," who is behaving in a repugnant manner and who is peddling "Republican garbage," and malarkey.

The older woman who introduced him at a rally here called Mr. Biden's Republican counterpart, Gov. Sarah Palin of Alaska, a "bucket of fluff," and he rewarded the woman as he took the microphone with an "I love you"

JACQUELYN MARTIN/ASSOCIATED PRESS

Senator Joseph R. Biden Jr.

and a gentle kiss on the head.

"If I sound angry, it's because I am angry," Mr. Biden told a few hundred people gathered at a high school football field. Yes, he sounds angry, yelling through his stump speeches, flailing his arms and telling a (supportive) member of the audience to "Shush up, will you?" ("I'm kidding," he added, but did not sound it.)

But the reality for Mr. Biden is that while running mates are second-fiddlers by definition, the phenomenon of Ms. Palin has rendered him something of a fourth or fifth fiddle. It is not like

Continued on Page A13

McCain's Camp Tests Fund-Raising Limits

By MICHAEL LUO

Senator John McCain toiled for years to push a campaign finance overhaul through Congress. After the measure finally passed, Trevor Potter, a lawyer and vigorous advocate for reforming the system, was instrumental in defending the law from challenges and pressing for strict enforcement.

Now, as Mr. McCain makes his final sprint for the White House, Mr. Potter is again helping Mr. McCain, but this time by maneuvering to wring the maximum out of campaign finance laws in ways that some contend are at odds with the spirit of the reforms they championed.

The tactics appear to be legally permissible. And some argue that the McCain campaign is simply doing what is necessary in the face of the record fund-raising by his Democratic rival for president, Senator Barack Obama, and Mr. Obama's decision to bypass public financing and its attendant spending limits.

But critics point out Mr. McCain is capitalizing on legal loopholes that a watchdog organization headed by Mr. Potter has fought against.

"There are very, very few lawyers in the country that are better at exploiting campaign finance loopholes than Trevor Potter," said Bradley A. Smith, a former Republican chairman of the Federal Election Commission. "Of course, that's one of the odd things about the McCain campaign: 'Here's the rules we want, but we'll play by the rules that are here.'"

Mr. McCain was an author of the Bipartisan Campaign Reform Act of 2002, known as the McCain-Feingold law, an ambitious measure that supporters hoped

Continued on Page A12

REACTION ON THE HILL The urgency of Treasury Secretary Henry M. Paulson Jr.'s message got the attention of Democrats and Republicans alike. PAGE C5

WINNERS, LOSERS: A SCORECARD Short-term gainers are clear, judging by the market reaction, but it will take time to determine who the survivors are. PAGE C1

LIKE A HAIL MARY PASS The solution proposed by the Treasury, like the football play, is not very likely to succeed. Talking Business by Joe Nocera. PAGE C1

ASSESSING BLAME FOR A CRISIS Many culprits have been named, but economists and other experts say the Bush administration bears part of the blame. PAGE A15

INTERNATIONAL A5-10

Venezuela Expels Watchdogs

Venezuela expelled two officials of Human Rights Watch after the group claimed that the government of President Hugo Chávez, right, had carried out political discrimination and eliminated judicial independence. PAGE A8

Clouds Over Russian Economy

Russia's economic prospects look less promising, amid a volatile stock market, down by nearly half since May, and tensions abroad with the West over its war with Georgia. PAGE A5

NATIONAL A11-17

No Charges in Page Scandal

Nearly two years after a Florida congressman, Mark Foley, resigned over sexually explicit messages he sent to a teenage House page, law enforcement authorities announced that he would not face state or federal charges. PAGE A11

ARTS B7-15

A Requiem for Pavarotti

The conductor James Levine led a vigorous, gripping account of Verdi's Requiem, presented by the Metropolitan Opera, in memory of the tenor Luciano Pavarotti, who died last year. A review by Anthony Tommasini. PAGE B7

METRO B1-5

A South Bronx Tale

As the old Yankee Stadium's days dwindle, many are saddened. But to some, David Gonzalez writes, it has been but a backdrop. PAGE B1

SPORTS D1-6

Changing Of the Guard

With the new Yankee Stadium nearing completion, above, ceremonies this weekend will mark the passing of the old one — but they will be missing Bob Sheppard, the Stadium's longtime announcer. PAGE D3

THIS WEEKEND

T: Travel

In the fall issue, a festival of escapes: Zurich for shopping; an intellectual's dive bar in Chicago; and an original new hotel in Matera, Italy (it's in a cave).

ARTS & LEISURE

Resurrecting The Muppets

Disney is giving the Muppets the "Hannah Montana" treatment: lots of specials and a new channel on Disney .com.

TRAVEL

36 Hours in Cambodia

Local cuisine includes the crisp-fried tarantula, a delicacy not for the faint of heart.

EDITORIAL, OP-ED A18-19

Bob Herbert PAGE A19

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Late Edition

Today: Warm, sunny with light breezes, high 80. **Tonight:** Clouds, fog, low 61. **Tomorrow:** Cooler, partly sunny, high 70. Yesterday: High 69, low 56. Details, Page 43.

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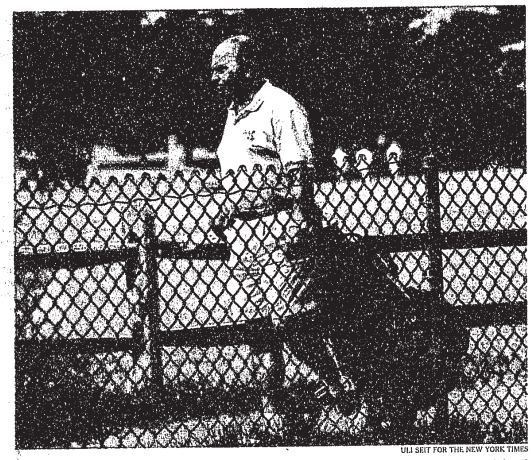


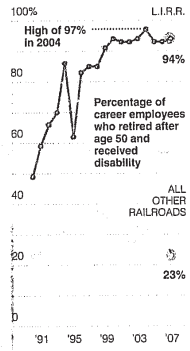
ULI SEIF FOR THE NEW YORK TIMES

Joseph Rutigliano playing golf this summer. Like nearly all other longtime Long Island Rail Road employees, he was classified as occupationally disabled, but only after retiring.

Retirees' Disability Epidemic

Rules Let L.I.R.R. Workers, No Longer Working, Cash In

In 2007, 94 percent of career employees who retired from the Long Island Rail Road after age 50 then received disability benefits, far above the average for all railroads.



Source: New York Times analysis of U.S. Railroad Retirement Board data

THE NEW YORK TIMES

This article was reported by ***Walt Bogdanich, Andrew W. Lehren, Robert A. McDonald*** *and* ***Nicholas Phillips*** *and written by Mr. Bogdanich.*

To understand what it's like to work on the railroad — the Long Island Rail Road — a good place to start is the Sunken Meadow golf course, a rolling stretch of state-owned land on Long Island Sound.

During the workweek, it is not uncommon to find retired L.I.R.R. employees, sometimes dozens of them, golfing there. A few even walk the course. Yet this is not your typical retiree outing.

These golfers are considered disabled. At an age when most people still work, they get a pension and tens of thousands of dollars in annual disability payments — a sum roughly equal to the base salary of their old jobs. Even the golf is free, courtesy of New York State taxpayers.

With incentives like these, occupational disabilities at the L.I.R.R. have become a full-blown epidemic.

Virtually every career employee — as many as 97 percent in one recent year — applies for and gets disability payments soon after retirement, a computer analysis of federal records by The New York Times has found. Since 2000, those records show, about a quarter of a billion dollars in federal disability money has gone to former L.I.R.R. employees, including about 2,000 who retired during that time.

The L.I.R.R.'s disability rate suggests it is one of the nation's most dangerous places to work. Yet in four of the last five years, the railroad has won national awards for improving worker safety.

"Short of the gulag, I can't imagine any work force that would have a so-to-speak 90 percent disability attrition rate," said Glenn Scammel, long one of Capitol Hill's top experts on railroads. "That defies both logic and experience."

Said Dr. J. Mark Melhorn, co-editor of a book on occupational disability published by the American Medical As-

Continued on Page 26

ADMINISTRATION IS SEEKING $700 BILLION FOR WALL ST.; BAILOUT COULD SET RECORD

A Professor and a Banker Bury Old Dogma

This article was reported by ***Peter Baker, Stephen Labaton*** *and* ***Eric Lipton*** *and written by Mr. Baker.*

WASHINGTON — For the last year, as the nation's economy lurched from crisis to crisis, the chairman of the Federal Reserve, Ben S. Bernanke, had been warning Henry M. Paulson Jr., the Treasury secretary, that the worsening situation might ultimately force a sweeping federal intervention.

A longtime student of the Great Depression, Mr. Bernanke was acutely aware of what could happen without a decisive move. Finally, the moment that called for action arrived late Wednesday. Less than 24 hours after the Fed bailed out American International Group, the giant insurer, it was clear the turmoil gripping Wall Street was only growing worse and that ad hoc solutions were not working.

Talking into a speaker phone from his ornate office, Mr. Bernanke told Mr. Paulson that it was time to adopt a comprehensive strategy that Congress would have to approve. Mr. Paulson understood. Reluctant in recent days to send Congress a plan that lawmakers had warned had little chance of quick passage, he had worried that a rejection would only further shock the markets. But during two conference calls Wednesday night and Thursday morning, he agreed that they had no choice.

"It just happened dramatically," Mr. Paulson said in an in-

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CHIP SOMODEVILLA/GETTY IMAGES

Henry M. Paulson Jr., left, and Ben S. Bernanke in July.

NEWS ANALYSIS

But Will It All Work?

By PETER S. GOODMAN

As the federal government steps to the center of the financial crisis, devising plans to take ownership of hundreds of billions of dollars' worth of bad mortgages, a pair of simple questions rise to the fore: Will this intervention finally be enough to restore order? And what will this grand rescue cost taxpayers?

The Treasury Department, as overseer of the financial system, has in recent weeks unleashed a vast array of initiatives in a bid to stave off catastrophe. It took over the country's largest mortgage finance companies and put untold billions of taxpayer dollars on the line to prop up other lenders.

Now, although the details are still being worked out, the government is dispensing with rescuing one company at a time, and instead is taking on a vast pile of bad debt in one gulp.

If it all comes to pass — if Uncle Sam becomes the repository for the radioactive leftovers of bad real estate bets — will the crisis lift? Will the fear that has kept banks clinging to their dollars, starving the economy of capital, give way to free-flowing credit?

Most broadly, what are the long-term costs of the government's stepping in to restore order after so many wealthy financiers became so much wealthier through what now seem like reckless bets on housing — bets now covered with public dollars?

Some question the prudence of adding to the nation's overall debt at a time when the Treasury relies on the largess of foreigners to cover the bills. Even so, there is wide agreement that a broad intervention like the one Treas-

Continued on Page 29

GOES TO CONGRESS

Treasury Would Face Few Restrictions on Buying Bad Debt

By DAVID M. HERSZENHORN

WASHINGTON — The Bush administration on Saturday formally proposed a vast bailout of financial institutions in the United States, requesting unfettered authority for the Treasury Department to buy up to $700 billion in distressed mortgage-related assets from the private firms.

The proposal, not quite three pages long, was stunning for its stark simplicity. It would raise the national debt ceiling to $11.3 trillion. And it would place no restrictions on the administration other than requiring semiannual reports to Congress, granting the Treasury secretary unprecedented power to buy and resell mortgage debt.

"This is a big package, because it was a big problem," President Bush said Saturday at a White House news conference, after meeting with President Álvaro Uribe of Colombia. "I will tell our citizens and continue to remind them that the risk of doing nothing far outweighs the risk of the package, and that, over time, we're going to get a lot of the money back."

After a week of stomach-flipping turmoil in the financial system, and with officials still on edge about how global markets will respond, the delivery of the administration's plan set the stage for a four-day brawl in Congress. Democratic leaders have pledged to approve a bill but say it must also include tangible help for ordinary Americans in the form of an economic stimulus package.

Staff members from Treasury and the House Financial Services and Senate banking committees

Continued on Page 29

LOST AND SAVED Why Merrill was rescued but Lehman was left on its own. SUNDAY BUSINESS

THE BAILOUT Taxpayers are not out of danger, Gretchen Morgenson writes. SUNDAY BUSINESS

BUBBLES A retrospective, by David Leonhardt. WEEK IN REVIEW

South Africa's President to Quit Under Pressure From His Party

By BARRY BEARAK

JOHANNESBURG — President Thabo Mbeki of South Africa, the loser in a prolonged power struggle with his rival, Jacob Zuma, agreed Saturday to resign after the top leaders of his party, the African National Congress, asked him to step down.

The party's fateful decision is a harsh rebuke to Mr. Mbeki, the aloof and scholarly man who succeeded Nelson Mandela, leading the nation to an unprecedented run of economic growth and yet unable to restrain an ever-widening gap between the rich and poor.

Mr. Mbeki had first served the party as an acolyte in the nation's freedom struggle and later for two decades as one of its guiding lights. The power — though not yet the presidency — now shifts to Mr. Zuma, an economic populist who has promised to loosen the manacles of poverty from the millions still living in shanties.

Gwede Mantashe, the party's secretary general, announced the ouster at a news conference. Mr. Mbeki had been informed earlier. "He did not display any shock or any depression," Mr. Mantashe said. "He welcomed the news and agreed that he is going to participate in the process and the formalities."

Within hours, Mr. Mbeki's office confirmed that he would leave the presidency "after all constitutional requirements are met."

An acting president will be appointed from Parliament, probably within days, Mr. Mantashe said. Mr. Zuma is not eligible to

Continued on Page 14

Bomb Explodes at Hotel in Pakistan's Capital, Killing at Least 40

B. K. BANGASH/ASSOCIATED PRESS

The Islamabad Marriott Hotel, which was attacked on Saturday, was popular with foreigners.

By CARLOTTA GALL

ISLAMABAD, Pakistan — A huge truck bomb exploded at the entrance to the Marriott Hotel in Islamabad on Saturday evening, killing at least 40 people and wounding at least 250, the police said.

The blast, one of the worst acts of terrorism in Pakistan's history, went off just a few hundred yards from the prime minister's house, where all the leaders of government were dining after the president's address to Parliament.

The toll was expected to grow because of reports that people had been trapped inside the six-story hotel, which has been a favorite meeting spot of both foreigners and well-connected Pakistanis in the heart of the capital. The building was quickly engulfed in flames and continued to burn for hours Saturday night.

The bomb left a vast crater, 40

Continued on Page 8

NATIONAL 20-33

Debate Agreement Reached
The Obama-McCain presidential debates will have a free-flowing format, but the McCain camp won a more structured approach for the Palin-Biden vice-presidential debate, on Oct. 2. PAGE 23

Houston After Hurricane Ike
For almost everyone in Houston, last week was a lost one. Hurricane Ike left many residents without electricity, sewers failed in many neighborhoods and a few areas lost running water. PAGE 20

INTERNATIONAL 6-17

Britain's Embattled Premier
A week of financial crisis has seemed to accelerate a yearlong political slide for Prime Minister Gordon Brown. PAGE 6

China Seeks to Calm Fears
Through a broad response, Chinese officials sought to calm public anxiety over the milk safety scandal. PAGE 13

METRO 37-44

Going Home to a New Poland
New York's Polish population has contracted as many immigrants return to a revived Poland to pursue opportunities or to retire. PAGE 37

ARTS & LEISURE

TV's New Season
In a special section, Alessandra Stanley writes on gross-out humor; sifting through the riches of reality TV; and the annual roundup, including Chris Rock's special.

WEEK IN REVIEW

Life in Baghdad, 2 Years Later
Dexter Filkins, a war reporter, returns to Iraq and is jarred by the calm. PAGE 1

OP-ED IN WEEK IN REVIEW 8-11

Frank Rich PAGE 9

MAGAZINE

The College Issue
All about teaching: Does it make you a bad writer? Could it make you a good president? How would you teach on YouTube? In Dubai?

A college glacier research program.
nytimes.com/magazine

SPORTSSUNDAY

Echoes in the Bronx

Before the last game is played at Yankee Stadium, Paul Simon recalls meeting Mickey Mantle (at right), and Billy Crystal, Henry A. Kissinger, Penny Marshall, Keith Olbermann and others share their memories. PAGES 6-7

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More Inside The Times.
PAGES 2-3 ➤

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Late Edition

Today, cooler, mostly cloudy, high 70. **Tonight,** gradual clearing, areas of fog developing, low 57. **Tomorrow,** mostly sunny and seasonable, high 72. Weather map, Page B8.

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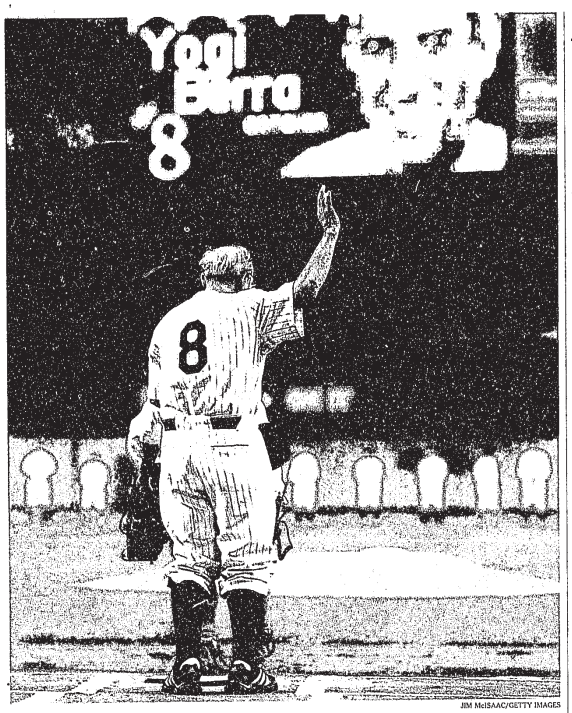

JIM McISAAC/GETTY IMAGES

When It's Over, It's Over

Yogi Berra saluted fans Sunday, joining over 20 stars before the final game at 85-year-old Yankee Stadium — a 7-3 victory over the Orioles. The team is moving into a new home across the street next year. Video is at nytimes.com, and complete coverage is on Page B2 and in SportsMonday.

DEMOCRATS SET CONDITIONS ON BAILOUT AS 2 FIRMS END INVESTMENT BANKING ERA

Radical Shift For Goldman And Morgan

By ANDREW ROSS SORKIN and VIKAS BAJAJ

Goldman Sachs and Morgan Stanley, the last big independent investment banks on Wall Street, will transform themselves into bank holding companies subject to far greater regulation, the Federal Reserve said Sunday night, a move that fundamentally reshapes an era of high finance that defined the modern Gilded Age.

The firms requested the change themselves, even as Congress and the Bush administration rushed to pass a $700 billion rescue of financial firms. It was a blunt acknowledgment that their model of finance and investing had become too risky and that they needed the cushion of bank deposits that had kept big commercial banks like Bank of America and JPMorgan Chase relatively safe amid the recent turmoil.

It also is a turning point for the high-rolling culture of Wall Street, with its seven-figure bonuses and lavish perks for even midlevel executives. It effectively returns Wall Street to the way it was structured before Congress passed a law during the Great Depression separating investment banking from commercial banking, known as the Glass-Steagall Act.

By becoming bank holding companies, the firms are agreeing to significantly tighter regulations and much closer supervision by bank examiners from several government agencies rather than only the Securities and Exchange Commission. Now, the firms will look more like commercial banks, with more disclosure, higher capital reserves and less risk-taking.

For decades, firms like Morgan Stanley and Goldman Sachs thrived by taking bold bets with their own money, often using enormous amounts of debt to increase their profits, with little outside oversight.

They were the envy of Wall Street, dominating the industry's most lucrative businesses, landing headline-grabbing deals and

Continued on Page A20

FACE THE NATION/KARIN COOPER

Treasury Secretary Henry M. Paulson on "Face the Nation."

OVERSIGHT IS ISSUE

Aid for Homeowners Is Sought — Paulson Seeks 'Clean' Bill

*This article was reported by **David M. Herszenhorn, Stephen Labaton** and **Mark Landler**, and written by Mr. Labaton.*

WASHINGTON — Congressional Democrats began to set their own terms on Sunday for a plan to rescue the nation's financial institutions, including greater legislative oversight of the Treasury Department, more direct assistance for homeowners and limits on the pay of top executives whose firms seek help.

The Democrats' demands came as Treasury Secretary Henry M. Paulson Jr. blanketed the Sunday talk shows to promote the Bush administration's $700 billion bailout package, emphasizing that it was needed not just for Wall Street, but for all Americans. He urged Congress to move swiftly to approve a "clean" rescue plan without tacking on extra programs.

"I hate the fact that we have to do it, but it's better than the alternative," Mr. Paulson said on "Fox News Sunday."

The Bush administration proposal could be the largest government bailout of private industry in the nation's history, and it calls for nearly unfettered powers to the Treasury secretary. There is intense pressure to pass a rescue measure quickly because the markets remain jittery.

Still, competing interests were already complicating the negotiations, as Democrats pushed for assistance for distressed homeowners and for oversight authority of the bailout program. Some lawmakers also said they did not want to be rushed into approving extraordinary new powers for the Treasury secretary and the government without full consideration of the consequences.

Both presidential nominees, who face the prospect of inheriting an enormous new program, said there had to be more oversight of the Treasury Department than the Bush administration had proposed. [Page A18.]

Financial companies were already lobbying to broaden the plan. And the Bush administration did indeed widen the scope by allowing the government to buy out assets other than mortgage-related securities as well as making foreign companies eligible for government assistance.

Banks and traders also braced

Continued on Page A19

Conservatives Try New Tack On Campuses

By PATRICIA COHEN

COLORADO SPRINGS — Acknowledging that 20 years and millions of dollars spent loudly and bitterly attacking the liberal leanings of American campuses have failed to make much of a dent in the way undergraduates are educated, some conservatives have decided to try a new strategy.

They are finding like-minded tenured professors and helping them establish academic beachheads for their ideas.

These initiatives, like the Program in Western Civilization and American Institutions at the University of Texas, Austin, or a project at the University of Colorado here in Colorado Springs, to publish a book of classic texts, are mostly financed by conservative organizations and donors, run by conservative professors. But they have a decidedly nonpartisan and nonideological face.

Their goal is to restore what conservative and other critics see as leading casualties of the campus culture wars of the 1980s and '90s: the teaching of Western culture and a triumphal interpretation of American history.

"These are not ideological courses," said James Piereson, a senior fellow at the conservative Manhattan Institute, which created the Veritas Fund for Higher Education to funnel donations to these sorts of projects. The initiatives are only political insofar as they "work against the thrust of programs and courses in gender, race and class studies, and postmodernism in general," he said.

The programs and centers differ in emphasis, with some con-

Continued on Page A20

Young and Arab in Land of Mosques and Bars

By MICHAEL SLACKMAN

GENERATION FAITHFUL
An Oasis of Freedom

DUBAI, United Arab Emirates — In his old life in Cairo, Rami Galal knew his place and his fate: to become a maintenance man in a hotel, just like his father. But here, in glittering, manic Dubai, he is confronting the unsettling freedom to make his own choices.

Here Mr. Galal, 24, drinks beer almost every night and considers a young Russian prostitute his girlfriend. But he also makes it to work every morning, not something he could say when he lived back in Egypt. Everything is up to him, everything: what meals he eats, whether he goes to the mosque or a bar, who his friends are.

"I was more religious in Egypt," Mr. Galal said, taking a drag from yet another of his ever-burning Marlboros. "It is moving too fast here. In Egypt there is more time, they have more control over you. It's hard here. I hope to stop drinking beer; I know it's wrong. In Egypt, people keep you in check. Here, no one keeps you in check."

In Egypt, and across much of the Arab world, there is an Islamic revival being driven by young people, where faith and ritual are increasingly the cornerstone of identity. But that is not true amid the ethnic mix that is Dubai, where 80 percent of the people are expatriates, with 200 nationalities.

This economically vital, socially freewheeling yet unmistakably Muslim state has had a transforming effect on young men. Religion has become more of a personal choice and Islam less of a common bond than national identity.

Dubai is, in some ways, a vision of what the rest of the Arab world could become — if it offered comparable economic opportunity, insistence on following the law and toleration for cultural diversity. In this environment, religion is not something young men turn to

Continued on Page A10

SHAWN BALDWIN FOR THE NEW YORK TIMES

Hamza Abu Zanad, right, with friends at a bar in Dubai, the United Arab Emirates.

Big Financiers Start to Lobby For Wider Aid

*This article was reported by **Jenny Anderson, Vikas Bajaj** and **Leslie Wayne**, and written by Mr. Bajaj.*

Even as policy makers worked on details of a $700 billion bailout of the financial industry, Wall Street began looking for ways to profit from it.

Financial firms were lobbying to have all manner of troubled investments covered, not just those related to mortgages.

At the same time, investment firms were jockeying to oversee all the assets that Treasury plans to take off the books of financial institutions, a role that could earn them hundreds of millions of dollars a year in fees.

Nobody wants to be left out of Treasury's proposal to buy up bad assets of financial institutions.

"The definition of Financial Institution should be as broad as possible," the Financial Services Roundtable, which represents big financial services companies, wrote in an e-mail message to members on Sunday.

The group said a wide variety of institutions as varied as mortgage lenders and insurance companies should be able to take advantage of the bailout, and that these companies should be able to sell off any investments linked to mortgages.

The scope of the bailout grew over the weekend. As recently as Saturday morning, the Bush administration's proposal called for Treasury to buy residential or commercial mortgages and related securities. By that evening, the proposal was broadened to give Treasury discretion to buy

Continued on Page A18

AN UNCERTAIN PATH

MORE CLOUT The new powers of Treasury Secretary Henry M. Paulson Jr. will pass to his successor, making that appointment a critical one for the next administration. PAGE A19

INVESTORS ON TENTERHOOKS Frazzled traders, portfolio managers and hedge funds braced for the market's opening with little sense of its direction. PAGE C1

A WIDER PROPOSAL Foreign-based banks may be included in the financial rescue plan, potentially raising its cost and Congressional resistance. PAGE C1

THE LATEST NEWS Up-to-date news on events in Washington, on Wall Street and around the world:

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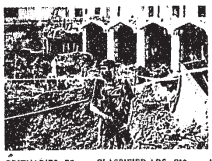
INTERNATIONAL A5-13

Politics of a Pakistan Bombing
The deadly truck bomb attack at the Marriott Hotel in Islamabad, below, seemed to complicate efforts by the new president, Asif Ali Zardari, to fight militants in the tribal areas and cooperate with the United States. PAGE A8



Olmert Quits and Politics Begin
Ehud Olmert resigned as prime minister of Israel, and maneuvering began immediately about the shape and leader of the next government. PAGE A5

China Milk Crisis Spreads
China's milk scandal worsened again as the government said that nearly 13,000 babies had been hospitalized — twice the previously stated number. PAGE A13

NATIONAL A14-21

Group Urges Shift From SATs
A panel convened by some of the country's most influential college admissions officials is recommending a move away from SAT and ACT scores. PAGE A14

METRO B1-6

L.I.R.R. Pensions Scrutinized
Gov. David A. Paterson is giving New York's attorney general broad powers to investigate whether Long Island Rail Road employees manipulated disability and pension benefits. PAGE B1

SPORTSMONDAY D1-9

Americans Reclaim Ryder Cup
Led by Ryder Cup rookies, the United States defeated Europe, 16½-11½, to win golf's premier international team event for the first time since 1999. PAGE D9

EDITORIAL, OP-ED A22-23

Paul Krugman PAGE A29

THE EMMYS

LUCY NICHOLSON/REUTERS

Cable's Night at the Emmys
With cable channels overshadowing broadcast networks, Jeremy Piven, left, of HBO's "Entourage" was among the winners at the Emmy Awards. PAGE A21

All about the 60th Primetime Emmy Awards, including reports on the TV Decoder blog, slide shows and a list of winners:

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PAGES A2-3 ➤

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Late Edition

Today, mainly sunny, light winds, high 72. Tonight, a few cloud patches, low 56. Tomorrow, sunshine mixed with high clouds, high 72. Weather map appears on Page B8.

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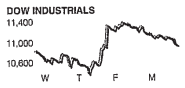
TALKS ON BAILOUT PLAN ADVANCE; CONGRESS IS ANGRY AND SKEPTICAL

BRENDAN SMIALOWSKI FOR THE NEW YORK TIMES

Representative Barney Frank, chairman of Financial Services Committee, revised a bill Monday.



Source: Reuters

THE NEW YORK TIMES

Stocks and Dollar Fall

The Dow Jones industrial average fell more than 3 percent amid uncertainty about the government bailout plan and a sharp decline in the value of the dollar.

BY MICHAEL M. GRYNBAUM AND JAD MOUAWAD, PAGE C1

Reboing Two Big Banks

The reinvention of Goldman Sachs and Morgan Stanley will mean greater stability, and smaller profits. BY LOUISE STORY AND BEN WHITE, PAGE C1

No Help From Abroad

The Treasury has expanded its rescue plan to include foreign banks with significant American operations, but no other country has stepped up to help.

BY MARK LANDLER AND CARTER DOUGHERTY, PAGE C9

Lawsuit in a Fund's Loss

An investor has sued the Reserve Fund, a big mutual fund operator, accusing of it tipping other investors to impending losses.

BY DIANA B. HENRIQUES, PAGE C1

A POINTED DEBATE

Severe Oversight and Limits on Executive Pay Are Sought

By DAVID M. HERSZENHORN

WASHINGTON — The Bush administration and Congressional leaders moved closer to agreement on a historic $700 billion bailout for financial firms on Monday, including tight oversight of the program and new efforts to help homeowners at risk of foreclosure.

But lawmakers in both parties voiced anger over the steep cost and even skepticism about the plan's chances of success.

As heated debate began on Capitol Hill, Congress and the administration remained at odds over the demands of some lawmakers, including limits on the pay of top executives whose firms seek help, and new authority to allow bankruptcy judges to reduce mortgage payments for borrowers facing foreclosure.

Congressional leaders and Treasury officials also said they were close to an agreement over a proposal by some Democrats in which taxpayers could receive an ownership stake, in the form of warrants to buy stock, from firms seeking to sell distressed debt.

Lawmakers want to require an equity stake, while the administration wants flexibility on that matter, a Treasury official said.

Despite the progress, the rancor in Congress ratcheted up the pressure on Treasury Secretary Henry M. Paulson Jr. and Federal Reserve Chairman Ben S. Bernanke, the architects of the proposal to let financial institutions, including some foreign firms, pass their most distressed assets to the United States Treasury.

Both are scheduled to testify before the Senate banking committee on Tuesday morning, where they must now sell the bailout plan to dubious lawmakers and to an increasingly angry public. They will also appear before the House Financial Services

Continued on Page A20

CAMPAIGN '08: THE DEBATES

Obama Faces Vulnerability

Senator Barack Obama has shown himself at times to be a great orator. His debating skills, however, have been uneven.

Some of his strengths — his facility with words, his wry detachment, his reasoning skills, his youthful cool — have not always served him well and may pose significant vulnerabilities in the presidential debates that begin Friday, according to political analysts and a review of his earlier debate performances.

Mr. Obama has a tendency to overintellectualize and to lecture. He exudes disdain for the quips and sound bites that some deride as trivializing political debates but that have become a central part of scoring them. He tends to the earnest and humorless when audiences seem to crave passion and personality. And he frequently rises above the mire of political combat when the battle calls for engagement.

BY JOHN M. BRODER, PAGE A25

McCain's Style: A Fierce Rival

Senator John McCain heads into the first presidential debate with a track record as a scrappy combatant with the instincts of a fighter pilot, prepared to take out his opponent and willing to take risks.

He has used fairly consistent techniques during his roughly 30 debates on the national stage: he is an aggressive competitor who scolds his opponents, grins when he scores and is handy with the rhetorical knife. Just ask Mitt Romney, whom Mr. McCain filleted on several occasions in the primaries, perhaps most infuriatingly for Mr. Romney when Mr. McCain misleadingly asserted that Mr. Romney favored a timetable for withdrawal from Iraq.

A review of several of Mr. McCain's past debates shows that he is most comfortable and authentic when the subject is foreign policy. And in a stroke of good fortune, that is the topic for Friday.

BY KATHARINE Q. SEELYE, PAGE A25

In Fiscal Crisis, Mayor Considers Raising Property Tax 7 Percent

By DAVID W. CHEN and MICHAEL BARBARO

Mayor Michael R. Bloomberg, worried about the effects of the global financial crisis on New York City's economy, said on Monday that his administration is considering imposing a 7 percent property tax increase on homeowners in January.

The mayor said the move, which would generate an additional $600 million in revenue next year and require City Council approval, would help the city weather a worsening fiscal situation.

New York City is heavily dependent on the financial services industry: An estimated 10 percent of its tax revenues come from Wall Street.

Speaking to reporters at a news conference on Monday, Mr. Bloomberg acknowledged that an increase would be unpopular, but said that the city might have no choice.

"I said we will look at all the different possibilities, but I think the solution is a combination of expense reduction, which nobody is going to be happy about, and revenue enhancements, which nobody is going to be happy about," he said at John F. Kennedy International Airport, where he appeared at the opening of a new JetBlue terminal. "This is not going to be a feel-good time."

The increase — which would essentially eliminate a popular 7 percent tax cut included in this year's budget — would appear in quarterly bills sent out in December. It would increase taxes by an average of $308 to $358 annually for residents of co-ops or condominiums in buildings with 11 or more units.

For owners of one- to three-family homes, the average tax bill would go up $226 next year, according to the city's Independent Budget Office.

The mayor has previously said the property tax would probably be raised, but city officials said they had hoped that any increase would occur in the 2010 fiscal

Continued on Page B4

NEWS ANALYSIS

Chilly Review From Experts

By PETER S. GOODMAN

As economists puzzle over the proposed details of what may be the biggest financial bailout in American history, the initial skepticism that greeted its unveiling has only deepened.

Some are horrified at the prospect of putting $700 billion in public money on the line. Others are outraged that Wall Street, home of the eight-figure salary, may get rescued from the consequences of its real estate bender, even as working families give up their houses to foreclosure.

Most economists accept that the nation's financial crisis — the worst since the Great Depression — has reached such perilous proportions that an expensive intervention is required. But considerable disagreement centers on how to go about it. The Treasury's proposal for a bailout, now being negotiated with Congress, is being challenged as fundamentally deficient.

"At first it was, 'thank goodness the cavalry is coming,' but what exactly is the cavalry going to do?" asked Douglas W. Elmendorf, a former Treasury and Federal Reserve Board economist, and now a fellow at the Brookings Institution in Washington. "What I worry about is that the Treasury has acted very quickly, without having the time to solicit enough opinions."

The common denominator to many reactions is a visceral discomfort with giving Treasury Secretary Henry Paulson Jr. — himself a product of Wall Street — carte blanche to relieve major financial institutions of bad loans

Continued on Page A21

Retirees Filling The Front Line In Market Fears

By JOHN LELAND and LOUIS UCHITELLE

Older Americans with investments are among the hardest hit by the turmoil in the financial markets and have the least opportunity to recover.

As companies have switched from fixed pensions to 401(k) accounts, retirees risk losing big chunks of their wealth and income in a single day's trading, as many have in the last month.

"There's a terrified older population out there," said Alicia H. Munnell, director of the Center for Retirement Research at Boston College. "If you're 45 and the market goes down, it bothers you, but it comes back. But if you're retired or about to retire, you might have to sell your assets before they have a chance to recover. And people don't have the luxury of being in bonds because they don't yield enough for how long we live."

Today's retirees have less money in savings, longer life expectancies and greater exposure to market risk than any retirees

Continued on Page A20

On Safer Streets in Baghdad, Friction Infiltrates Sunni Patrols

By ERICA GOODE

BAGHDAD — In Adhamiya, a neighborhood that only a year ago was among the most dangerous in Baghdad, the violence last week seemed almost negligible. A shootout near a checkpoint left two people dead on Sunday. Another man was killed on Monday by a small bomb placed under a car.

Some residents hardly noticed.

But the deaths quickly drew the attention of the American officers stationed in the neighborhood. Both outbursts involved members of the Awakening Councils, the citizen patrols paid by the United States to fight the insurgency.

And both were seen as a worrisome sign of the tension and infighting that have rippled through the Sunni-dominated Awakening groups in recent weeks, just as the American military plans to transfer control of about half the councils to the Shiite-led government.

The American military credits the councils — whose 99,000 members are mostly Sunni Muslims, many of them former insurgents — with helping to greatly reduce violence around the country.

But in Adhamiya and in some other areas of Iraq, the patrols, hailed by many as heroic for making the streets safer, have posed increasing problems. Commanders quarrel and jockey for power and territory. Finger-pointing and threats are common. Some residents complain that the men, not a few of them swaggering street toughs, use their power to intimidate people. Sometimes violence erupts.

"What you have is essentially armed factions, like mini-gangs, that operate in a certain set of checkpoints in certain territories," said Lt. Erick Kuylman, a patrol commander in the First Battalion, 68th Armor Regiment, which operates in Adhamiya. He said the Awakening Councils had met their original purpose, but he added, "They have outlived, I think, their service since then."

Some American officers say it is no co-

Continued on Page A10

MAX BECHERER/POLARIS, FOR THE NEW YORK TIMES

Ali Abdul Jabbar, commander of an Awakening Council in Adhamiya, outside his office on Sept. 3. A cousin of his died in a shootout near a council checkpoint last week.

INTERNATIONAL A6-16

Resistance From North Korea
North Korea wants seals and cameras removed from a nuclear plant. PAGE A6

Milk Scandal Widens in China
A tainted milk supply that sickened children led an official to resign. PAGE A8

Cloud Over Zimbabwe Deal
The departure of South Africa's leader complicates the power-sharing deal he brokered in Zimbabwe. PAGE A6

NATIONAL A18-26

A Compact on Water
The House began debate on a sweeping bill that would ban almost any diversion of water from the Great Lakes outside their natural basin. PAGE A18

METRO B1-5

A Changing Racial Mix
The number of white, non-Hispanic New Yorkers rose last year, ending a trend dating to World War II. PAGE B1

SCIENCE TIMES F1-8

Reducing Cancer Radiation
Three weeks of radiation works just as well as the usual five weeks or more for women with early stage breast cancers, researchers report. PAGE F1

It Takes Just One Village
A Chinese biologist helped save the langur monkey population in part by addressing social and economic factors. PAGE F1

SPORTSTUESDAY D1-6

Winning Isn't Everything
The swimmer Dara Torres has found her appeal greater than ever, despite failing to win gold in Beijing. PAGE D1

Mets Can't Stop the Bleeding
The Mets lost their third straight game, 9-5 to the Cubs, and their lead in the N.L. wild-card race is one game. PAGE D1

ONLINE

Critics' Picks: Spike Lee
A.O. Scott looks at the director's "Do the Right Thing," 20 years after it was made, and at race in the movies.
nytimes.com/movies

ARTS E1-10

'Genius' Grants
This year's MacArthur grant winners range from artists like Tara Donovan, right, to astrophysicists. PAGE E1

EDITORIAL, OP-ED A28-29

David Brooks PAGE A29

More Inside The Times.
PAGES A2-3 ➤

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The New York Times

Late Edition

Today, brilliant sun, very pleasant, high 72. Tonight, increasing clouds, low 57. Tomorrow, mostly cloudy, rain arriving, turning windy late, high 64. Weather map, Page C10.

VOL. CLVIII . . No. 54,443 © 2008 The New York Times NEW YORK, WEDNESDAY, SEPTEMBER 24, 2008 $1.50

ANDREW COUNCILL FOR THE NEW YORK TIMES

Treasury Secretary Henry M. Paulson Jr., left, and Ben S. Bernanke, the Federal Reserve chairman, faced five hours of questions from a skeptical Senate Banking Committee.

WHITE HOUSE PUSHES PLAN; BUFFETT TO INVEST $5 BILLION TO BOLSTER AILING GOLDMAN

Deal Seen as Sign of Confidence

By BEN WHITE

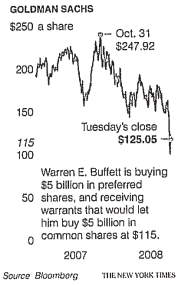
Warren E. Buffett, the country's most famous investor and one of the world's richest men, announced on Tuesday that he would invest $5 billion in Goldman Sachs, the embattled Wall Street titan, in a move that could bolster confidence in the financial markets.

Until now, Mr. Buffett, who has navigated the stock market with legendary prowess, has largely refrained from investing in the stricken financial industry, saying repeatedly that things could get worse.

Thousands of people on and off Wall Street follow Mr. Buffett's moves, so his decision to invest in Goldman immediately heartened investors. After falling nearly 1.6 percent during the day, the Standard & Poor's 500-stock index erased half its loss in after-hours trading Tuesday evening on news of the investment.

"Buffett is saying he's confident," said Brad Hintz, an analyst at Sanford C. Bernstein & Company.

Mr. Buffett's conglomerate, Berkshire Hathaway, unveiled the move only days after Goldman, long the premier investment house on Wall Street, embarked on a radical plan to transform itself into a traditional bank to ensure its survival. Goldman, which examined various options over the last week as its shares tumbled and some clients abandoned the firm, also said Tuesday it would sell at least $2.5 billion of common stock to the public.



Source: Bloomberg THE NEW YORK TIMES

Since credit markets tightened more than a year ago, Mr. Buffett had stayed his hand even as other investors, including government-controlled funds from the Middle East and Asia, poured money into American financial companies like Citigroup and Merrill Lynch, only to see their investments plunge in value.

Such wariness is a hallmark of Mr. Buffett's investing style, and many on Wall Street have wondered when he might jump in.

Continued on Page A25

CONGRESS OBJECTS

Lawmakers Challenge Lack of Help Aimed at Homeowners

By MARK LANDLER and DAVID M. HERSZENHORN

WASHINGTON — The White House waged a multifront campaign Tuesday to persuade Congress to accept its vast economic bailout plan, though many in Congress, still unhappy with what they were hearing, continued to push for changes that would provide stronger protection for taxpayers and impose tougher terms on financial institutions.

President Bush told world leaders that the United States had taken "bold steps" to deal with the financial crisis, while Vice President Dick Cheney and other top officials went to Capitol hill to address lawmakers.

Treasury Secretary Henry M. Paulson Jr. and the chairman of the Federal Reserve, Ben S. Bernanke, faced five hours of grilling by skeptical, angry members of the Senate Banking Committee.

But with just six weeks before an election, Congress and the administration were negotiating intensely behind the scenes to resolve major sticking points in the plan, and some of the drama was intended for hometown audiences.

House Republicans seemed the least receptive of all, and by the end of the day, there was no clear road map.

In blunt terms, Mr. Bernanke warned the senators that if they failed to pass the $700 billion plan, they risked causing a recession, increasing joblessness and pushing more homes into foreclosure.

"This will be a major drag on the U.S. economy and greatly impede the ability of the economy to recover," Mr. Bernanke said.

The lawmakers objected strenuously to the broad authority Mr. Paulson was requesting, the lack of additional steps to help homeowners avoid foreclosure and the absence of any demands for ownership stakes in the banks that would be helped.

Even Richard C. Shelby of Alabama, the senior Republican on the banking committee and one of the most vocal critics of the proposal, said he expected Congress and the White House to eventually reach a deal.

"I think Congress will react positively at the end of the day," he said. "But in what form, we're not sure yet."

House Speaker Nancy Pelosi, the Senate majority leader; Harry Reid of Nevada; and other Democratic leaders met Tuesday afternoon to form a strategy for bringing the bailout legislation to the floors of both chambers later

Continued on Page A24

McCain Aide's Firm Was Paid By Freddie Mac Through August

By JACKIE CALMES and DAVID D. KIRKPATRICK

WASHINGTON — One of the giant mortgage companies at the heart of the credit crisis paid $15,000 a month from the end of 2005 through last month to a firm owned by Senator John McCain's campaign manager, according to two people with direct knowledge of the arrangement.

The disclosure undercuts a remark by Mr. McCain on Sunday night that the campaign manager, Rick Davis, had had no involvement with the company for the last several years.

Mr. Davis's firm received the payments from the company, Freddie Mac, until it was taken over by the government this month along with Fannie Mae, the other big mortgage lender whose deteriorating finances helped precipitate the cascading problems on Wall Street, the two people said.

They said they did not recall Mr. Davis's doing much substantive work for the company in return for the money, other than to speak to a political action committee of high-ranking employees in October 2006 on the approaching midterm Congressional elections. They said Mr. Davis's firm, Davis Manafort, had been kept on the payroll because of his close ties to Mr. McCain, the Republican presidential nominee, who by 2006 was widely expected to run again for the White House.

Mr. Davis took a leave from Davis Manafort for the presidential campaign, but as an equity holder continues to benefit from its income. No one at Davis Manafort other than Mr. Davis was involved in efforts on Fred-

Continued on Page A18

PINPOINT ATTACKS FOCUS ON OBAMA

Outside Groups Bring Incendiary Charges

By JIM RUTENBERG

STERLING HEIGHTS, Mich. — Hundreds of times in the past three weeks, cable television viewers here have been the exclusive audience for two of the roughest advertisements of the political season.

One links Senator Barack Obama to the former mayor of Detroit, Kwame M. Kilpatrick, an African-American whose political career unraveled in scandal. The other features Mr. Obama's former pastor, the Rev. Jeremiah A Wright Jr., also black, and his now infamous sermon marked by the words "God damn America."

The advertisements, from a political action committee that is not connected to Senator John McCain's presidential campaign, are running only here, in Macomb County, heavily populated by white, unionized auto workers, once considered "Reagan Democrats," whose votes could largely determine which candidate wins Michigan, a state vital to both sides.

The advertisements point up the unusual nature of this year's more potentially pernicious political attacks: They are not coming with the loud, nationally recognized cannon blast of the type launched by Swift Boat Veterans for Truth against Senator John Kerry in 2004, but, rather, as more stealthy, narrowly aimed rifle shots from smaller groups armed with incendiary material.

Mr. McCain has at times been a target of over-the-top attacks from outside groups, such as a recent advertisement from the lib-

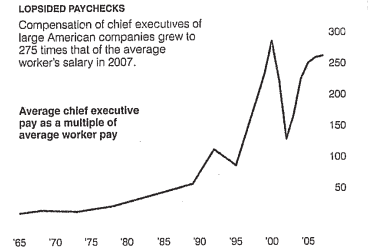
Continued on Page A20

BRIAN SNYDER/REUTERS

Stepping Out on the World Stage

Gov. Sarah Palin met with former Secretary of State Henry A. Kissinger and two foreign leaders in New York. Page A20.

In Bailout Furor, Wall St. Pay Becomes Target for Congress



Source: Economic Policy Institute THE NEW YORK TIMES

By STEVE LOHR

Congress wants Wall Street to feel it where it hurts: the wallet.

The stratospheric pay packages of Wall Street executives have become a lightning rod issue as Congress shapes a $700 billion bailout for financial firms. Proposals circulating on Capitol Hill vary, but they all would impose some limits or approval authority on salaries of executives whose firms seek help.

The moves in Washington mirror the popular outcry — in constituent e-mail messages and postings in the blogosphere — over the prospect of Wall Street's tarnished titans walking away with tens of millions of dollars a year while taxpayers pick up the bill.

But Wall Street, its lobbyists and trade groups are waging a feverish lobbying campaign to try to fight compensation curbs. Pay restrictions, they say, would sap incentives to hard work and innovation, and hurt the financial sector and the American economy.

"We support the bill, but we are opposed to provisions on executive pay," said Scott Talbott, senior vice president for government affairs at the Financial Services Roundtable, a trade group. "It is not appropriate for government to be setting the salaries of executives."

Yet some formal restraint on executive pay seems unavoidable, even sensible, some finance experts and economists said.

Arthur Levitt Jr., a former Wall Street executive as well as a former chairman of the Securities and Exchange Commission, said pay curbs on executives whose firms take part in the bailout were essential for Congressional approval and were reasonable.

The finance industry, Mr. Levitt added, will continue to offer handsome salaries for the successful, though not as high as in the boom years. "The golden egg has disappeared," he said.

Scott A. Shay, chairman of Sig-

Continued on Page A25

ECONOMY IN TURMOIL

GLOBAL CRITICISM Wall Street and the Bush administration came under fire from global leaders as the United Nations opened a new session. PAGE A6

ADJUST FOCUS Congress should avoid distractions and focus on solving the crisis and limiting the cost, writes David Leonhardt in Economic Scene. PAGE C1

TRADING INQUIRY The Federal Bureau of Investigation has opened inquiries into possible fraud involving the four giant corporations at the center of the recent financial turmoil. PAGE C1

Fast Food Hits Mediterranean; a Diet Succumbs

By ELISABETH ROSENTHAL

KASTELI, Greece — Dr. Michalis Stagourakis has seen a transformation of his pediatric practice here over the past three years. The usual sniffles and stomachaches of childhood are now interspersed with far more serious conditions: diabetes, high blood pressure, high cholesterol. A changing diet, he says, has produced an epidemic of obesity and related maladies.

Small towns like this one in western Crete, considered the birthplace of the famously healthful Mediterranean diet — emphasizing olive oil, fresh produce and fish — are now overflowing with chocolate shops, pizza places, ice cream parlors, soda machines and fast-food joints.

The fact is that the Mediterranean diet, which has been associated with longer life spans and lower rates of heart disease and cancer, is in retreat in its home region. Today it is more likely to be found in the upscale restaurants of London and New York than among the young generation in places like Greece, where two-thirds of children are now overweight and the health effects are mounting, health officials say.

"This is a place where you'd see people who lived to 100, where people were all fit and trim," Dr. Stagourakis said. "Now you see kids whose longevity is less than their parents'. That's really scaring people."

That concern has been echoed by the Food and Agriculture Or-

Continued on Page A12

INTERNATIONAL A6-12

Earlier China Milk Complaints
China's state media said the dairy producer Sanlu Group received complaints about its baby milk formula as early as December 2007. PAGE A10

Iraq Trade Officials Forced Out
The Iraqi cabinet forced the resignations of six Trade Ministry officials in an anticorruption sweep. PAGE A8

NATIONAL A14-25

Bill Would End Drilling Ban
House Democrats were preparing a stop-gap spending measure that would eliminate a 26-year-old ban on coastal oil drilling. PAGE A22

BUSINESS DAY C1-14

Google's Rival to iPhone
Google and T-Mobile introduced their iPhone rival, a device that combines a touch screen and a keyboard. PAGE C6

DINING F1-10

Affordable Luxury
Eric Asimov lists wines that for $20 or less give him "the greatest amount of pleasure and excitement for the least amount of money." PAGE F1

METRO B1-8

Raid in Railroad Inquiry
Agents raided a federal Railroad Retirement Board office on Long Island as part of an inquiry into the legitimacy of disability payments to former Long Island Rail Road workers. PAGE B1

SPORTS WEDNESDAY D1-6

Mets Gain; Yanks Are Out
Boston won, officially ending the Yankees' postseason streak at 13. The Mets beat Chicago and gained ground on Philadelphia. PAGES D1, D2

EDITORIAL, OP-ED A26-27

Thomas L. Friedman PAGE A27

ARTS E1-8

The Guggenheim's Choice
Richard Armstrong, whose leadership of the Carnegie Museum in Pittsburgh was rooted in his curatorial background, has been named the next director of the Guggenheim. PAGE E5

SPECIAL TODAY

Business of Green
Facing huge costs to develop hydrogen as a gasoline alternative, energy and auto companies think locally. PAGE H1

ONLINE

Economy and Environment
Two new blogs, Economix and Green Inc., join The Times's lineup.
nytimes.com/business

More Inside The Times.
PAGES A2-3 ➤

OBITUARIES B5-6 CLASSIFIED ADS D6 COMMERCIAL REAL ESTATE MARKETPLACE C15

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"All the News That's Fit to Print"

The New York Times

Late Edition

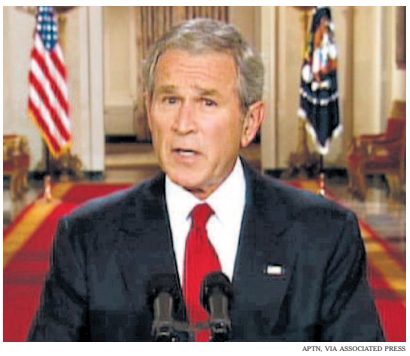
Today, early sun, then cloudy, rain late, turning windy, high 67. **Tonight,** windswept rain, low 59. **Tomorrow,** more rain, brisk winds, high 68. Weather map, Page B8.

VOL. CLVIII . . No. 54,444 © 2008 The New York Times NEW YORK, THURSDAY, SEPTEMBER 25, 2008 $1.50

Bush to Hold Meeting on Bailout; First Debate Up in Air

"It is difficult to pass a bill that commits so much of the taxpayers' hard-earned money. . . . But given the situation we are facing, not passing a bill now would cost these Americans much more later."

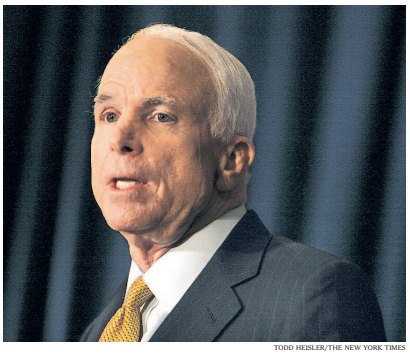
GEORGE W. BUSH



APTN, VIA ASSOCIATED PRESS

"I'm directing my campaign to work with the Obama campaign and the Commission on Presidential Debates to delay Friday night's debate until we have taken action to address this crisis."

JOHN MCCAIN



TODD HEISLER/THE NEW YORK TIMES

"It's my belief that this is exactly the time when the American people need to hear from the person who, in approximately 40 days, will be responsible for dealing with this mess."

BARACK OBAMA

DOUG MILLS/THE NEW YORK TIMES

NORTH KOREANS BAR INSPECTORS AT NUCLEAR SITE

U.S. DIPLOMATIC SETBACK

Plutonium Reprocessing Plan Points to Revival of Arms Program

By STEVEN LEE MYERS and ELAINE SCIOLINO

WASHINGTON — North Korea's move to resume the reprocessing of plutonium, perhaps as soon as next week, left the country on the verge of restarting a nuclear weapons program whose shutdown had been portrayed by the White House as a significant diplomatic achievement.

Secretary of State Condoleezza Rice said Wednesday that the United States still hoped to preserve a hard-won agreement that called for the North to dismantle its nuclear reactor. But North Korea has refused to resume talks, and no new ones are planned.

The International Atomic Energy Agency in Vienna announced Wednesday that North Korea had barred international inspectors from a reprocessing plant at its nuclear reactor complex in Yongbyon. The agency said that North Korea, which tested its first nuclear device in 2006 and is believed to have enough plutonium for at least six nuclear bombs, intended to resume production of nuclear weapons-grade fuel there within a week.

While reversible in theory, any resumption of nuclear work would violate the terms of the agreement, which was announced with fanfare in June and solidified, it appeared, by North Korea's public demolition of a cooling tower at Yongbyon.

North Korea's actions have at best returned negotiations to where they stood months ago, leaving little time for a resolution before the next American administration takes office in January.

Senior Bush administration officials said Wednesday that they believed that North Korea was engaging in transparent brinkmanship to extract concessions as the United States sought to cement the country's commitment to give up its nuclear weapons with a strict and intrusive verification system.

"They don't have a lot of ways to get leverage, and this is one of them," one Bush administration official who was involved in the negotiations said of North Ko-

Continued on Page A16

McCAIN FOR DELAY

Republican Steps Off the Trail for Now to Work on a Deal

By ELISABETH BUMILLER and JEFF ZELENY

Declaring that it was time to "set politics aside," Senator John McCain said Wednesday that he would temporarily stop campaigning and seek to delay Friday's debate with Senator Barack Obama to return to Washington to help forge an agreement on a proposed $700 billion bailout of financial institutions before Congress.

The Obama campaign rejected the call by Mr. McCain, the Republican presidential nominee, to delay the debate, and aides noted that Mr. McCain only made the offer after Mr. Obama reached out to his opponent asking him to issue a joint statement calling for a bipartisan resolution to the financial crisis.

The political maneuvering came as the financial bailout continued to dominate Washington, the headlines and the concerns of ordinary Americans. On Wednesday evening, both Mr. McCain and Mr. Obama, the Democratic presidential nominee, accepted President Bush's invitation to meet with him on Thursday to address the crisis. [News analysis, Page A24.]

Mr. McCain's actions not only cast doubt on whether the highly anticipated debate would come off, but also thrust an unpredictable new element into the negotiations for the bailout, with some Democrats warning that Mr. McCain's intervention could derail progress being made on the rescue package.

Senator Harry Reid of Nevada, the Democratic majority leader, said Mr. McCain and Mr. Obama

Continued on Page A25

PLEA FOR SUPPORT

From White House, a Sense of Urgency, and Concessions

By SHERYL GAY STOLBERG and DAVID M. HERSZENHORN

WASHINGTON — President Bush appealed to the nation Wednesday night to support a $700 billion plan to avert a widespread financial meltdown, and signaled that he is willing to accept tougher controls over how the money is spent.

As Democrats and the administration negotiated details of the package late into the night, the presidential candidates of both major parties planned to meet Mr. Bush at the White House on Thursday, along with leaders of Congress. The president said he hoped the session would "speed our discussions toward a bipartisan bill.''

Mr. Bush used a prime-time address to warn Americans that "a long and painful recession" could occur if Congress does not act quickly.

"Our entire economy is in danger,'' he said. [Excerpts, Page A26.]

On Capitol Hill, Democrats said that progress toward a deal had come after the White House had offered two major concessions: a plan to limit pay of executives whose firms seek government assistance, and a provision that would give taxpayers an equity stake in some of the firms so that the government can profit if the companies prosper in the future. Details of those provisions, and many others, were still under discussion.

Mr. Bush's televised address, and his extraordinary offer to bring together Senator Barack Obama, the Democratic presi-

Continued on Page A26

Rescue Plan's Basic Mystery: What's All This Stuff Worth?

By VIKAS BAJAJ

What would you pay, sight unseen, for a house that nobody wants, on a hard-luck street where no houses are selling?

That question is easy compared to the one confronting the Treasury Department as Washington works toward a vast bailout of financial institutions. Treasury Secretary Henry M. Paulson Jr. is proposing to spend up to $700 billion to buy troubled investments that even Wall Street is struggling to put a price on.

A big concern in Washington — and among many ordinary Americans — is that the difficulty in valuing these assets could result in the government's buying them for more than they will ever be worth, a step that would benefit financial institutions at taxpayers' expense.

Anyone who has tried to buy or sell a house when the market is falling, as it is now, knows how difficult it can be to agree on a price. But valuing the securities that the Treasury aims to buy will be far more difficult. Each one of these investments is tied to thousands of individual mortgages, and many of those loans are going bad as the housing market worsens.

"The reality is that we are not going to know what the right price is for years," said Andrew Feltus, a bond portfolio manager at Pioneer Investments, a mutual fund firm based in Boston. "It might be 20 cents on the dollar or 60 cents on the dollar, but we won't know for years."

While prices of most stocks are

Continued on Page A27

Color-Coded Bracelets Face Hurdles as They Fix Hospital Hazard

By ANEMONA HARTOCOLLIS

At hospitals, as at Tiffany's, ruby-colored bracelets are far preferable to amethyst.

New York's 11 public hospitals are at the forefront of a national movement to standardize color coding of hospital wristbands to designate patient conditions, in which purple — the color of amethyst — means "Do Not Resuscitate." Red, or ruby, indicates allergies, while yellow — call it amber — marks someone at risk for falling.

The goal is to prevent potentially dangerous mistakes, like giving the wrong food to an allergic child, or allowing a patient with balance problems to walk unescorted down a freshly waxed hallway. The drive was spurred, in part, by a notorious 2005 Pennsylvania case in which a patient nearly died because a nurse used a yellow band thinking it meant "restricted extremity" (don't draw blood from that arm), as it did at another hospital where the nurse sometimes worked, when at this hospital it meant D.N.R.

While the new color-coding has been quickly embraced by at least 20 states and endorsed by the American Hospital Association, the purple bands, typically embossed with the letters D.N.R. to reinforce the message, are meeting with some resistance.

The nation's leading hospital-accreditation agency, known as the Joint Commission, has expressed caution about the new system, citing concerns about branding patients by their end-of-life choices, or inadvertently broadcasting those choices to family and friends who have not been consulted.

The commission also said that children who do not understand the system had been prone to trade the wristbands like baseball cards.

"You need to strike a balance between the need for patient safety and accuracy and the whole privacy concern and sensitivity and compassion for the patient," said Roxanne G. Tena-Nelson, executive vice president of the Continuing Care Leadership Coalition, a group of long-term-care providers in New York.

In most places, the new bracelets replace colored ones that have been used for decades without uniformity: a survey by the Greater New York Hospital Association last year found nine different colors used to denote patients with D.N.R. orders, five to indicate allergies and nine to highlight risks of falling. There is still some variation. Ohio has adopted the red and yellow bands but has avoided the purple ones because they conflict with a state law requiring a clear wristband

Continued on Page A21

CHESTER HIGGINS JR./THE NEW YORK TIMES

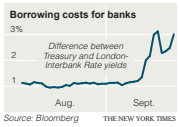
Roosevelt Hospital in Manhattan began using the standard red and yellow wristbands this month, but is hesitating on purple.

ECONOMY IN TURMOIL

CREDIT READINGS The cost of money rose for businesses around the world as the credit markets indicated continued anxiety among investors. PAGE C1

DIRE ASSESSMENT The chairman of the Federal Reserve said the economy was limping and could buckle without a government crutch. PAGE C13

CONSTITUENTS SPEAK Americans' anger is in full bloom in the e-mail in-boxes of lawmakers in the capital. PAGE A27



THE BUFFETT DEAL The government should follow the example of investment set by Warren Buffett, writes David Leonhardt in Economic Scene. PAGE C1

INTERNATIONAL A5-17

Aides Debated Interrogations
Some top White House officials were central to 2002 discussions on whether the C.I.A. could use harsh interrogation methods, documents show. PAGE A14

Iraq Passes Key Election Law
Iraq's Parliament passed a crucial election law, but set aside the most divisive issues for future debate. PAGE A5

NATIONAL A18-27

Foreclosures May Affect Voting
Many people who have lost homes to foreclosure are registered to vote at their old addresses, which may disqualify them at the polls. PAGE A18

BUSINESS DAY C1-17

Rising Strain of Health Costs
Two studies provide further evidence of the toll that rising health care costs are placing on working families. PAGE C4

METRO B1-6

More Shows Made in New York
Tax credits are luring more television productions, like "Ugly Betty." PAGE B1

ARTS E1-8

Francis Bacon's Messy World
A retrospective in London is drawing crowds to see the work of the painter, who called himself "an optimist, but about nothing." PAGE E1

HOME F1-9

House Raffles
Homeowners desperate to sell are turning to games of chance. PAGE F1

STYLES G1-12

Treating 'Money Disorders'
A blend of psychological and budget counseling for those with self-destructive spending habits. PAGE G1

SPORTSTHURSDAY D1-6

Mets Waste an Opportunity
The Mets failed to take advantage of numerous chances and lost to the Chicago Cubs, 9-6 in 10 innings. They fell into a tie for the N.L. wild-card spot. PAGE D1

Armstrong Is Ready to Ride
Lance Armstrong will resume his racing career in January in Australia, and he hopes to compete in July in the Tour de France, a race he has won seven times. PAGE D6

ONLINE

Recipes for Health
This week's recipes by Martha Rose Shulman, which are designed to empower cooks to prepare healthy meals, feature five ways to prepare fresh peppers.
nytimes.com/nutrition

EDITORIAL, OP-ED A28-29

Nicholas D. Kristof PAGE A29

More Inside The Times.
PAGES A2-3 ➤

OBITUARIES B7 CLASSIFIED ADS E9 COMMERCIAL REAL ESTATE MARKETPLACE C17

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The New York Times

Late Edition

Today, periods of rain, some heavy, gusty breezes, high 65. Tonight, showers, patchy fog, low 64. Tomorrow, humid, additional showers, high 70. Weather map, Page D8.

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Day of Chaos Grips Washington; Fate of Bailout Plan Unresolved

DOUG MILLS/THE NEW YORK TIMES

"What I've found . . . is that when you inject presidential politics into delicate negotiations, it's not necessarily as helpful as it needs to be."

BARACK OBAMA

STEPHEN CROWLEY/THE NEW YORK TIMES

"I think that we made progress, and I'm confident we will have a deal. How much I had to do with it, I'll let you and others be the judge."

JOHN MCCAIN

Tentative Accord Crumbles at a White House Meeting

This article was reported by ***David M. Herszenhorn, Carl Hulse*** *and* ***Sheryl Gay Stolberg*** *and written by Ms. Stolberg.*

WASHINGTON — The day began with an agreement that Washington hoped would end the financial crisis that has gripped the nation. It dissolved into a verbal brawl in the Cabinet Room of the White House, urgent warnings from the president and pleas from a Treasury secretary who knelt before the House speaker and appealed for her support.

"If money isn't loosened up, this sucker could go down," President Bush declared Thursday as he watched the $700 billion bailout package fall apart before his eyes, according to one person in the room.

It was an implosion that spilled out from behind closed doors into public view in a way rarely seen in Washington.

By 10:30 p.m., after another round of talks, Congressional negotiators gave up for the night and said they would try again on Friday. Left uncertain was the fate of the bailout, which the White House says is urgently needed to fix broken financial and credit markets, as well as whether the first presidential debate would go forward as planned Friday night in Mississippi.

When Congressional leaders and Senators John McCain and Barack Obama, the two major party presidential candidates, trooped to the White House on Thursday afternoon, most signs pointed toward a bipartisan agreement on a grand compromise that could be accepted by all sides and signed into law by the weekend. It was intended to pump billions of dollars into the financial system, restoring liquidity and keeping credit flowing to businesses and consumers.

"We're in a serious economic crisis," Mr. Bush told reporters as the meeting began shortly before 4 p.m. in the Cabinet Room, adding, "My hope is we can reach an agreement very shortly."

But once the doors closed, the smooth-talking House Republican leader, John A. Boehner of Ohio, surprised many in the room by declaring that his caucus could not support the plan to allow the government to buy distressed mortgage assets from ailing financial companies.

Mr. Boehner pressed an alternative that involved a smaller role for the government, and Mr. McCain, whose support of the deal is critical if fellow Republicans are to sign on, declined to take a stand.

The talks broke up in angry recriminations, according to accounts provided by a participant and others who were briefed on the session, and were followed by

Continued on Page A22

DUBIOUS CLAIMS IN OBAMA'S ADS

Despite a Vow of Truth, Misleading Attacks

By JIM RUTENBERG and JULIE BOSMAN

ROANOKE, Va. — Two weeks ago, Senator Barack Obama's presidential campaign gleefully publicized a spate of news reports about misleading and untruthful statements in the advertisements of his rival, Senator John McCain. Asked by a voter in New Hampshire if he would respond in kind, Mr. Obama said, "I just have a different philosophy, I'm going to respond with the truth," adding, "I'm not going to start making up lies about John McCain."

Yet as Mr. McCain's misleading advertisements became fodder on shows like "The View" and "Saturday Night Live," Mr. Obama began his own run of advertisements on radio and television that have matched the dubious nature of Mr. McCain's more questionable spots.

A radio advertisement running in Wisconsin and other contested states misleadingly reports that Mr. McCain "has stood in the way of" federal financing for stem cell research; Mr. McCain did once oppose such federally supported research but broke with President Bush to consistently support it starting in 2001 (his running mate, Gov. Sarah Palin of Alaska, does not support it).

A commercial running here on Thursday morning highlighting Mr. McCain's votes against incentives for alternative energy misleadingly asserts he supports tax breaks for "one source of energy: oil companies." Mr. McCain's proposed corporate tax break would cover all companies, including those developing new sources of power.

A new television advertisement playing in areas with high concentrations of elderly voters and emphasizing Mr. McCain's support for President Bush's failed plan for private Social Se-

Continued on Page A18

In Largest Bank Failure, U.S. Seizes, Then Sells

By ERIC DASH and ANDREW ROSS SORKIN

Washington Mutual, the giant lender that came to symbolize the excesses of the mortgage boom, was seized by federal regulators on Thursday night, in what is by far the largest bank failure in American history.

Regulators simultaneously brokered an emergency sale of virtually all of Washington Mutual, the nation's largest savings and loan, to JPMorgan Chase for $1.9 billion, averting another potentially huge taxpayer bill for the rescue of a failing institution.

The move came as lawmakers reached a stalemate over the passage of a $700 billion bailout fund designed to help ailing banks, and removed one of America's most troubled banks from the financial landscape.

Customers of WaMu, based in Seattle, are unlikely to be affected, although shareholders and some bondholders will be wiped out. WaMu account holders are guaranteed by the Federal Deposit Insurance Corporation up to $100,000, and additional deposits will be backed by JPMorgan Chase.

By taking on all of WaMu's troubled mortgages and credit card loans, JPMorgan Chase will absorb at least $31 billion in losses that would normally have fallen to the F.D.I.C.

JPMorgan Chase, which acquired Bear Stearns only six months ago in another shotgun deal brokered by the government, is to take control Friday of all of WaMu's deposits and bank branches, creating a nationwide retail franchise that rivals only Bank of America. But JPMorgan will also take on Washington Mutual's big portfolio of troubled assets, and plans to shut down at least 10 percent of the combined

Continued on Page C8

To Pilots, Shea Is Less Ballpark Than Landmark

By MICHAEL S. SCHMIDT

For 44 years, the procession of planes from nearby La Guardia Airport has contributed to an unusual ballpark soundtrack at Shea Stadium, the roar of jet engines a thousand feet above blending with the cracks of bats and the cries from hot dog vendors.

With the stadium set to shut its gates for the final time — possibly Sunday, if the Mets fail to reach the playoffs — the spectators who can claim perhaps the most peculiar relationship with the ballpark may be airline pilots who, with a bird's-eye peek at the field through cockpit windows, have participated in that uncommon convergence of baseball and aviation.

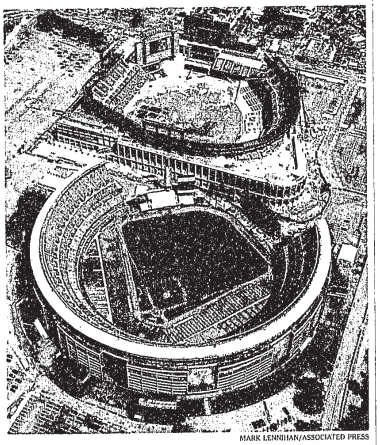
"You are so low and close you can see it and almost smell it," said Glen Millen, who estimates that he has flown into and out of La Guardia 1,800 times since he began flying for American Airlines in 1986.

La Guardia is one of the few airports in the country where pilots use land markers instead of instruments to guide their landings, along with Seattle (a shopping mall) and Washington (a river). Shea Stadium, which from the sky looks like a blue circle with a green center, is a primary runway guidepost. For one of the more common landing routes, pilots are instructed to follow the Long Island Expressway until they arrive at the eastern side of the stadium, at which point they bank the plane left around the outfield wall and head straight for Runway 31.

Among pilots and air-traffic controllers, it is known as the "expressway visual approach."

"We make a sweeping turn around Shea Stadium to land, and

Continued on Page D2



MARK LENNIHAN/ASSOCIATED PRESS

Pilots bank around Shea Stadium, to be replaced by Citi Field.

NEWS ANALYSIS

McCain Leaps Into a Thicket

By ADAM NAGOURNEY and ELISABETH BUMILLER

Senator John McCain had intended to ride back into Washington on Thursday as a leader who had put aside presidential politics to help broker a solution to the financial crisis. Instead he found himself in the midst of a remarkable partisan showdown, lacking a clear public message for how to bring it to an end.

At the bipartisan White House meeting that Mr. McCain had called for a day earlier, he sat silently for more than 40 minutes, more observer than leader, and then offered only a vague sense of where he stood, said people in the meeting.

In subsequent television interviews, Mr. McCain suggested that he saw the bipartisan plan that came apart at the White House meeting as the proper basis for an eventual agreement, but he did not tip his hand as to whether he would give any support to the alternative put on the table by angry House Republicans, with whom he had met before going to the White House.

He said he was hopeful that a deal could be struck quickly and that he could then show up for his scheduled debate on Friday night against his Democratic rival in the presidential race, Senator Barack Obama. But there was no evidence that he was playing a major role in the frantic efforts on

Continued on Page A19

How confident are you in their ability to make the right decisions about the economy?

	VERY/ SOMEWHAT	NOT TOO/ NOT AT ALL
Barack Obama	61%	34%
John McCain	50%	45%

ECONOMY IN TURMOIL

BANKS REMAIN WARY Stocks rose as optimism about the bailout grew, but banks remained wary about making new loans. PAGE C1

RESTORING CONFIDENCE There is no assurance that a government bailout will restore confidence and inspire banks to resume lending, writes Floyd Norris. PAGE C1

ECONOMIC MEMO

Credit Enters A Lockdown

By PETER S. GOODMAN

The words coming out of Washington this week about the American financial system have been frightening. But many have raised the possibility that the Bush administration is fear-mongering to gin up support for its $700 billion bailout proposal.

In many corporate offices, in company cafeterias and around dining room tables, however, the reality of tight credit already is limiting daily economic activity.

"Loans are basically frozen due to the credit crisis," said Vicki Sanger, who is now leaning on personal credit cards bearing double-digit interest rates to finance the building of roads and sidewalks for her residential real estate development in Fruita, Colo. "The banks just are not lending."

With the economy already suffering the strains of plunging housing prices, growing joblessness and the new-found austerity of debt-saturated consumers, many experts fear the fraying of the financial system could pin the nation in distress for years.

Without a mechanism to shed the bad loans on their books, financial institutions may continue to hoard their dollars and starve the economy of capital. Americans would be deprived of financ-

Continued on Page A22

INTERNATIONAL A6-16

Settlers Take On Other Israelis
Some Israeli settlers are using extreme tactics in the occupied West Bank not only against Palestinians, but against other Jews who they say are betraying them. PAGE A14

Europe Reacts to Milk Scandal
European Union regulators ordered rigorous testing of food imports containing milk powder in response to China's widening tainted-milk crisis. PAGE A6

A U.S.-Pakistan Shootout
Pakistani and American troops exchanged fire after the Pakistanis shot at two American helicopters. PAGE A8

NATIONAL A17-23

Earmarks Nearing Approval
Congress moved toward final approval of an omnibus spending bill with more than 2,300 pet projects, including a $2 million study of animal hibernation. PAGE A17

ARTS E1-38

'Paradise Lost' In Brooklyn
A costume ball and an art exhibition of some 90 paintings and sculptures honor John Milton's 400th birthday. PAGE E29

BUSINESS DAY C1-12

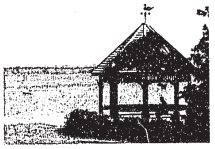
Help for Auto Parts Maker
General Motors plans to help the Delphi Corporation with its pension obligations to ease it out of bankruptcy. PAGE C7

METRO B1-6

Officers Faulted in Taser Death
The police said that the firing of a Taser stun gun that led to a fatal fall appeared to have violated guidelines. PAGE B1

SPORTSFRIDAY D1-7

The Mets Aren't Dead Yet
The Mets rallied to beat the Cubs and improve their playoff chances. PAGE D1



ESCAPES F1-8

In an Explorer's Wake
On a canoe trip retracing the route of the explorer Samuel de Champlain, it is still possible to see a portion of the lake described in his journal nearly 400 years ago. PAGE F1

EDITORIAL, OP-ED A24-25

Paul Krugman PAGE A25

ONLINE

Reviving 'Equus'
Thea Sharrock talks about directing the revival of "Equus" on Broadway, a production starring Daniel Radcliffe and Richard Griffiths.
nytimes.com/theater

More Inside The Times.
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"All the News That's Fit to Print"

The New York Times

Late Edition

Today, cloudy, showers, humid, high 72. **Tonight,** some lingering showers, patchy fog, low 66. **Tomorrow,** limited sun, a shower, high 75. Weather map, Page D8.

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Conservatives Viewed Bailout As Last Straw

Unwilling to Continue Bowing to President

By CARL HULSE

WASHINGTON — The seeds of the House Republican revolt over the financial industry bailout were sown in an e-mail message circulated Monday night as internal animosity built quickly over the Bush administration's request for $700 billion to prevent an economic collapse.

In a message to members of the conservative Republican Study Committee, leaders of the bloc of more than 100 lawmakers solicited ideas, calling for a "free-market alternative to the Treasury Department's proposal so that, regardless of how individual R.S.C. members vote on final passage, House conservatives have something to be for."

As the week progressed, it became abundantly clear that one thing conservative Republicans were most certainly not for was the Treasury plan, prompting them to begin searching for an alternative to avoid the perception of strictly being naysayers.

By the end of Friday, at least a portion of their alternative seemed likely to be included in the broader proposal as a sweetener for Republicans, although closed-door negotiations continued into the evening on Friday, and the contours of the final package remained in limbo. [Page 15.]

After years of acceding to the White House on a variety of initiatives despite deep misgivings, House Republicans found the administration's latest proposal to be too much to swallow.

Just as they were trying to reassert themselves as a party of fiscal restraint, President Bush,

Continued on Page A16

ECONOMY IN TURMOIL

BANK TALKS Wachovia, weighed down by troubled mortgage loans, is discussing a possible merger with healthier banks as it tries to find a lifeline. PAGE C1

A FAMILIAR HAND When the Federal Reserve needed to find a buyer for Washington Mutual, it found a familiar name eager to take over. PAGE C1

S.E.C. CONCEDES OVERSIGHT FLAWS FUELED COLLAPSE

DEREGULATION FAULTED

A Voluntary Program to Supervise Wall St. Is Abolished

By STEPHEN LABATON

WASHINGTON — The chairman of the Securities and Exchange Commission, a longtime proponent of deregulation, acknowledged on Friday that failures in a voluntary supervision program for Wall Street's largest investment banks had contributed to the global financial crisis, and he abruptly shut the program down.

The S.E.C.'s oversight responsibilities will largely shift to the Federal Reserve, though the commission will continue to oversee the brokerage units of investment banks.

Also Friday, the S.E.C.'s inspector general released a report strongly criticizing the agency's performance in monitoring Bear Stearns before it collapsed in March. Christopher Cox, the commission chairman, said he agreed that the oversight program was "fundamentally flawed from the beginning."

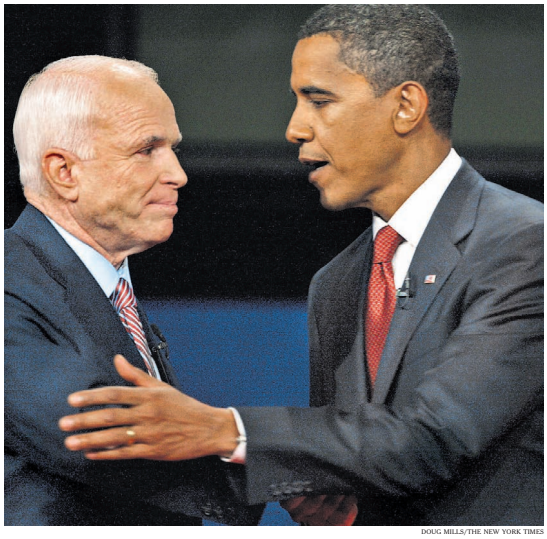
"The last six months have made it abundantly clear that voluntary regulation does not work," he said in a statement. The program "was fundamentally flawed from the beginning, because investment banks could opt in or out of supervision voluntarily. The fact that investment bank holding companies could withdraw from this voluntary supervision at their discretion diminished the perceived mandate" of the program, and "weakened its effectiveness," he added.

Mr. Cox and other regulators, including Ben S. Bernanke, the Federal Reserve chairman, and Henry M. Paulson Jr., the Treasury secretary, have acknowledged general regulatory failures over the last year. Mr. Cox's statement on Friday, however, went beyond that by blaming a specific program for the financial crisis — and then ending it.

On one level, the commission's

Continued on Page A17

RIVALS DISPLAY STARK CONTRASTS IN CLASHES ON WAR AND ECONOMY



DOUG MILLS/THE NEW YORK TIMES

Senator John McCain and Senator Barack Obama during their first presidential debate Friday.

Beyond Ideology, a Collision of Generations

ALESSANDRA STANLEY

THE TV WATCH

One candidate cited Churchill and Eisenhower, and described George Shultz, who served in Ronald Reagan's cabinet, as a "great secretary of state."

The other promised anxious voters a federal budget that could be examined on a "Google for government" and accused his opponent of having a "20th-century mindset."

The first presidential debate was more than a clash of ideology or temperaments. Barack Obama and John McCain did not even wrestle over the $700 billion economic bailout. Theirs was a generational collision, and at times it looked almost like a dramatic rendition of Freudian family tension: an older patriarch frustrated and even cranky when challenged by a would-be successor to the family business who thinks he can run it better.

Neither of the candidates took full advantage of the debate rules that allowed them to confront each other directly, and that reticence suggested the stiff politesse of two relatives determined not to ruin Thanksgiving dinner.

Mr. McCain, 72, repeatedly argued that Mr. Obama, who is 47, was not ready for the job: "I'm afraid Senator Obama doesn't understand" and "What Senator Obama doesn't seem to understand" and "Senator Obama still doesn't understand."

He deplored his opponent's "naïveté," though he stumbled slightly on the pronunciation of the Iranian president's name, and twice repeated that he had not been elected Miss Congeniality of the Senate — some viewers might have wondered if he had forgotten that he had already used that metaphor. When Mr. Obama was speaking, Mr. McCain was at times fidgety, grinning awkwardly and shifting from foot to foot.

Mr. Obama was calm, still, poised and more businesslike than personable. He was trying to be like John F. Kennedy talking about the space race, but he often sounded like a technocrat.

He wore a dark suit and a flag

Continued on Page A12

FIRST ENCOUNTER

Obama Assails Bush Policies as McCain Cites Experience

By ADAM NAGOURNEY and JEFF ZELENY

From the economy to foreign affairs to the way they carried themselves on stage, Senators John McCain and Barack Obama offered a dramatic contrast to the nation in their first presidential debate on Friday night, mixing disdain and often caustic remarks as they set out sharply different views of how they would manage the country and confront America's adversaries abroad.

The two men met for 90 minutes against the backdrop of the nation's worst financial crisis since the Great Depression and intensive negotiations in Congress over a $700 billion bailout plan for Wall Street.

Despite repeated prodding, Mr. McCain and Mr. Obama refused to point to any major adjustments they would need to make to their governing agendas — like scaling back promised tax reductions or spending programs — to accommodate what both men said could be very tough economic times for the next president.

For the first 40 minutes, Mr. Obama repeatedly sought to link Mr. McCain to President Bush, and suggested that it was policies of excessive deregulation that led to the financial crisis and mounting economic problems the nation faces now.

"We also have to recognize that this is a final verdict on eight years of failed economic policies promoted by George Bush, supported by Senator McCain — the theory that basically says that we can shred regulations and consumer protections and give more and more to the most and somehow prosperity will trickle down," Mr. Obama said. "It hasn't worked, and I think that the fundamentals of the economy have to be measured by whether or not the middle class is getting a fair shake."

Mr. McCain became more ani-

Continued on Page A13

Despite Warnings, China's Regulators Failed to Stop Tainted Milk

By JIM YARDLEY and DAVID BARBOZA

SHIJIAZHUANG, China — Barely a month ago, China's staging of the Beijing Olympics demonstrated how the Communist Party could mobilize its authoritarian political system. But the international scandal now unfolding over China's contaminated dairy products is demonstrating, again, the weaknesses of that system.

In recent days, Prime Minister Wen Jiabao has apologized for a scandal that has sickened 53,000 children, killed at least three and devastated China's dairy industry, which he has promised to reform.

But a year ago, Mr. Wen made a similar pledge to overhaul safety regulations for food, drugs and other products in response to other safety scandals. His government authorized $1.1 billion and sent 300,000 inspectors to examine food and drug producers, but regulators could not prevent China's biggest dairy producers from selling baby formula laced with an industrial additive called melamine.

The dairy scandal raises the core question of whether the ruling Communist Party is capable of creating a transparent, accountable regulatory structure within a one-party system. Party leaders realize that effective regulation is essential to convince the world that China's products are safe and so maintain the rapid economic growth that has helped to sustain the party's power. But many analysts say the party's need to maintain control — of the economy and of information — undermines the independence of any regulatory system.

Beijing's political priority of holding a "harmonious" Olympics was also a factor. Parents who tried to act as whistle-blowers were thwarted by an unresponsive bureaucracy, while Chinese journalists were blocked by censorship edicts banning coverage of politically touchy subjects during the prelude to the Olympics.

Officials now acknowledge that China's leading dairy companies — including the Sanlu Group, the worst offender in the scandal — were exempted from mandatory government inspections. In hindsight, inspections might not have mattered: in May, the government's top food quality agency rated dairy companies among the safest producers in China's food industry, reporting that 99 percent of them passed safety inspections for their infant milk formula. Now, the government says that 22 dairy companies, including export brands like Mengniu and Yili, have produced powdered baby formula that contains traces of melamine.

"The system needs to be reexamined, top to bottom," said Eliot R. Cutler, an expert on regulation and energy policy at the Beijing office of Akin Gump, an international law firm.

Much of the public outrage in China over the dairy scandal is focused on how the problem re-

Continued on Page A10

CHINA PHOTOS, VIA GETTY IMAGES

The tainted-milk crisis has devastated China's dairy industry. Farmers in Hubei Province poured out milk they could not sell.

Somalia Pirates Capture Tanks And Unwanted Global Notice

By JEFFREY GETTLEMAN

NAIROBI, Kenya — For a moment, the pirates must have thought that they had really struck gold — Somalia-style.

The gun-toting, seafaring thieves, who routinely pounce on cargo ships bobbing along on the Indian Ocean, suddenly found themselves in command of a vessel crammed with $30 million worth of grenade launchers, piles of ammunition, even battle tanks.

But this time, they might have gotten far more than they bargained for. Unlike so many other hijackings off the Somali coast that have gone virtually unnoticed — and unpunished — the attack Thursday evening on the Faina, a Ukrainian vessel bringing military equipment to Kenya, has provoked the wrath of two of the most powerful militaries on the planet.

The United States Navy was in hot pursuit of the ship on Friday. And the Russians were not far behind.

"This is really getting out of control," said Mohamed Osman Aden, a Somali diplomat in Kenya. "You see how many countries are involved now? These pirates aren't going to get away with this."

Somalia's 1,880-mile coastline is crawling with pirates, a serious problem given that so much of the country is dependent on emergency food aid, which comes mostly by ship.

The pirates are highly organized. They work in teams. There is even a pirate spokesman (who could not be reached for comment on Friday).

They seem to strike with increasing impunity, grabbing everything from sailing yachts to oil tankers. They then usually demand millions of dollars in ransom for the ships and their crews.

And people usually pay — a response that Somali and Western officials say is fueling the problem. This year is one of the worst on record, with more than 50 ships attacked, 25 hijacked and at least 14 currently being held by pirates. The waters off Somalia are now considered the most dangerous in the world. As for

Continued on Page A9

INTERNATIONAL A6-10

Russian Oil Deal With Chávez

Russia announced that it would form an oil consortium with Venezuela, and outlined plans to modernize its military. Above, Prime Minister Vladimir V. Putin in Moscow with President Hugo Chávez of Venezuela. PAGE A7

NATIONAL A11-19

Congress on Other Issues

The House passed a bill intended to revive the economy with $61 billion of federal spending, but the Senate blocked consideration of a similar bill, and President Bush issued veto threats against both measures. PAGE A11

METRO B1-4

Taser Death Brings Changes

Two days after a Brooklyn man fell to his death when a police officer with the Emergency Service Unit shot him with a Taser gun, the New York Police Department said that it had appointed a new unit commander. PAGE B1

SPORTSSATURDAY D1-7

Leave the Laptop at Home

The digital age has been slow to arrive in college football, where rules keep technology at arm's length. PAGE D1

ARTS B7-16

Immersed in a New World

Sant Ocean Hall at the Smithsonian National Museum of Natural History offers another view of reality. PAGE B7

THIS WEEKEND

T: Design For Fall

Clean, functional furnishings; a visit with an artist who works in glass; and a mall with its own condominiums.

'The War Within'

In the last installment of his four-volume series on the Bush administration, Bob Woodward renders a harsh final appraisal of the president. BOOK REVIEW

EDITORIAL, OP-ED A20-21

Bob Herbert PAGE A21

ONLINE

Goodbye, Shea

Growing up nearby, Jay Schreiber has been going to Mets games since Shea Stadium opened in 1964. Despite its flaws, he says, Shea has its own charm.

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More Inside The Times.

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Late Edition
Today, limited sun, showers, high 75. Tonight, some rain, fog, low 64. Tomorrow, partly sunny, drier, high 77. Yesterday, high 75, low 66. Details, SportsSunday, Page 8.

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Behind Biggest Insurer's Crisis, A Blind Eye to a Web of Risk

How a Small, Freewheeling Unit Brought A.I.G. to Its Knees

"It is hard for us, without being flippant, to even see a scenario within any kind of realm of reason that would see us losing one dollar in any of those transactions."

— Joseph J. Cassano, a former A.I.G. executive, August 2007

By GRETCHEN MORGENSON

Two weeks ago, the nation's most powerful regulators and bankers huddled in the Lower Manhattan fortress that is the Federal Reserve Bank of New York, desperately trying to stave off disaster.

As the group, led by Treasury Secretary Henry M. Paulson Jr., pondered the collapse of one of America's oldest investment banks, Lehman Brothers, a more dangerous threat emerged: American International Group, the world's largest insurer, was teetering. A.I.G. needed billions of dollars to right itself and had suddenly begged for help.

KEITH WALDEGRAVE/SOLO SYNDICATION/ZUMA PRESS

Joseph J. Cassano ran an office in London that lost billions of dollars for its company.

The only Wall Street chief executive participating in the meeting was Lloyd C. Blankfein of Goldman Sachs, Mr. Paulson's former firm. Mr. Blankfein had particular reason for concern.

Although it was not widely known, Goldman, a Wall Street stalwart that had seemed immune to its rivals' woes, was A.I.G.'s largest trading partner, according to six people close to the insurer who requested anonymity because of confidentiality agreements. A collapse of the insurer threatened to leave a hole of as much as $20 billion in Goldman's side, several of these people said.

Days later, federal officials, who had let Lehman die and initially balked at tossing a lifeline to A.I.G., ended up bailing out the insurer for $85 billion.

Their message was simple: Lehman was expendable. But if A.I.G. unspooled, so could some of the mightiest enterprises in the world.

A Goldman spokesman said in an interview that the firm was never imperiled by A.I.G.'s troubles and that Mr. Blankfein participated in the Fed discussions to safeguard the entire financial system, not his firm's own interests.

Yet an exploration of A.I.G.'s demise and its relationships with firms like Goldman offers important insights into the mystifying, virally connected — and astonishingly fragile — financial world that began to implode in recent weeks.

Although America's housing collapse is often cited as having caused the crisis, the system was vulnerable because of intricate financial contracts known as credit derivatives, which insure debt holders against default. They are fashioned privately and beyond the ken of regulators — sometimes even beyond the understanding of executives peddling them.

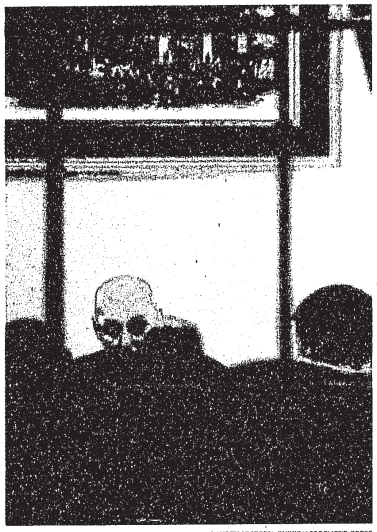
Originally intended to diminish risk and spread prosperity, these inventions instead magnified the impact of bad mortgages like the ones that felled Bear Stearns and Lehman and now threaten the entire economy.

In the case of A.I.G., the virus exploded from

Continued on Page 28

Breakthrough Reached on Bailout

Vote in Congress Could Come Monday



LAUREN VICTORIA BURKE/ASSOCIATED PRESS

Treasury Secretary Henry M. Paulson Jr. negotiating late Saturday night on Capitol Hill. Latest developments at nytimes.com.

By DAVID M. HERSZENHORN and CARL HULSE

WASHINGTON — Congressional leaders and the Bush administration reached a tentative agreement early Sunday on what may become the largest financial bailout in American history, authorizing the Treasury to purchase $700 billion in troubled debt from ailing firms in an extraordinary intervention to prevent widespread economic collapse.

Officials said that Congressional staff members would work through the night to finalize the language of the agreement and draft a bill, and that the bill probably would be brought to the House floor on Monday.

The bill includes pay limits for some executives whose firms seek help, aides said. And it requires the government to use its new role as owner of distressed mortgage-backed securities to make more aggressive efforts to prevent home foreclosures. In some cases, the government would receive an equity stake in companies that seek aid, allowing taxpayers to profit should the rescue plan work and the private firms flourish in the months and years ahead.

The White House also agreed to strict oversight of the program by a Congressional panel and conflict-of-interest rules for firms hired by the Treasury to help run the program. As they approached a final deal, both sides appeared to have given up a number of contentious proposals, including a change in the bankruptcy laws sought by some Democrats to give judges the authority to modify the terms of first mortgages.

Congressional leaders and Treasury Secretary Henry M. Paulson Jr. emerged from behind closed doors at 12:30 a.m. Sunday after two days of marathon meetings.

"We have made great progress toward a deal, which will work and be effective in the marketplace," Mr. Paulson said at a news conference in Statuary Hall in the Capitol.

A senior administration official who participated in the talks said the deal was effectively done. "I know of no unresolved open issues for principals," the official said.

In the final hours of negotiations, Democratic lawmakers were carrying pages of the bill by hand, back and forth from Speaker Nancy Pelosi's office, where the Democrats were encamped, to Mr. Paulson and other Republicans in the offices of Representative John A. Boehner of Ohio, the House minority leader.

At the same time, a series of phone calls was taking place, including conversations between Ms. Pelosi and President Bush; between Mr. Paulson and the two presidential candidates, Senator John McCain and Senator Barack Obama; and between the candidates and top lawmakers.

In announcing a tentative agreement, lawmakers and the administration achieved their goal of sending a reassuring message ahead of Monday's opening of the Asian financial markets. Lawmakers were also eager to adjourn and return home for the fall campaign season.

Officials said they had agreed to include a proposal by House Republicans for an alternative that gives the Treasury authority to issue government insurance for troubled financial instruments as a way of reducing the amount of taxpayer money spent

Continued on Page 29

For McCain and Team, a Host Of Ties to Gambling Industry

By JO BECKER and DON VAN NATTA Jr.

Senator John McCain was on a roll. In a room reserved for high-stakes gamblers at the Foxwoods Resort Casino in Connecticut, he tossed $100 chips around a hot craps table. When the marathon session ended around 2:30 a.m., the Arizona senator and his entourage emerged with thousands of dollars in winnings.

A lifelong gambler, Mr. McCain takes risks, both on and off the craps table. He was throwing dice that night not long after his failed 2000 presidential bid, in which he was skewered by the Republican Party's evangelical base, opponents of gambling. Mr. McCain was betting at a casino he oversaw as a member of the Senate Indian Affairs Committee, and he was doing so with the lobbyist who represents that casino, according to three associates of Mr. McCain.

The visit had been arranged by the lobbyist, Scott Reed, who works for the Mashantucket Pequot, a tribe that has contributed heavily to Mr. McCain's campaigns and built Foxwoods into the world's second-largest casino. Joining them was Rick Davis, Mr. McCain's current campaign manager.

Their night of good fortune epitomized not just Mr. McCain's affection for gambling, but also the close relationship he has built with the gambling industry and its lobbyists during his 25-year career in Congress.

As a two-time chairman of the Indian Affairs Committee, Mr. McCain has done more than any other member of Congress to shape the laws governing America's casinos, helping to transform the once-sleepy Indian gambling business into a $26-billion-a-year behemoth with 423 casinos across the country. He has won praise as a champion of economic development and self-

Continued on Page 24

A Tycoon Tweaks Putin, and Gets Away With It

By ELLEN BARRY

MOSCOW — A certain sense of humor was called for when the billionaire Aleksandr Y. Lebedev looked out at the banquet hall that was glowing with candelabra and bare shoulders, where he had convened Moscow's elite to raise support for a major new theater project. But he seemed well prepared.

"If there's somebody in this hall who still has any money left to support the Chekhov foundation," began Mr. Lebedev, who was wearing patent leather sneakers with his tuxedo. Laughter began to spread among the tables.

"This is said by someone who has just left the Forbes list," he went on, referring to the annual ranking of billionaires, which recently gave him spot No. 358, with a fortune its editors estimated at $3.1 billion.

Sixty percent of his holdings were wiped out by the Russian stock market crash this month, Mr. Lebedev said cheerfully, as the coffee cups and ashtrays were cleared away. That fact does not make him unusual among Moscow's big industrialists, known as oligarchs, most of whom have borrowed heavily against future earnings.

What makes Mr. Lebedev stand out is that he is making a fuss about it. Russia's oligarchs once had a powerful public voice in Russian society, airing their views on their television stations and pouring money into political parties. But Vladimir V. Putin has hemmed in this once-unruly group, harshly punishing political challengers and leaving the rest of the oligarchs too frightened — or too closely tied to government — to protest publicly during a

Continued on Page 18

Paul Newman, a Magnetic Titan of Hollywood for a Half-Century, Is Dead at 83

By ALJEAN HARMETZ

Paul Newman, one of the last of the great 20th-century movie stars, died Friday at his home in Westport, Conn. He was 83.

The cause was cancer, said Jeff Sanderson of Chasen & Company, Mr. Newman's publicists.

If Marlon Brando and James Dean defined the defiant American male as a sullen rebel, Paul Newman recreated him as a likable renegade, a strikingly handsome figure of animal high spirits and blue-eyed candor whose magnetism was almost impossible to resist, whether the character was Hud, Cool Hand Luke or Butch Cassidy.

He acted in more than 65 movies over more than 50 years, drawing on a physical grace, unassuming intelligence and good humor that made it all seem effortless.

Yet he was also an ambitious, intellectual actor and a passionate student of his craft, and he achieved what most of his peers find impossible: remaining a major star into a craggy, charismatic old age even as he redefined himself as more than Hollywood star. He raced cars, opened summer camps for ailing children and became a nonprofit entrepreneur with a line of foods that put his picture on supermarket shelves around the world.

BEYOND BLUE EYES

An actor who used his looks to explore the complexities of his characters. An Appraisal, Page 34.

Mr. Newman made his Hollywood debut in the 1954 costume film "The Silver Chalice." Stardom arrived a year and a half later, when he inherited from James Dean the role of the boxer Rocky Graziano in "Somebody Up There Likes Me." Mr. Dean had been killed in a car crash before the screenplay was finished.

It was a rapid rise for Mr. New-

Continued on Page 35

AGENCE FRANCE-PRESSE — GETTY IMAGES. LEFT: SARA KRULWICH/THE NEW YORK TIMES

Paul Newman appeared in "Cat on a Hot Tin Roof" with Elizabeth Taylor in 1958, earning an Oscar nomination. In 2002, he played the Stage Manager in "Our Town" on Broadway.

INTERNATIONAL 8-19

Car Bomb in Syria Kills 17
An explosion in Damascus near an intelligence agency office was the worst attack in the country in decades. PAGE 8

China's First Spacewalk
An astronaut reached a milestone for China's space program. PAGE 13

NATIONAL 20-29

Massachusetts Tax Rebellion
Officials in Massachusetts are worried about a ballot measure that seeks to eliminate the state income tax. PAGE 21

A Sheriff Praised and Reviled
As Joe Arpaio, an Arizona sheriff, seeks re-election, a referendum on his contentious approach to law enforcement is under way in the public arena. PAGE 20

METRO 31-38

Spitzer Looks to the Future
Six months after leaving office, former Gov. Eliot Spitzer, still contrite but angry at times, is not looking back. PAGE 31

ARTS & LEISURE

Candidates for Destruction
The architecture critic Nicolai Ouroussoff lists buildings that he says New York City might be better off without, including Madison Square Garden and Pennsylvania Station.

WEEK IN REVIEW

The Fall of Olmert
Some in Israel are expressing regret at the resignation of Ehud Olmert, who as prime minister had come to support negotiations with the Palestinians. PAGE 1

OP-ED IN WEEK IN REVIEW 9-12

Frank Rich PAGE 11

SPORTSSUNDAY

Mets Live for One More Day

Johan Santana, left, threw a three-hit shutout against the Florida Marlins as the Mets moved into a tie with the Milwaukee Brewers for the National League wild-card spot on the next-to-last day of the regular season. PAGE 1

SUNDAY BUSINESS

Wall Street, R.I.P.
The days of easy money and supersize bonuses are gone. PAGE 1

ONLINE

Rural Russia
James Hill's audio slide show on a society still deeply rooted in timeless ways.
nytimes.com/weekinreview

More Inside The Times.
PAGES 2-3 ➤

OBITUARIES 35-36 WEATHER SPORTSSUNDAY 8

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The New York Times

Late Edition

Today, partly sunny, mild, high 75. **Tonight,** partly cloudy, patchy fog late, low 61. **Tomorrow,** partly sunny, showers at night, high 73. Weather map appears on Page B6.

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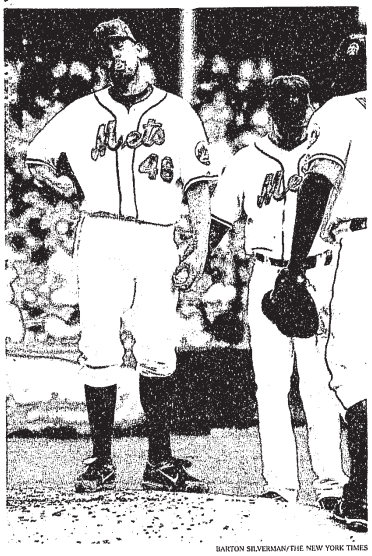

BARTON SILVERMAN/THE NEW YORK TIMES

Goodbye to Shea, and to Mets' Season

Oliver Pérez and the Mets could not extend their season or the life of Shea Stadium. A 4-2 loss to Florida ended their playoff hopes and turned out to be a bitter finale at Shea. Page D1.

Bailout Plan Is Set; House Braces for Tough Vote

NEWS ANALYSIS

Opening Step On Long Road

By STEVE LOHR

The government's planned financial bailout is a significant if costly step intended to avert economic calamity, but it may not be the last one, according to economists and finance experts.

The rescue plan would use taxpayer money — $350 billion initially, and up to $700 billion with Congressional approval — to buy mostly soured mortgage-backed securities from Wall Street firms and banks.

These arcane investment instruments, linked to home mortgages, have combined with falling housing prices to ignite the credit crisis, which in turn has dire potential for an economic contagion that threatens even sound businesses and secure jobs in industry after industry.

By taking these securities off the banks' hands, the bailout plan seeks to restore confidence in the financial system and ensure that banks can still carry on their fundamental role of handling payments and offering credit to the masses.

"Maybe they can restore confidence with the program," said Simon Johnson, an economist at the Sloan School of Management at the Massachusetts Institute of Technology.

"It may work, and it could get us through the election in November," he said.

But Mr. Johnson, a former senior researcher at the International Monetary Fund, said further steps might well be needed, with much work remaining for the

Continued on Page A14

LAUREN VICTORIA BURKE/ASSOCIATED PRESS

A DEAL AFTER MIDNIGHT Henry M. Paulson Jr., the Treasury secretary, center, with Speaker Nancy Pelosi and Senator Harry Reid, announced the new agreement on a $700 billion rescue plan for the financial industry on Sunday.

Details of the Rescue Bill

COST $700 billion to be spent in installments: $250 billion immediately, with another $100 billion if the president says he needs it. The president can ask for $350 billion more, but Congress could vote to stop it.

WHO RUNS IT? The secretary of the Treasury, with wide discretion but in consultation with the Federal Reserve, the Securities and Exchange Commission, the Department of Housing and Urban Development and the Federal Home Finance Agency.

EQUITY STAKE IN FIRMS THAT PARTICIPATE Participants must give the government warrants to receive stock, providing taxpayers a chance to share in ownership and profits.

DEBT INSURANCE A new form of insurance enabling bailout participants to pay premiums that would guarantee troubled assets.

LAYERS OF ACCOUNTABILITY A multitiered oversight that includes a bipartisan Congressional panel, a special inspector general, regular audits by the General Accounting Office and public disclosure of money spent.

EXECUTIVE COMPENSATION RESTRICTIONS Steep tax consequences for some participants on executive salaries over $500,000.

MORTGAGES The government must approve "reasonable" adjustments on mortgages it takes over.

THE NEW YORK TIMES

A TENSE DEBATE

Revised Bill Contains Added Protection for Taxpayers

By CARL HULSE and DAVID M. HERSZENHORN

WASHINGTON — The House braced for a difficult vote set for Monday on a $700 billion rescue of the financial industry after a weekend of tense negotiations produced a plan that Congressional leaders portrayed as greatly strengthened by new taxpayer safeguards.

The 110-page bill, intended to ease a growing credit crisis, came after a frenzied week of political twists and turns that culminated in an agreement between the Bush administration and Congress early Sunday morning.

The measure still faced stiff resistance from Republican and Democratic lawmakers who portrayed it as a rush to economic judgment and an undeserved aid package for high-flying financiers who chased big profits through reckless investments.

With the financial package looming as a final piece of business before lawmakers leave to campaign for the November elections, leaders of both parties in the House and Senate intensified their efforts to sell reluctant members of Congress on the legislation.

All sides had to surrender something. The administration had to accept limits on executive pay and tougher oversight; Democrats had to sacrifice a push to allow bankruptcy judges to rewrite mortgages; and Republicans fell short in their effort to require that the federal government insure, rather than buy, the bad debt.

Even so, lawmakers on all sides said the bill had been significantly improved from the Bush administration's original proposal.

The final version of the bill included a deal-sealing plan for eventually recouping losses; if the Treasury program to purchase and resell troubled mortgage-backed securities has lost money after five years, the president must submit a plan to Congress to recover those losses from the financial industry. Presumably that plan would involve new fees or taxes, perhaps on securities transactions.

"This is a major, major change," Speaker Nancy Pelosi said on Sunday evening as she declared that negotiations were over and that a House vote was planned for Monday, with Senate action to follow.

The deal would also restrict gold-plated farewells for executives of companies that sell devalued assets to the Treasury Department.

President Bush called the measure "a very good bill" and praised Congressional leaders. "This plan sends a strong signal to markets around the world that the United States is serious about restoring confidence and stability

Continued on Page A14

To Smother Chechen Insurgency, A Campaign of House Burning

By C. J. CHIVERS

SHALI, Russia — The men who set fire to Valentina Basargina's house arrived in the stillness of 3 a.m. There were three of them. Each wore a camouflage uniform and carried a rifle. One held a can of gasoline. They wore masks.

They led Ms. Basargina and her son outside and splashed gasoline in their two rooms, she and her relatives said. One man produced a T-shirt, knotted onto a stick. It was damp with gas.

"This is for the one who is gone," he said in thickly accented Russian. Ms. Basargina's nephew had recently disappeared; the police had said he joined the small but smoldering insurgency fighting for Chechnya's independence from Russia.

The man lit the torch and tossed it inside. The air whooshed. Flames shot through the house.

The attack, late last month, was part of what Chechens described as an intensified government effort to stamp out the remnants of a war that has continued, at varying levels of ferocity, for nearly 15 years.

In a campaign to punish families with sons suspected of supporting the insurgency, at least a dozen homes have been set ablaze since midsummer, residents and a local human rights organization said.

The burnings have been accompanied by a program, embraced by Ramzan A. Kadyrov, Chechnya's president, that has forced visibly frightened parents of insurgents to appear on television and beg their sons to return home.

"If you do not come back I will never forgive you," one father, Ruslan Bachalov, said to his son on a recent broadcast. "I will forgive the man who will kill you."

"I have no other way out," he added. "The authorities and the president demand that I bring my son back."

In the arson cases, each attack has followed the same pattern.

Continued on Page A10

Treasury Would Emerge With Vast New Power

Few Rules Restrain Discretion Over Securities

By FLOYD NORRIS

During its weeklong deliberations, Congress made many changes to the Bush administration's original proposal to bail out the financial industry, but one overarching aspect of the initial plan that remains is the vast discretion it gives to the Treasury secretary.

The draft legislation, which will be put to a House vote on Monday, gives Treasury Secretary Henry M. Paulson Jr. and his successor extraordinary power to decide how the $700 billion bailout fund is spent. For example, if he thinks it wise, he may buy not only mortgages and mortgage-backed securities, but any other financial instrument.

To be sure, the Treasury secretary's powers have been tempered since the original Bush administration proposal, which would have given Mr. Paulson nearly unfettered control over the program. There are now two separate oversight panels involved, one composed of legislators and the other including regulatory and administration officials.

Still, Mr. Paulson can choose to buy from any financial institution that does business in the United States, or from pension funds, with wide discretion over what he will buy and how much he will pay. Under most circumstances, banks owned by foreign governments are not eligible for the money, but under some conditions, the secretary can choose to bail out foreign central banks.

Under the bill, the Treasury is to buy the securities at prices he deems appropriate. Mr. Paulson may set prices through auctions but is not required to do so.

Rarely if ever has one man had such broad authority to spend government money as he sees fit, with no rules requiring him to seek out the lowest possible price for assets being purchased.

The secretary is supposed to

Continued on Page A15

RINA CASTELNUOVO FOR THE NEW YORK TIMES

This year in Jerusalem, Muslims and Jews are often crossing paths as major holidays coincide.

JERUSALEM JOURNAL

As Holy Days Mix in Old City, So Do Wary Jews and Muslims

By ETHAN BRONNER

JERUSALEM — Jews are not quiet in prayer. Even when focused on the most personal of quests, as they are this season — asking God for forgiveness for dark thoughts and unkind deeds in the past year — they take comfort in community, chanting and swaying and dancing in circles, blowing the trumpet-like shofar, a ram's horn.

These are the days of the Jewish month of Elul, leading up to Rosh Hashana and Yom Kippur, when tradition says that God determines who will live and die in the coming year, and the Western Wall plaza in Jerusalem's Old City is a festival of piety that runs from midnight till dawn. Tens of thousands roll in and out during the night reciting the special penitential prayers called Slihot.

Coincidentally — the Muslim calendar shifts every year — it is also Ramadan, the month when the faithful believe that God gave the Koran to the Prophet Muhammad, a time of fasting, self-reflection and extra prayer, when being at Al Aksa Mosque here is even more important than usual. At night, when the fasting is over, the celebrating begins. The ancient stone alleyways of the Old City are lit up with strings of colored lights, special foods are pre-

Continued on Page A8

ECONOMY IN TURMOIL

SHOWING THEIR STYLES It was classic John McCain and classic Barack Obama who grappled with the $700 billion bailout plan last week. Campaign Memo. PAGE A16

BANK SALE Regulators were pushing for the sale of Wachovia to Wells Fargo or Citigroup, in a deal that would further consolidate bank assets. PAGE A15

ONLINE The draft of the bailout plan, and an interactive timeline of the financial crisis. **nytimes.com/business**

INTERNATIONAL A5-10

Arson Linked to Book on Islam

An arson attack on a publisher's house in North London may be linked to a coming book, "Jewel of Medina," about A'isha, one of the wives of the Prophet Muhammad. The book's original United States publisher canceled its publication for fear that it would inflame Muslim extremists. PAGE A6

Bombings Kill 27 in Baghdad

Five bombings killed 27 people and wounded 84 in Baghdad. Three of the attacks were aimed at civilians who were out shopping and strolling. The violence reinforced fears that security in the Iraqi capital was deteriorating. PAGE A5

NATIONAL A12-18

Hurston's Hometown

Eatonville, Fla., the childhood home of Zora Neale Hurston, below left, remains a place apart in many ways. PAGE A12

An interactive map with video, photographs and audio.

nytimes.com/wpa

Voting on Pocketbook Issues

In contested states like Wisconsin, union voters could be vital to the outcome of the presidential race, and unions backing Barack Obama hope to persuade their members to vote on pocketbook matters rather than on issues like abortion, gun rights or race. PAGE A17

METRO B1-5

A Question of Influence

Global Strategy Group has become the top polling firm for the Democratic leadership in New York. But it also has become one of the state's leading consultants to clients that often have business before state officials. PAGE B1

SPORTSMONDAY D1-8

Why the Jets Wanted Favre

In his first signature game as a Jet, Brett Favre threw six touchdown passes in a 56-35 victory over Arizona. It was the first time he had thrown that many touchdown passes in a game. PAGE D1

ARTS E1-8

The Making of Warren Buffett

A new biography of the world's richest man shows that the child was father to the grown-up: he began thinking up ways to make money at age 6. He still is. A review by Janet Maslin. PAGE E1

EDITORIAL, OP-ED A20-21

William Kristol PAGE A21

More Inside The Times.

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"All the News That's Fit to Print"

The New York Times

Late Edition

Today, limited sunshine, patchy drizzle, high 73. **Tonight,** cloudy, spotty showers, low 62. **Tomorrow,** showers, some thunder, high 72. Weather map appears on Page B8.

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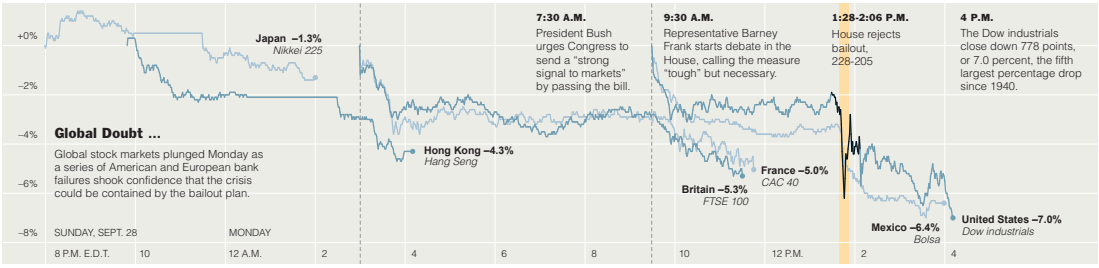
DEFIANT HOUSE REJECTS HUGE BAILOUT; STOCKS PLUNGE; NEXT STEP IS UNCERTAIN



7% DROP IN DOW

Central Banks Try to Aid Credit Markets — Global Worry

By VIKAS BAJAJ and MICHAEL M. GRYNBAUM

Even before the opening bell, Monday looked ugly.

But by the time that bell sounded again on the New York Stock Exchange, seven and a half frantic hours later, $1.2 trillion had vanished from the United States stock market.

What had started 24 hours earlier, with a modest sell-off in stock markets in Asia, had turned into Wall Street's blackest day since the 1987 crash. The broad market, as measured by the Standard & Poor's 500-stock index, plunged almost 9 percent, its third-biggest decline since World War II. The Dow Jones industrial average fell nearly 778 points, or 6.98 percent, to 10,365.45.

Across Wall Street, no one could quite believe what was happening on the floor — the floor of the House of Representatives, not the New York Exchange.

As lawmakers began to vote on a $700 billion rescue for financial institutions, the Voyageur Asset Management trading desk in Chicago went silent. Money managers gaped at a television screen carrying news that seemed unthinkable: the bill was not going to pass. Shortly after 1:30 p.m., the rescue was rejected.

"You just felt like the world was unraveling," Ryan Larson, the firm's senior equity trader, said. "People started to sell and they sold hard. It didn't matter what you had — you sold."

Frustration, and then panic, coursed through the markets. Investors feared the decision in Washington would imperil the financial industry, as well as the broader economy.

At the Federal Reserve and other central banks, policy makers were also anxious. Even before the vote on Capitol Hill, central bankers tried to jump-start

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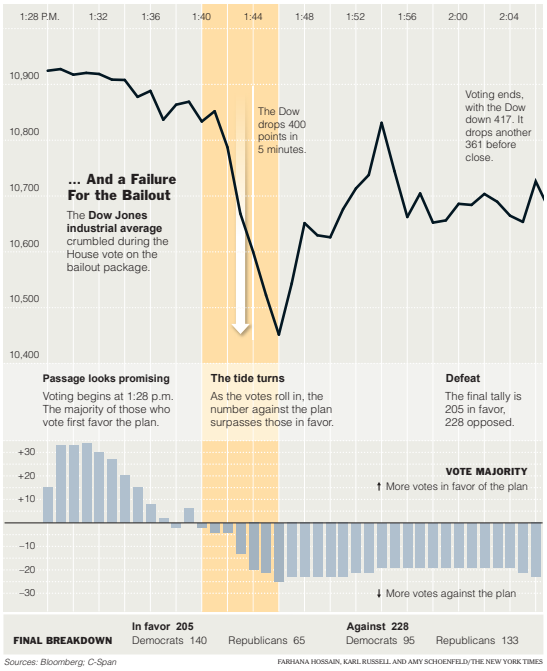


Sources: Bloomberg; C-Span

FARHANA HOSSAIN, KARL RUSSELL AND AMY SCHOENFELD/THE NEW YORK TIMES

Leaders Rebuffed in 228-205 Vote — Broad Public Anger Is Cited

By CARL HULSE and DAVID M. HERSZENHORN

WASHINGTON — Defying President Bush and the leaders of both parties, rank-and-file lawmakers in the House on Monday rejected a $700 billion economic rescue plan in a revolt that rocked the Capitol, sent markets plunging and left top lawmakers groping for a resolution.

The stunning defeat of the proposal on a 228-205 vote after marathon talks by senior Congressional and Bush administration officials lowered a fog of uncertainty over economies around the globe. Its authors had described the measure as essential to preventing widespread economic calamity.

The markets began to plummet even before the 15-minute voting period expired on the House floor. For 25 more minutes, uncertainty gripped the nation as television showed party leaders trying, and failing, to muster more support. Finally, Representative Ellen Tauscher, Democrat of California, pounded the gavel and it was done.

In the end, only 65 Republicans — just one-third of those voting — backed the plan despite personal pleas from President Bush and encouragement from their presidential nominee, Senator John McCain. By contrast, 140 Democrats, or 60 percent, voted in favor, many after voicing grave misgivings. Their nominee, Senator Barack Obama, also backed the bill.

By the end of day, the Dow had fallen almost 778 points, or nearly 7 percent, to 10,365. Credit markets also remained distressed, with bank lending rates rising and investors fleeing to the safety of Treasury bills.

Among opponents of the rescue plan, some Republicans cited ideological objections to government intervention, and liberal Democrats said they were of no mind to race to aid Wall Street tycoons. Other critics complained about haste and secrecy in assembling the plan.

But lawmakers on both sides pointed to an outpouring of opposition from deeply hostile constituents just five weeks before every seat in the House was up for election as a fundamental reason that the measure was defeated. House members in potentially tough races and those seeking Senate seats fled from the plan in droves.

"People's re-elections played into this to a much greater degree than I would have imagined," said Representative Deborah Pryce of Ohio, a former member of the Republican leadership

Continued on Page A22

NEWS ANALYSIS

A Leadership Breakdown

By JACKIE CALMES

WASHINGTON — The collapse of the proposed rescue plan for the teetering financial system was the product of a larger failure — of political leadership in Washington — at a moment when the world was looking to the United States to contain the cascading economic crisis.

From the White House to Congress to the presidential campaign trail, the principal players did not rally the votes they needed in the House. They appeared not to comprehend or address in a convincing way an intense strain of opposition to the deal among voters. They allowed partisan politics to flare at sensitive moments.

If there was any doubt that President Bush had been left politically impotent by his travails over the last few years and his lame-duck status, it was erased on Monday when, despite his personal pleas, more than two-thirds of the Republicans in the House abandoned the plan.

While there were lawmakers who opposed the package on the merits, with Election Day just five weeks away, substantial numbers decided that to favor the bill would be to imperil their own political futures. And once the vote was under way and so few Republicans were voting aye, Democrats were disincline to force more of their members to help pass the unpopular plan.

The leaders of both parties failed, many analysts agreed, in bringing the measure to the House floor without knowing whether it had the votes to pass — a bad move at any time, but especially so in this case given the risk of the markets and the badly weakened financial system reacting badly.

Representative John A. Boehner, the House Republican leader, became emotional as he urged his party to muster the will to approve the package. After his members overwhelmingly voted against it, he tried to shift the blame to a partisan speech delivered on the floor just before the vote by Representative Nancy Pelosi, the House speaker.

Ms. Pelosi delivered the Democratic votes she had promised, but could not muster enough of them to avert a defeat that could long be remembered.

The candidates to replace Mr. Bush, Senator John McCain and

Continued on Page A23

Trying the Backup Plan

Without the bailout plan they invented and lobbied for, the Federal Reserve, led by Ben S. Bernanke, and the Treasury Department are forced to dig deep into their toolkits to rescue the global financial system. PAGE C1

Rescue for Troubled Bank

Federal regulators arranged the sale of Wachovia's bank unit to Citigroup to stave off what might have been the second failure of a major bank in a week, but financial stocks fell 16 percent on Wall Street. PAGE C1

Turmoil Grows in Europe

The Belgian bank Fortis was one of several European finance companies that needed government help as the crisis in the United States spread, buffeting institutions in at least four countries with a chain of failures. PAGE C1

'Is My Money Safe?' and Other Questions for a Nervous Time

By RON LIEBER and TARA SIEGEL BERNARD

For all of you on Main Street who have been watching the turmoil on Wall Street for the last few weeks, Monday's shockwaves rattled even the most steadfast.

The day began with the announcement that another big bank — Wachovia — had been taken over, just days after Washington Mutual collapsed and was sold. In early afternoon, the House rejected the bailout package for the financial industry. Stocks plunged, with the Dow ending the day down nearly 778 points in the worst single-day drop in two decades.

What is a regular investor to make of it all? What about people who have money in bank accounts? Below are some answers to questions that are probably on your mind.

Q. ***Why did the stock market fall so far so fast on Monday?***

A. The element of surprise surely didn't help, since everyone was expecting the bailout bill to pass. There may have been a bit of investor disgust thrown in, too, a sense that our representatives in Washington just don't get it.

Fear may be the biggest driver, however — the worry that it may be weeks or longer before companies can get the affordable, short-term loans they need to finance their operations. Without easy access to that money, it's hard to run a profit-making operation on a day-to-day basis, let alone grow over the long haul. The professional investors who often drive big market moves don't want to hold onto stocks to see if things will really get that bad.

Q. ***What's likely to happen in the markets over the next few days?***

A. It's possible that Monday's market moves will spook members of the House of Representatives enough that they will be willing to change their votes with only a modest amount of compromise. Or, there may be hasty efforts to write a new bill from scratch. This will take days, however, not hours, since Tuesday is

Continued on Page A23

INTERNATIONAL A6-15

U.S. Warships Corner Pirates

Pirates who hijacked an arms-laden freighter, above, have been surrounded by American warships in a standoff near the Somali coast. The American military fears that the weapons could end up in the hands of Islamist insurgents in Somalia. PAGE A14

Israeli Premier Backs Pullouts

Prime Minister Ehud Olmert said Israel must withdraw from nearly all of the West Bank and East Jerusalem. PAGE A6

NATIONAL A16-25

Pressure in Prosecutor Firings

A Justice Department report found that political pressure drove the firings of at least three United States attorneys in 2006, and a special prosecutor was named to continue the inquiry. PAGE A16

Pre-Debate Woes for Palin

Gov. Sarah Palin of Alaska is heading into a critical debate on Thursday facing challenges on several fronts. PAGE A16

ARTS E1-8

Brokaw the Elder Statesman

Tom Brokaw, in his post-retirement encore at NBC News, is helping plan the future of "Meet the Press." PAGE E1

METRO B1-5

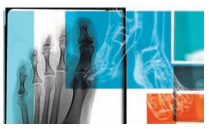
Elevator Workers Moonlight

City workers responsible for elevators in housing projects are moonlighting for private elevator companies. PAGE B1

SPORTSTUESDAY D1-6

The Sky Is His Roof

A rock-climbing guru, after living in Yosemite, adjusts to urban life. PAGE D1



SCIENCE TIMES F1-8

Decoding Your Health

A special issue of Science Times devoted to making sense — and taking advantage — of the bewildering mass of information about health and medicine available on the Internet, in medical journals, in the doctor's office and over the air. PAGE F1

EDITORIAL, OP-ED A26-27

David Brooks PAGE A27

ONLINE

Critics' Picks

A. O. Scott looks back at the 1980s film "Rambo: First Blood, Part 2" and its relationship to American foreign policy — then and now.

nytimes.com/movies

More Inside The Times.

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"All the News That's Fit to Print"

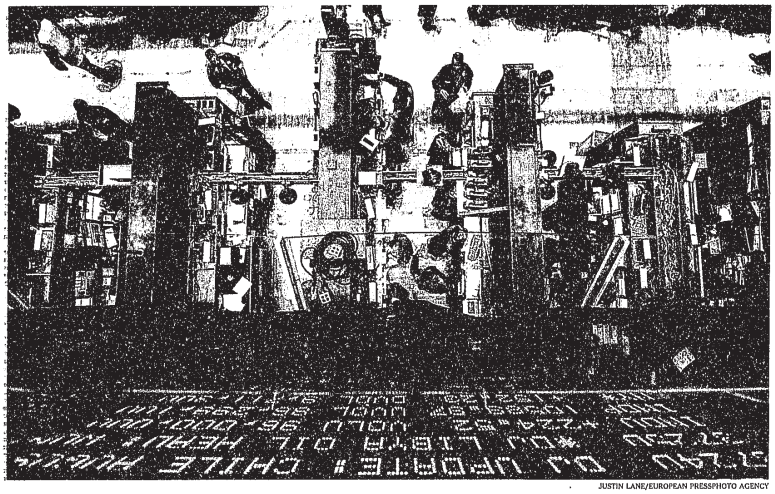
The New York Times

Late Edition

Today, mostly cloudy, spotty showers, high 73. **Tonight,** breaking clouds, cooler, low 56. **Tomorrow,** sun mixing with clouds, breezy, high 68. Weather map, Page D8.

VOL. CLVIII . . No. 54,450 ©2008 The New York Times NEW YORK, WEDNESDAY, OCTOBER 1, 2008 $1.50

Adding Sweeteners, Senate Pushes Bailout Plan



JUSTIN LANE/EUROPEAN PRESSPHOTO AGENCY

The New York Stock Exchange on Tuesday. The market rebounded, reversing a sell-off that shook Wall Street on Monday.

Higher Limit for U.S. Insurance on Deposits

By CARL HULSE and ROBERT PEAR

WASHINGTON — Senate leaders scheduled a Wednesday vote on a $700 billion financial bailout package after accepting tax breaks and a higher limit for insured bank deposits in a bid to win House approval and send legislation to President Bush by the end of the week.

Top lawmakers said the Senate proposal, worked out after a day of behind the scenes maneuvering, would include tax breaks for businesses and alternative energy and higher government insurance for bank deposits.

"It has been determined, in our judgment, this is the best thing to move forward," said Senator Harry Reid, Democrat of Nevada and the majority leader, in announcing the surprise move.

The senators issued no details of their proposal and said none would be available until Wednesday. The lawmakers were gambling that the tax package would appeal to lawmakers who helped sink the measure in the House on Monday, without driving off Democrats who have opposed extending the tax incentives without offsetting spending cuts elsewhere.

House Democratic leaders reacted cautiously to the new ap-

Continued on Page A25

Small Banks Score a Coup By Lobbying

By EDMUND L. ANDREWS

WASHINGTON — An obscure proposal to increase federal insurance on bank deposits won the support of the Bush administration, both presidential candidates and Republican and Democratic lawmakers on Tuesday, in a major lobbying coup for community banks.

At the same time that the measure was being hailed by Democrats and Republicans as a way to rescue the rescue plan, thousands of independent bankers scrambled to drum up support for the package in communities across the country.

The chairwoman of the Federal Deposit Insurance Corporation, Sheila C. Bair, gave a ringing endorsement for the concept of increasing the limit on insured deposits to $250,000 from $100,000, at least temporarily.

She was following the presidential candidates, Senator Barack Obama and Senator John McCain, who had announced their strong support for the idea earlier in the day.

Republicans and Democrats vied to claim the popular idea as their own. Republican lawmakers said they had championed it during last weekend's heated negotiations over the scope of the bailout bill, but that Democratic lea-

Continued on Page A24

Lesson From a Credit Crisis: When Trust Vanishes, Worry

DAVID LEONHARDT

ECONOMIC SCENE

In 1929, Meyer Mishkin owned a shop in New York that sold silk shirts to workingmen. When the stock market crashed that October, he turned to his son, then a student at City College, and offered a version of this sentiment: It serves those rich scoundrels right.

A year later, as Wall Street's problems were starting to spill into the broader economy, Mr. Mishkin's store went out of business. He no longer had enough customers. His son had to go to work to support the family, and Mr. Mishkin never held a steady job again.

Frederic Mishkin — Meyer's grandson and, until he stepped down a month ago, an ally of Ben Bernanke's on the Federal Reserve Board — told me this story the other day, and its moral is obvious enough. Many people in Washington fear that the country is starting to spiral into a terrible downturn. And to their horror, they see the public, and many members of Congress, turning into modern-day Meyer Mishkins, more interested in punishing Wall Street than saving the economy.

All of which may be true. But there is good reason for the public's skepticism. The experts and policy makers who so desperately want to take action have failed to tell a compelling story about why they're so afraid.

It's not enough to say that markets could freeze up, loans could become impossible to get and the economy could slide into its worst downturn since the Great Depression. For now, the crisis has had little effect on most Americans, beyond their 401(k) statements. So to them, the spec-

Continued on Page A24

Cities Are Cutting Back Projects

By MARY WILLIAMS WALSH

Cities, states and other local governments have been effectively shut out of the bond markets for the last two weeks, raising the cost of day-to-day operations, threatening longer-term projects and dampening a broad source of jobs and stability at a time when other parts of the economy are weakening.

The sudden loss of credit, one of the ripple effects of the current financial turmoil, is affecting local governments in all parts of the country, rich and poor alike. In New York, a real estate boom has suddenly gone bust. [Page B1.] Washington has shelved a planned bond offering to pay for terminal expansion and parking garages already under construction at Dulles and Reagan National Airports.

Billings, Mont., is struggling to come up with $70 million more for a new emergency room. And Maine has been unable to raise $50 million for highway repairs.

"We really are in terra incognita here," said Robert O. Lenna, executive director of the Maine Municipal Bond Bank, which helps that state's towns and school districts raise money. He said he had worked in public finance for 34 years and had never seen credit evaporate so completely.

Maine had already begun some

Continued on Page A25

ECONOMY IN TURMOIL

DAVID AHNTHOLZ FOR THE NEW YORK TIMES

"How did the banks fail so bad, so quickly?"

EDNA IVERY

A Democrat from Ohio, on the Wall Street credit crisis

CARMEL ZUCKER FOR THE NEW YORK TIMES

"I think that the mob shot it down."

PHIL SCHMIDT

A Republican from Colorado, on the House rejection of the bailout plan

AFTER THE VOTE In the districts of six members of Congress — three who supported the bailout plan and three who did not — voters and lawmakers said they were grappling with a harsh new reality. PAGE A26

On the Web: residents of several cities talk about the economic turbulence. **nytimes.com/business**

STOCKS REBOUND Stocks bounced back from Monday's rout as optimism grew that lawmakers would pass a financial rescue package. PAGE C1

AUTO WOES Already staggered by a sales slump, auto makers are being hurt as the credit squeeze hits car dealers and buyers alike. PAGE C1

HEDGES HINDERED Despite their investing savvy, hedge funds have not been spared in the market turmoil, partly because of short-selling restrictions. PAGE C1

MAYOR EXPECTED TO SEEK 3RD TERM, REJECTING LIMITS

Financial Crisis Provides a Rationale — Council Action Will Be Sought

By MICHAEL BARBARO and DAVID W. CHEN

In an act that promises to upend New York City's political world, Mayor Michael R. Bloomberg plans to announce Thursday that he will seek a third term as mayor, according to four people who have been told of his intentions.

Mr. Bloomberg, whose second term ends in 2009, is barred by law from running for re-election. So he will propose revising the city's 15-year-old term limits law, which restricts him and dozens of other elected leaders to two four-year terms, those people said.

In his appearance on Thursday, they said, Mr. Bloomberg, a former Wall Street trader and the founder of a billion-dollar financial data firm, will argue that the worldwide financial crisis — with its potentially severe impact on New York City — demands his steady hand and business experience.

The decision to challenge the term limits law, which was twice approved by New York voters, represents a remarkable about-face for Mr. Bloomberg. He has repeatedly said he supports such constraints on elected leaders, dismissed the idea that anyone is indispensable, and once called an effort to revise the limits "disgusting."

People briefed on the matter said Mr. Bloomberg, 66, would seek to change the law through legislation in the City Council. His staff is envisioning an unusual bill that would apply only to those currently in office, allowing them to serve three terms instead of two. A permanent change would require voter approval, these people said.

Mr. Bloomberg's strategy carries significant political risk. Several polls, conducted over the last few months, show widespread support for keeping the law in place. City voters passed term limits by overwhelming margins in 1993, and reaffirmed their support in 1996.

"A backdoor deal undermines the will of New Yorkers," said the New York City comptroller, William C. Thompson Jr., who plans to run for mayor next year. "Democracy," he added, "is bigger than any one person."

Yet it remains unclear who can stop the popular Mr. Bloomberg from changing the law and coasting to an election victory next year. The concept of a third term has broad support among City Council members, business leaders and newspaper editorial boards, all of whom Mr. Bloomberg has assiduously courted behind the scenes. On Wednesday, The New York Times will call in an editorial for abolishing term limits. The New York Post and The Daily News have already endorsed Mr. Bloomberg's bid for a third term.

And, according to a person who has advised the mayor in the past, he "does not care what it costs" to win a third term. In 2005, Mr. Bloomberg, a billionaire, spent more than $70 million and won nearly 60 percent of the

Continued on Page B4

MEDICARE RULES SAY, 'DO NO HARM'

Will End Payments for Hospitals' Errors

By KEVIN SACK

ST. PAUL — If an auto mechanic accidentally breaks your windshield while trying to repair the engine, he would never get away with billing you for fixing his mistake. On Wednesday, Medicare will start applying that logic to American medicine on a broad scale when it stops paying hospitals for the added cost of treating patients who are injured in their care.

Medicare, which provides coverage for the elderly and disabled, has put 10 "reasonably preventable" conditions on its initial list, saying it will not pay when patients receive incompatible blood transfusions, develop infections after certain surgeries or must undergo a second operation to retrieve a sponge left behind from the first. Serious bed sores, injuries from falls and urinary tract infections caused by catheters are also on the list.

Officials believe that the regulations could apply to several hundred thousand hospital stays of the 12.5 million covered annually by Medicare. The policy will also prevent hospitals from billing patients directly for costs generated by medical errors.

Because Medicare is the largest insurer in the country, its decision to refuse payment for preventable conditions has already influenced others — public and private — to set similar criteria.

Over the last year, four state Medicaid programs, including New York's, have announced that they will not pay for as many as 28 "never events" (so called because they are never supposed to happen). So have some of the country's largest commercial insurers, including WellPoint, Aetna, Cigna and Blue Cross Blue Shield plans in seven states.

A number of state hospital as-

Continued on Page A27

NATIONAL A16-27

Past Debates Offer Hints Of Biden and Palin Styles

As the vice-presidential candidates Joseph R. Biden Jr. and Sarah Palin prepare for their lone debate on Thursday, a review of their debate performances in previous campaigns provides hints of the candidates' styles, strengths and patterns, as well as possible perils and shortcomings. PAGE A20

Universal Care Plan Extended

Massachusetts received federal officials' approval for its universal health care plan, reaching an agreement on financing a three-year continuation of the landmark experiment. PAGE A16

INTERNATIONAL A6-14

Somali Pirates Tell Their Side

Somali pirates talked about why they seized an arms-laden ship. "Just money," a spokesman said. PAGE A6

SPORTS WEDNESDAY D1-7

The Outfield as Abstract Art

Baseball parks are widely recognized by how the grass is cropped into distinctive designs. PAGE D1

METRO B1-6

Doctors Seek Jobs and Visas

Some foreign-born doctors are looking for jobs with a prized fringe benefit: a sponsored visa waiver. PAGE B2

ARTS E1-9

Evening Gowns Make the Man

The new Off Broadway show "Wig Out!" celebrates the uptown drag world. A review by Ben Brantley. PAGE E1

Where Football Means Life

As "Friday Night Lights" starts its third season, a few of its lost souls are starting to find themselves. A review by Ginia Bellafante. PAGE E1

DINING F1-7

Steaming, Beyond Rice

Rice cookers, among the most common kitchen appliances in Asia, are being used to make delicious one-pot meals. PAGE F1

On Diner's Journal today, Julia Moskin will answer readers' questions about rice cookers.

nytimes.com/dining

SPECIAL TODAY

Small Business

In a hard-hit Michigan factory town, companies have teamed to help workers become healthier. Also, some entrepreneurs are finding creative ways to obtain financing. SECTION H

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Thomas L. Friedman PAGE A29

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Late Edition

Today, partly cloudy, cool breezes, high 66. **Tonight,** patchy clouds, cool, low 50. **Tomorrow,** variable clouds, cool, scattered showers high 66. Weather map, Page D7.

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36 Hours of Alarm and Action as Crisis Spiraled

*This article was reported by **Andrew Ross Sorkin, Diana B. Henriques, Edmund L. Andrews** and **Joe Nocera**. It was written by Mr. Nocera.*

"Panic can cause a prudent person to do rational things that can contribute to the failure of an institution." — William A. Ackman of the hedge fund Pershing Square Capital Management.

It was early on Wednesday, Sept. 17, when executives at Pershing Square, Bill Ackman's hedge fund, began getting nervous calls and e-mail messages from investors. Mr. Ackman, 42, has been a top Wall Street player for 15 years, making his clients — and himself — billions of dollars.

But now, Mr. Ackman and his colleagues were taken aback by what they were hearing. His big investors were worried about all of the Pershing assets held by Goldman Sachs, the blue-chip investment bank, whose stock had come under siege.

Never mind that Goldman kept Pershing's assets in a segregated account, and that the money was safe. And never mind that Mr. Ackman believed Goldman was the world's best-run investment bank and would come through the credit crisis unscathed.

Pershing investors still feared their money might be exposed. Mr. Ackman advised Goldman executives to do something to restore confidence — such as getting an infusion of capital from Warren E. Buffett, the billionaire investor. And while Mr. Ackman kept his assets at Goldman, he hurriedly set up accounts at three other institutions — just in case things got much worse.

THE RECKONING
Days of Tension

Pershing had more faith than most. Up and down Wall Street, hedge funds with billions of dollars at Goldman and Morgan Stanley, another storied investment bank, were frantically pulling money out and looking for safer havens.

Panic was spreading on two of the scariest days ever in financial markets, and the biggest investors — not small investors — were panicking the most. Nobody was sure how much damage it would cause before it ended.

This is what a credit crisis looks like. It's not like a stock market crisis, where the scary plunge of stocks is obvious to all. The credit crisis has played out in places most people can't see. It's banks refusing to lend to other banks — even though that is one of the most essential functions of the banking system. It's a loss of

Continued on Page A30

WEDNESDAY, SEPT. 17

"It felt like there was no ground beneath your feet. I didn't know where it was going to end."

ALEX EHRLICH of the Swiss bank UBS, on frenzied trading, right, that drove down Morgan Stanley shares.

RICHARD DREW/ASSOCIATED PRESS

WEDNESDAY EVENING

"You have to go to Congress. This is pervasive."

BEN S. BERNANKE, the Fed chairman, to Treasury Secretary Henry M. Paulson Jr., right.

WIN MCNAMEE/GETTY IMAGES

THURSDAY, SEPT. 18

"This is the United States Senate. We can't do it in that time frame."

SENATOR HARRY REID, the majority leader, on hearing that the administration wanted legislation passed within days.

LAUREN VICTORIA BURKE/ASSOCIATED PRESS

SENATE APPROVES BAILOUT PROPOSAL BY A WIDE MARGIN

In House, Leaders of Both Parties Hope the Revised Bill Passes by Friday

By CARL HULSE

WASHINGTON — The Senate strongly endorsed the $700 billion economic bailout plan on Wednesday, leaving backers optimistic that the easy approval, coupled with an array of popular additions, would lead to House acceptance by Friday and end the legislative uncertainty that has rocked the markets.

In stark contrast to the House rejection of the plan on Monday, a bipartisan coalition of senators — including both presidential candidates — showed no hesitation in backing a proposal that had drawn public scorn, though the outpouring eased somewhat after a market plunge followed the House defeat. The Senate margin was 74 to 25 in favor of the White House initiative to buy troubled securities in an effort to avoid an economic catastrophe.

Only Senator Edward M. Kennedy, who is being treated for brain cancer, did not vote.

The two Senate leaders, Senators Harry Reid, Democrat of Nevada and the majority leader, and Mitch McConnell of Kentucky, the Republican leader, strongly urged their colleagues to approve the plan despite the political risk given public resentment.

"Supporting this legislation is the only way to make the best of a crisis and return our country to a path of economic stability, prosperity and growth," said Mr. Reid, who asked that senators vote formally from their desks. The presence in the Senate of both presidential candidates in the final weeks of the campaign also gave weight to the moment. The political tension was clear as Senator Barack Obama walked to the Republican side of the aisle to greet Senator John McCain, who offered a chilly look and a brief return handshake.

Mr. McCain did not make remarks on the legislation. Mr. Obama, in his speech, said the bailout plan was regrettable but necessary and he referred to the stock market drop after the House vote. "While that decline was devastating, the consequences of the credit crisis that caused it will be even worse if we

Continued on Page A29

Small Businesses Feeling the Chill

By LOUIS UCHITELLE

Some small companies say they are no longer able to get loans from newly cautious banks as credit tightens across the country, and even those who do qualify are increasingly reluctant to borrow and expand, fearful of overextending themselves in the midst of the financial crisis.

Alan Petrucci, whose small factory near Chicago makes metal molds that other manufacturers buy to form plastic parts, says his bank recently offered him an additional loan. Though orders for his molds are still plentiful, Mr. Petrucci says he will borrow only to upgrade existing machinery, not to expand.

"We are bracing for the downturn that is coming," Mr. Petrucci said. "It is coming; there is no question about that."

Mark Snyder, another businessman, is more optimistic, but his bank refused two weeks ago to grant another loan to his fledgling medical supply company near Denver. So he turned to a commercial lender, which has offered credit — at 30 percent a year. Mr. Snyder does not want to borrow much at that rate. "We desperately need more capital to grow our sales," he said.

Small businesses in America — the 27 million companies employing fewer than 500 people and in most cases fewer than 20 people

Continued on Page A29

INSURANCE RISK Expanding federal insurance on bank deposits to $250,000 from $100,000 could leave taxpayers with another bill. **PAGE C1**

BUFFETT IS BUYING After investing $5 billion in Goldman Sachs, Warren Buffett is putting $3 billion into General Electric. **PAGE C1**

An Everyman on the Trail, Biden Enjoys Senator's Perks at Home

By MIKE McINTIRE and SERGE F. KOVALESKI

For the millions of voters getting to know him, Senator Joseph R. Biden Jr., the Democratic vice-presidential nominee, portrays himself at times as an average guy who takes the train to work, frets about money and basically has led a middle-class life.

"Ladies and gentlemen, your kitchen table is like mine," Mr. Biden said when Senator Barack Obama introduced him as his running mate. "You sit there at night after you put the kids to bed and you talk, you talk about what you need. You talk about how much you are worried about being able to pay the bills."

Mr. Biden certainly can trace his roots to the working-class neighborhoods of Scranton, Pa., and Claymont, Del., where he was raised. But these days, his kitchen table can be found in a 6,800-square-foot custom-built colonial-style house on four lakefront acres, a property worth close to $3 million.

Although he is among the least wealthy members of the millionaires club that is the United States Senate — he and his wife, Jill, a college professor, earn about $250,000 a year — Mr. Biden maintains a lifestyle that is more comfortable than the impression he may have given on the campaign trail. A review of his finances found that when it comes to some of his largest expenses, like the purchase and upkeep of his home and his use of Amtrak trains to get around, he

Continued on Page A28

Palin on the Issues

A look at Gov. Sarah Palin's views on health care, education, the environment and other issues. Page A26.

Life in Zimbabwe: Wait for Useless Money, Then Scour for Food

By CELIA W. DUGGER

HARARE, Zimbabwe — Long before the rooster in their dirt yard crowed, Rose Moyo and her husband rolled out of bed. "It is time to get up," intoned the robotic voice of her cellphone. Its glowing face displayed the time: 2:20 a.m.

They crept past their children sleeping on the floor of the one-room house — Cinderella, 9, and Chrissie, 10 — and took their daily moonlit stroll to the bank. The guard on the graveyard shift gave them a number. They were the 29th to arrive, all hoping for a chance to withdraw the maximum amount of Zimbabwean currency the government allowed last month — the equivalent of just a dollar or two.

Zimbabwe is in the grip of one of the great hyperinflations in world history. The people of this once proud capital have been plunged into a Darwinian struggle to get by. Many have been reduced to peddlers and paupers, hawkers and black-market hustlers, eating just a meal or two a day, their hollowed cheeks a testament to their hunger.

Like countless Zimbabweans, Mrs. Moyo has calculated the price of goods by the number of days she had to spend in line at the bank to withdraw cash to buy them: a day for a bar of soap; another for a bag of salt; and four for a sack of cornmeal.

The withdrawal limit rose on Monday, but with inflation surpassing what independent economists say is an almost unimaginable 40 million percent, she said the value of the new amount would quickly be a pittance, too.

"It's survival of the fittest," said Mrs. Moyo, 29, a hair braider who sells the greens she grows in her yard for a dime a bunch. "If you're not fit, you will starve."

Economists here and abroad say Zimbabwe's economic collapse is gaining velocity, radiating instability into the heart of southern Africa. As the bankrupt government prints ever more money, inflation has gone wild, rising from 1,000 percent in 2006 to 12,000 percent in 2007 to a figure so high the government had to lop 10 zeros off the currency in August to keep the nation's calculators from being overwhelmed. (Had it left the currency alone, $1 would now be worth about 10 trillion Zimbabwean dollars.)

In fact, Zimbabwe's hyperinflation is probably among the five

Continued on Page A12

ASSOCIATED PRESS

At a bank in Harare, Zimbabwe, this week, the police directed customers trying to withdraw their nearly worthless savings.

NATIONAL A19-31

Conversations With Voters
As Election Day approaches, a road trip across the United States offers a chance to find out where voters stand. The first stop is San Francisco, where politics isn't always one shade of blue. PAGE A19

Obama Gains, New Poll Says
Barack Obama is showing signs of gaining significant support among voters, while John McCain's image has been damaged by his response to the economic crisis, a poll shows. PAGE A27

INTERNATIONAL A5-18

India Nuclear Trade Approved
Congress gave final approval to a breakthrough agreement permitting civilian nuclear trade between the United States and India. PAGE A8

Still Scores to Settle in Iraq
Violence is down in Iraq, but it is possible to see paths to political failure or to success. NEWS ANALYSIS, PAGE A5

BUSINESS DAY C1-14

China Monitors Text Messages
Human-rights activists and computer security researchers have discovered Chinese surveillance of Skype, the text messaging service. PAGE C1

METRO B1-6

Bloomberg Plan Vexes Council
The mayor's plan to loosen term limits fueled confusion among New York City Council members. PAGE B1

ARTS E1-10

Anatomy Reimagined
David Macaulay, who brought his visual wit to books on architecture and engineering, tackles the body in "The Way We Work." Right, a chamber of the heart. PAGE E1

SPORTSTHURSDAY D1-6

Dodgers and Phillies Win
The Dodgers trounced the Cubs, and the Phillies defeated the Brewers in openers of the N.L. division series. PAGE D1

HOME F1-7

Fearless Decorating
Lessons from 10 amateur decorators who have made stylish homes on tiny budgets. PAGE F1

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Fashion's Top Recluse
Martin Margiela sometimes seems like an imaginary character. PAGE G1
Paris Fashion Week: A review. PAGE D8

EDITORIAL, OP-ED A32-33

Nicholas D. Kristof PAGE A33

ONLINE

Going Down the Road
An interactive map with video, photographs and audio looks at how small black communities in central Florida have changed over the decades.
nytimes.com/wpa

More Inside The Times.
PAGES A2-3 ➤

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"All the News That's Fit to Print"

The New York Times

Late Edition

Today, patches of clouds and sunshine, high 68. **Tonight,** clearing skies, fog outside the city, low 50. **Tomorrow,** partly sunny, mild, high 66. Weather map is on Page D7.

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Agency's '04 Rule Let Banks Pile Up New Debt, and Risk

Plans to Increase S.E.C. Scrutiny of Firms Faltered

"We have a good deal of comfort about the capital cushions at these firms at the moment." — Christopher Cox, chairman of the Securities and Exchange Commission, March 11, 2008.

By STEPHEN LABATON

As rumors swirled that Bear Stearns faced imminent collapse in early March, Christopher Cox was told by his staff that Bear Stearns had $17 billion in cash and other assets — more than enough to weather the storm.

Drained of most of its cash three days later, Bear Stearns was forced into a hastily arranged marriage with JPMorgan Chase — backed by a $29 billion taxpayer dowry.

Within six months, other lions of Wall Street would also either disappear or transform themselves to survive the financial maelstrom — Merrill Lynch sold itself to Bank of America, Lehman Brothers filed for bankruptcy protection, and Goldman Sachs and Morgan Stanley converted to commercial banks.

THE RECKONING
Loosening the Reins

How could Mr. Cox have been so wrong?

Many events in Washington, on Wall Street and elsewhere around the country have led to what has been called the most serious financial crisis since the 1930s. But decisions made at a brief meeting on April 28, 2004, explain why the problems could spin out of control. The agency's failure to follow through on those decisions also explains why Washington regulators did not see what was coming.

On that bright spring afternoon, the five members of the Securities and Exchange Commission met in a basement hearing room to consider an urgent plea by the big investment banks.

They wanted an exemption for their brokerage units from an old regulation that limited the amount of debt they could take on. The exemption would unshackle billions of dollars held in reserve as a cushion against losses on their investments. Those funds could then flow up to the parent company, enabling it to invest in the fast-growing but opaque world of mortgage-backed securities; credit derivatives, a form of insurance for bond holders; and other exotic instruments.

The five investment banks led the charge, including Goldman Sachs, which was headed by

Continued on Page A23

STOCKS FALL Stocks were lower as signs of an economic slowdown emerged in new data, and banks remained reluctant to make new loans. PAGE C1

TEST OF WILLS Republican leaders in the House struggled to persuade some of their members to reverse course and support the administration's $700 billion economic bailout package in a vote expected early Friday afternoon. PAGE A22

U.S. CRITICS WEIGH IN Latin American leaders reluctantly accept the region's vulnerability to the economic crisis, while Russia declares the end of America's financial hegemony. PAGE A6

MICHAEL APPLETON FOR THE NEW YORK TIMES

Family and friends mourned Iman Morales at his funeral Thursday, hours after Lt. Michael W. Pigott committed suicide.

Taser Fire Claims 2nd Victim: Officer Who Gave the Order

By ROBERT D. McFADDEN and CHRISTINE HAUSER

He wanted to be an Air Force fighter pilot, but a hearing problem ended that dream. Devastated, he clammed for a while on Long Island, where he had grown up, then joined the New York Police Department.

He was levelheaded, calm, mild mannered, an ideal cop in many ways. In 21 years on the force, Michael W. Pigott made scores of arrests working in some of the city's toughest precincts, won 20 medals for bravery and meritorious duty, and became a lieutenant in the elite Emergency Services Unit.

"Not your typical police officer," said Jon O'Shaughnessy, a New York City fire marshal and an old friend. "That's why he was a lieutenant. He was a very positive, upbeat guy. He could have retired last year." The friend could say no more: His voice broke, and he began to cry.

Lieutenant Pigott, apparently distraught because he had authorized the Taser shooting last week of an emotionally disturbed man who pitched headlong to his death from a second-story building ledge, fatally shot himself on Thursday at the headquarters of the Emergency Services Unit in Brooklyn, the police said.

The lieutenant, who had been stripped of his gun and badge and placed on desk duty in another unit after the Taser incident, killed himself with a single shot to the head from a 9-millime-

Continued on Page B6

Cordial but Pointed, Palin and Biden Face Off

JAMES ESTRIN/THE NEW YORK TIMES

Gov. Sarah Palin and Senator Joseph R. Biden Jr. amid family members after their debate ended.

Clashing on Iraq, Energy and the Economy

By PATRICK HEALY

Gov. Sarah Palin used a steady grin, folksy manner and carefully scripted talking points to punch politely and persist politically at the vice-presidential debate on Thursday night, turning in a performance that her rival, Senator Joseph R. Biden Jr., sought to undermine with cordially delivered but pointed criticism.

If the issues and positions were familiar to many viewers — on taxes and the economy, energy and oil, same-sex marriage, Iraq and Afghanistan — it was Ms. Palin's debut in a nationally televised debate that made for unusual theater. And Ms. Palin, a former small-town mayor, was unlike any other running mate in recent memory, using phrases like "heck of a lot" and "Main Streeters like me" to appeal to working-class and middle-class voters who feel abandoned by Washington.

Mr. Biden, a six-term senator who has twice sought the presidency, remained forceful and composed against an opponent who proved difficult to attack, given that she is a newcomer and a woman in an arena long dominated by men.

Focusing his attacks on the Republican presidential nominee, Senator John McCain, Mr. Biden only occasionally lost patience with Ms. Palin's debating tactics, as when she used Mr. Biden's words against him.

In the only vice-presidential debate of the campaign, at Washington University in St. Louis, Ms. Palin exceeded expectations in this highly anticipated face-off, though those expectations were low after she had stumbled in recent television interviews. She succeeded by not failing in any obvious way. She mostly reverted to and repeated talking points, like referring to Mr. McCain as a "maverick" and the Republican ticket as a "team of mavericks," while not necessarily quelling doubts among voters about her

Continued on Page A19

McCain Cedes Michigan

John McCain is giving up on efforts to win Michigan, his campaign said, in the latest sign that the economy has reshaped the presidential race. Page A20.

Bill Paves Way For Third Term For Bloomberg

By DAVID W. CHEN

City Council Speaker Christine C. Quinn said on Thursday that legislation to alter the city's term limits law would be introduced on Tuesday, paving the way for Mayor Michael R. Bloomberg, Ms. Quinn and more than 40 other elected officials to stay in office four more years.

The Council's vote on the measure — which Mr. Bloomberg has pushed for behind the scenes — could come later this month, Ms. Quinn told reporters at a news conference. And while she declined to reveal her position on the legislation, she said she would meet with other members of the Council to discuss the bill and "move forward in the process after that."

Ms. Quinn's remarks came on a dramatic day at City Hall, as Mr. Bloomberg for the first time explained why he wanted to run for another term. [News Analysis, Page B5.] Her comments, and the rapid timetable she described, immediately set off criticism that a deal had already been struck between the mayor and Ms. Quinn, who has been his close ally, to overhaul the term limits law, which restricts citywide elected officials to two four-year terms.

Voters have twice approved the term limits, and Ms. Quinn had previously said she was op-

Continued on Page B5

To Our Readers

Beginning Monday, The Times will consolidate some sections to reduce costs. The Metro Section will be renamed New York and will appear after International and National news in the main news section; New York will remain a separate section on Sunday. Sports will be in the Business Day section from Tuesday to Friday, but will remain separate on Saturday, Sunday and Monday. The Arts will be a separate section on Saturday as well as the rest of the week. There will be no reduction in any coverage.

NEWS ANALYSIS

Surviving One Test

By ADAM NAGOURNEY

Gov. Sarah Palin made it through the vice-presidential debate on Thursday without doing any obvious damage to the Republican presidential ticket. By surviving her encounter with Senator Joseph R. Biden Jr. and quelling some of the talk about her basic qualifications for high office, she may even have done Senator John McCain a bit of good, freeing him to focus on the other troubles shadowing his campaign.

It was not a tipping point for the embattled Republican presidential ticket, the bad night that many Republicans had feared. But neither did it constitute the turning point the McCain campaign was looking for after a stretch of several weeks in which Senator Barack Obama seemed to be gaining the upper hand in the race. Even if he no longer has to be on the defensive about Ms. Palin, Mr. McCain still faces a tough environment with barely a month until the election, as he acknowledged hours before the debate by effectively pulling his campaign out of Michigan, a Democratic state where Mr. McCain's advisers had once been optimistic of victory.

PALIN OUTDOES PALIN

The confident Sarah Palin prevailed over the parodied one. The TV Watch, Page A18.

"This is going to help stop the bleeding," said Todd Harris, a Republican consultant who worked for Mr. McCain in his first presidential campaign. "But this alone won't change the trend line, particularly in some of the battleground states."

Short of a complete bravura performance that would have been tough for even the most experienced national politician to turn in — or a devastating error by the mistake-prone Mr. Biden, who instead turned in an impressively sharp performance — there might have been little Ms.

Continued on Page A19

Confronting Taliban, Pakistan Finds Itself at War

By JANE PERLEZ and PIR ZUBAIR SHAH

PESHAWAR, Pakistan — War has come to Pakistan, not just as terrorist bombings, but as full-scale battles, leaving Pakistanis angry and dismayed as the dead, wounded and displaced turn up right on their doorstep.

An estimated 250,000 people have now fled the helicopters, jets, artillery and mortar fire of the Pakistani Army, and the assaults, intimidation and rough justice of the Taliban who have dug into Pakistan's tribal areas.

About 20,000 people are so desperate that they have flooded over the border from the Bajaur tribal area to seek safety in Afghanistan.

Many others are crowding around this northwest Pakistani city, where staff members from the United Nations refugee agency are present at nearly a dozen camps.

No reliable casualty figures are available. But the International Committee of the Red Cross flew in a special surgical team from abroad last week to work alongside Pakistani doctors and help treat the wounded in two hospitals, so urgent has the need become.

"This is now a war zone," said Marco Succi, the spokesman for the International Committee of the Red Cross.

Not since Pakistan forged an alliance with the United States af-

Continued on Page A10

TARIQ MAHMOOD/AGENCE FRANCE-PRESSE — GETTY IMAGES

Fighting between militants and the military has driven thousands of people into refugee camps in Pakistan's tribal areas.

INTERNATIONAL A6-14

Slowly, an Iraqi City Rebuilds
As the violence calms in Samarra, Iraq, a sense of normality is returning to the city and work is beginning on reconstruction projects. PAGE A6

NATIONAL A16-23

A Law Turned on Its End
In Nebraska, a law intended to offer unwanted newborns a safe haven has had unintended consequences. PAGE A21

Remains at Fossett Crash Site
Investigators said they had found small amounts of human remains at the site where a plane flown by the millionaire Steve Fossett crashed. PAGE A16

SPORTS FRIDAY D1-6

Sports and Economic Trouble
In his Sports of The Times column, Harvey Araton discusses how the financial crisis could mean a day of reckoning for teams, especially those that have large investments in new stadiums — including the Yankees, below. College athletics, meanwhile, are already feeling the pinch — like the $24,000 fuel surcharge Ohio State paid to travel to its football game at Southern California. PAGE D1

BUSINESS DAY C1-11

Consumers Gain as Oil Falls
Oil prices have been falling recently, providing the equivalent of a fiscal stimulus package for American consumers but worrying oil producers. PAGE C1

METRO B1-6

Terror Convictions Overturned
An appeals court in New York, citing errors by the judge, overturned the convictions of a Yemeni cleric and his aide in a prominent terrorism case. PAGE B1

Rebuilding Timetable Doubted
Some were encouraged by a new timetable for ground zero reconstruction, but others remained skeptical. PAGE B1

WEEKEND E1-39

A Dynamic Duo of British Art

The Brooklyn Museum exhibits the provocative work of Gilbert & George. A review by Holland Cotter. PAGE E31

The artists discuss their exhibit in an audio slide show:
nytimes.com/design

ESCAPES F1-8

Southern Trailblazing
The Pine Mountain Trail, built by volunteers, will eventually stretch 110 miles from Virginia to the Cumberland Gap, opening up a landscape of gorges, waterfalls, rhododendron tunnels and plants found nowhere else. PAGE F1

EDITORIAL, OP-ED A24-25

Paul Krugman PAGE A25

More Inside The Times.
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"All the News That's Fit to Print"

The New York Times

Late Edition

Today, sun and clouds mixed, cool, high 67. **Tonight,** patchy clouds, low 50. **Tomorrow,** some sunshine, some clouds, seasonably warm, high 70. Weather map, Page D7.

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BAILOUT PLAN WINS APPROVAL; DEMOCRATS VOW TIGHTER RULES

BRENDAN SMIALOWSKI/GETTY IMAGES

After the House vote, President Bush was greeted by Treasury Secretary Henry M. Paulson Jr. outside the Treasury Department.

Obama and '60s Bomber: A Look Into Crossed Paths

By SCOTT SHANE

CHICAGO — At a tumultuous meeting of anti-Vietnam War militants at the Chicago Coliseum in 1969, Bill Ayers helped found the radical Weathermen, launching a campaign of bombings that would target the Pentagon and United States Capitol.

Twenty-six years later, at a lunchtime meeting about school reform in a Chicago skyscraper, Barack Obama met Mr. Ayers, by then an education professor. Their paths have crossed sporadically since then, at a coffee Mr. Ayers hosted for Mr. Obama's first run for office, on the schools project and a charitable board, and in casual encounters as Hyde Park neighbors.

DAVID HANDSCHUH/ASSOCIATED PRESS

Bill Ayers, shown in 1982, started the Weathermen.

Their relationship has become a touchstone for opponents of Mr. Obama, the Democratic senator, in his bid for the presidency. Video clips on YouTube, including a new advertisement that was broadcast on Friday, juxtapose Mr. Obama's face with the young Mr. Ayers or grainy shots of the bombings.

In a televised interview last spring, Senator John McCain, Mr. Obama's Republican rival, asked, "How can you countenance someone who was engaged in bombings that could have or did kill innocent people?"

More recently, conservative critics who accuse Mr. Obama of a stealth radical agenda have asserted that he has misleadingly minimized his relationship with Mr. Ayers, whom the candidate has dismissed as "a guy who lives in my neighborhood" and "somebody who worked on education issues in Chicago that I know."

A review of records of the schools project and interviews with a dozen people who know both men, suggest that Mr. Obama, 47, has played down his contacts with Mr. Ayers, 63. But the two men do not appear to have been close. Nor has Mr. Obama ever expressed sympathy for the radical views and actions of Mr. Ayers, whom he has called "somebody who engaged in detestable acts 40 years ago, when I

Continued on Page A14

Economic Crisis Fuels Obama In Tight Ground War for Florida

By DAMIEN CAVE

STATESIDE
Florida

NEW PORT RICHEY, Fla. — Jim Piccillo lost his job as a bank vice president in August, applied for food stamps to support his two young daughters and swore off a life of loyalty to the Republican Party. He now volunteers here in Pasco County for Senator Barack Obama of Illinois.

Madeline Aquanno's change of heart came more recently. Two weeks ago, she said, she had planned to vote for Senator John McCain of Arizona, the Republican, who impressed her with his knowledge of the world. But as the economy began to scare her more than terrorism, she reconsidered.

"Obama is more for the people," she said, near the pool at her middle-class retirement community in Broward County. "I'm worried about the jobs that are being lost, for my son, my daughter, my granddaughter. You have to look down the line."

Here in a swing state of severe economic hurt — a leader in foreclosures where empty offices now litter strip malls — there are signs that Mr. Obama is gaining ground. In interviews and surveys, voters across Florida said the debate in Washington over how to fix the credit crisis had fueled frustration with the Bush administration and pushed them away from the Republican ticket.

The four most recent polls from late September put Mr. Oba-

Continued on Page A16

For Treasury Dept., Now Comes the Hard Part

By MARK LANDLER and EDMUND L. ANDREWS

WASHINGTON — It will be one of the world's largest asset management firms with an impressive $700 billion war chest. Nothing short of the global economy depends on its success. And the Treasury Department has barely a month to get it up and running.

The bailout bill that President Bush quickly signed into law on Friday must do what financial experts have been unable to do for the last year — put a dollar value on mortgage-related assets that no one wants, move them off the books of ailing banks and unlock the frozen credit markets.

In signing the measure, Mr. Bush warned Americans not to expect instant results. "This will be done as expeditiously as possible, but it cannot be accomplished overnight. We'll take the time necessary to design an effective program that achieves its objectives — and does not waste taxpayer dollars."

Even after working feverishly over the last two weeks, the Treasury will not buy its first distressed asset from a bank for roughly six weeks, and almost certainly not until after the Nov. 4 elections.

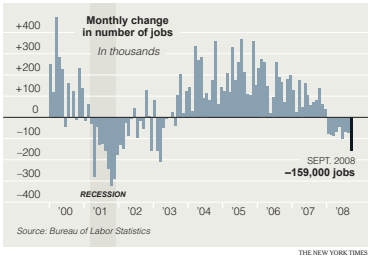
Treasury officials do not plan to manage the mortgage assets on their own. Instead, they will outsource nearly all of the work to professionals, who will oversee huge portfolios of bonds and other securities for a management fee.

The Treasury is expected to name a senior official to supervise the program. For now, various working groups creating the program are reporting directly to Henry M. Paulson Jr., the Treasury secretary.

Mr. Paulson has recruited several former colleagues from Goldman Sachs to advise him, though administration officials took pains to say that they were not dominating the process, pointing to other Treasury employees who were playing major

Continued on Page A13

159,000 Jobs Lost in September, The Worst Month in Five Years



THE NEW YORK TIMES

By PETER S. GOODMAN

The American economy lost 159,000 jobs in September, the worst month of retrenchment in five years, the government reported on Friday, amplifying fears that an already painful downturn had entered a more severe stage that could persist well into next year.

Employment has diminished for nine consecutive months, eliminating 760,000 jobs, according to the Labor Department's report. And that does not count the traumatic events of recent weeks, as a string of Wall Street institutions collapsed, prompting the $700 billion emergency rescue package approved by Congress on Friday.

"It's a dismal report, and the worst thing about it is that it does not reflect the recent seizure that we've seen in the credit markets," said Michael T. Darda, chief economist at MKM Partners, a research and trading firm in Greenwich, Conn. "There's really nothing good about this report at all. We've lost jobs in nearly every area of the economy, and this is going to get worse before it gets better because the credit markets have deteriorated basically on a daily basis for the last few weeks."

Though the bailout may restore order to the financial system and eventually filter through the economy by making it easier for businesses to secure capital, few analysts expect it to swiftly reverse the nation's fortunes. Housing prices continue to fall, eroding household wealth just as

Continued on Page A13

BUSH SIGNS BILL

House Votes 263 to 171 — Markets Down on Jobs Data

By DAVID M. HERSZENHORN

WASHINGTON — After the House reversed course and gave final approval to the $700 billion economic bailout package, President Bush quickly signed it into law on Friday, authorizing the Treasury to undertake what could become the most expensive government intervention in history.

But even as Mr. Bush declared that the measure would "help prevent the crisis on Wall Street from becoming a crisis in communities across our country," Congressional Democrats said that it was only a first step and pledged to carry out a sweeping overhaul of the nation's financial regulatory system.

The final tally in the House was 263 to 171, with 91 Republicans joining 172 Democrats in favor. That was a wider bipartisan majority than vote-counters in both parties had expected, completing a remarkable turnabout from Monday, when the House defeated an earlier version of the bill by 228 to 205.

The financial markets, however, were not enthusiastic. Already weighed down by another round of bleak economic data, including a report showing that 159,000 jobs were lost in September, the Dow fell 157 points to close at 10,325, or nearly 818 points lower than when the week began, before the House's initial rejection of the bailout.

Some measures of the credit markets improved after the bill was approved, but only modestly. Analysts said it was too soon to tell whether borrowing rates — the interest rates banks charge

Continued on Page A12

STATE MAY NEED LOAN California has warned the Treasury Department that it may need a $7 billion emergency loan. PAGE A10

MERGER FIGHT Citigroup and Wells Fargo's tug of war for control of Wachovia is turning into a game of brinkmanship. PAGE C1

Top Psychiatrist Didn't Report Drug Makers' Pay, Files Show

By GARDINER HARRIS

One of the nation's most influential psychiatrists earned more than $2.8 million in consulting arrangements with drug makers from 2000 to 2007, failed to report at least $1.2 million of that income to his university and violated federal research rules, according to documents provided to Congressional investigators.

The psychiatrist, Dr. Charles B. Nemeroff of Emory University, is the most prominent figure to date in a series of disclosures that is shaking the world of academic medicine and seems likely to force broad changes in the relationships between doctors and drug makers.

In one telling example, Dr. Nemeroff signed a letter dated July 15, 2004, promising Emory administrators that he would earn less than $10,000 a year from GlaxoSmithKline to comply with federal rules. But on that day, he was at the Four Seasons Resort in Jackson Hole, Wyo., earning $3,000 of what would become $170,000 in income that year from that company — 17 times the figure he had agreed on.

The Congressional inquiry, led by Senator Charles E. Grassley, Republican of Iowa, is systematically asking some of the nation's leading researchers to provide their conflict-of-interest disclosures, and Mr. Grassley is comparing those documents with records of actual payments from drug companies. The records often conflict, sometimes starkly.

"After questioning about 20 doctors and research institutions, it looks like problems with transparency are everywhere," Mr. Grassley said. "The current system for tracking financial relationships isn't working."

The findings suggest that universities are all but incapable of policing their faculty's conflicts of

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To Our Readers

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NATIONAL A10-17

McCain Displays Game Plan
John McCain enters the final month of the campaign facing difficult hurdles but with a clear strategy: sow doubts about Barack Obama. PAGE A15

Palin Financial Records
Gov. Sarah Palin, the Republican vice-presidential candidate, has assets worth over $1 million, newly released financial documents indicate. PAGE A15

METRO B1-5

A Shortage of Umbrage
In a city that loves a good political fight, reaction to the mayor's bid to overturn term limits seems oddly tepid. PAGE B1

INTERNATIONAL A5-9

Milk Scandal Squeezes Farmers
A Chinese dairy farmer poured milk from his cows into a sewer line. Farmers say they too are victims of China's widening tainted-milk scandal. PAGE A5

South Ossetia Blast Kills 9
A car bomb in the South Ossetian capital of Tskhinvali killed seven Russian peacekeepers and two others. PAGE A5

ARTS B7-17

Shift for CNN Anchor
Campbell Brown of CNN has become more assertive on her "Election Center" program, saying she favors outspokenness but not partisanship. PAGE B7

SPORTSSATURDAY D1-6

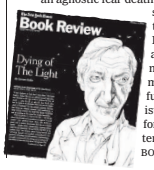
A Fan Favorite, a Favorite Fan
Ron Santo has been a witness and participant in the Chicago Cubs' luckless history since 1960, but he still brims with optimism. From the radio broadcast booth, he has reflected the ups and (mostly) downs of Cubs fans. "I think I've personally become more popular as a broadcaster, because I'm like they are," he said. PAGE D1

EDITORIAL, OP-ED A18-19

Bob Herbert PAGE A31

THIS WEEKEND

'Nothing to Be Frightened Of'
With no faith in an afterlife, why should an agnostic fear death? On this simple question, Julian Barnes hangs an elegant memoir and meditation, full of a novelist's affection for his characters. BOOK REVIEW



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Fashion Week In Paris
Runway slide shows, videos, reviews, T Magazine's Photos of the Moment, Cathy Horyn's updated blog and more.
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PORTRAITS OF POWER
A look at Richard Avedon's exhibit at the Corcoran Gallery. » ALL WEEK IN STYLE

Weather
Today: *Partly sunny. High 88. Low 62.*
Tuesday: *Partly sunny. High 74. Low 59.*
Details, **B8**

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REDSKINS 29, SAINTS 24

BY TOM L. SANDYS — THE WASHINGTON POST

Everyone goes home happy after rookie Chris Horton's fourth-quarter interception and the Washington Redskins' come-from-behind victory.

Zorn Savors First Win, and That's No Act

By LES CARPENTER
Washington Post Staff Writer

On the floor of the great, sweltering stadium Jim Zorn took congratulations. Wide receiver Santana Moss reached over and shook his hand. Others offered backslaps and for a moment the Washington Redskins coach looked bewildered. What to do after earning your first win as a head coach? Then as the scoreboard clock wound down yesterday, a mass of burgundy-helmeted players and cap-wearing coaches pushed him to the middle of the field, toward the man he had just beaten, New Orleans Saints Coach Sean Payton, who enveloped him in a half embrace, leaving Zorn's hair disheveled and a silly smile on his face.

"I don't really know how to act," Zorn said later, laughing as he faced reporters and used words such as "cool" and "tremendous" and "unbelievable" to describe key moments of Washington's 29-24 victory over New Orleans at FedEx Field.

There is something boyish about the Redskins' 55-year-old coach that is vastly different from his predecessor — the more stately Joe Gibbs — who seemed to know exactly what do to after every one of his vic-

See **REDSKINS**, *A13, Col. 1*

COVERAGE INSIDE

THOMAS BOSWELL: Rookie head coach Jim Zorn gets important first victory. **E1**

MIKE WISE: Quarterback Jason Campbell puts criticism to rest, at least for now. **E1**

CHAT ONLINE: Live discussion with columnist Michael Wilbon at 1:30 p.m. **www.washingtonpost.com/sports**

CAMPAIGN 2008

Familiar Ground May Be Election's Deciding Factor

By DAN BALZ *and* PETER SLEVIN
Washington Post Staff Writers

When the general election began a few months ago, Barack Obama's advisers talked optimistically about dramatically redrawing the electoral map. Their optimism remains, but as the campaign heads into its final 50 days, strategists for both parties say the election is likely to be decided on mostly familiar ground.

As in the past two campaigns, four big states — Pennsylvania, Michigan, Ohio and Florida — are expected to dominate the attention of the candidates. Democrats won the first two in both 2000 and 2004; Republicans won the other two both times.

Additionally, there will be battles in a group of smaller states now seen by the campaigns as most vulnerable to shifting sides. Five states that went for President Bush in 2004 are now high on the list of potential Obama states: Iowa, New Mexico, Colorado, Nevada and Virginia. Two states that went for Sen. John F. Kerry are top targets of McCain's campaign: Wisconsin and New Hampshire.

Both candidates brought their campaigns to

See **BATTLEGROUNDS**, *A4, Col. 1*

■ **Va. officials order 200,000 extra voter forms as registration deadline nears.** | *B1*

Massive Shifts on Wall St.

SYSTEM IN CRISIS

A New Architecture For the Financial World

By NEIL IRWIN *and* DAVID CHO
Washington Post Staff Writers

The U.S. financial system this weekend faced its gravest crisis in modern times, as regulators resorted to triage on Wall Street to contain the spreading damage from a meltdown in the housing and mortgage market.

Two of the world's biggest investment banks, Merrill Lynch and Lehman Brothers, appeared almost certain to disappear, Merrill into the arms of banking behemoth Bank of America and Lehman into bankruptcy. American International Group, once the country's largest insurer, was seeking a financial lifeline. This came just seven days after the government took over housing finance giants Fannie Mae and Freddie Mac.

For all the drama of the weekend, these were the

See **ARCHITECTURE**, *A12, Col. 4*

MERRILL LYNCH

Weekend Merger Struck With Bank of America

By BINYAMIN APPELBAUM *and* ZACHARY A. GOLDFARB
Washington Post Staff Writers

Bank of America struck a $50 billion deal yesterday to buy Merrill Lynch, a merger that will unite the nation's largest consumer bank with one of its most celebrated investment banking firms, according to sources familiar with the negotiations.

Both boards approved the deal and it was being reviewed by lawyers late last night, the sources said. Bank of America will pay about $29 for each share of Merrill Lynch stock, which closed at $17.05 on Friday. A formal announcement is expected this morning.

The acquisition came at the end of an historic weekend in New York. Senior federal officials and Wall Street executives cloistered themselves at the Federal Reserve Bank of New York and urgently dis-

See **MERGER**, *A13, Col. 1*

LEHMAN BROTHERS

Troubled Investment Bank To File for Bankruptcy

By HEATHER LANDY *and* NEIL IRWIN
Washington Post Staff Writers

NEW YORK, Sept. 14 — Lehman Brothers planned early this morning to file for bankruptcy, becoming the largest financial firm to fail in the global credit crisis, after federal officials refused to help other companies buy the venerable investment bank by putting up taxpayer money as a guarantee.

The failure of the fourth largest investment firm offers a profound test of the global financial system, and government and private officials were bracing Sunday night for an upheaval in a range of financial markets that have never before experienced the bankruptcy of such a large player. To keep cash flowing normally through these markets, the Federal Reserve announced new lending procedures, while ten major banks combined to create a new $70 billion fund.

See **LEHMAN**, *A12, Col. 1*

■ **Q-and-A: Advice for average investors and homeowners.** | *A13*

■ **No 'golden parachutes' for ex-CEOs of Fannie and Freddie.** | *A12*

BY JAHI CHIKWENDIU — THE WASHINGTON POST

An aerial view of the destruction caused by Hurricane Ike along Bolivar Peninsula, a strip of coast just north of Galveston Island. Ike hit Texas as a Category 2 storm Saturday.

Along Texas Coast, 'Monumental' Damage

By KEITH B. RICHBURG, JOEL ACHENBACH *and* JERRY MARKON
Washington Post Staff Writers

HOUSTON, Sept. 14 — The devastated Texas Gulf Coast began Sunday to assess the scope of the impact of Hurricane Ike, finding that the massive storm washed away homes and knocked out power to millions, but did not cause the catastrophic loss of life that federal and state authorities had feared.

The damage from the 600-mile-wide hurricane was extensive, with flooding and debris spread from Freeport to Port Arthur. Nearly 2,000 people were rescued from flooded homes and elsewhere in the Galveston area, and more than 2 million remained without power statewide.

Yet the number of deaths from the hurricane's driving rains and 100 mph winds was reported to be 11 — seven people in Texas and four in Louisiana — even though thousands ignored orders to evacuate. By late Sunday, there were reports of 10 additional deaths in other states as the storm moved north. Federal officials said there were no reports of major damage to the region's critical oil, gas and petrochemical installations.

"Hurricane Ike threw us a hard punch, but it did not dent our spirit," Texas Gov. Rick Perry said as he urged the more than 1 million people who did evacuate to stay away for another week. While Perry said the damage was "monumental," he stressed that the state would recover.

See **IKE**, *A8, Col. 1*

COVERAGE INSIDE

More Pain at the Pump
Gas prices soared for the second day as Hurricane Ike damaged oil platforms. **A9**

Desolate Galveston
As rescuers search the trashed island, buses move nearly 1,000 people inland. **A8**

ANGLER
The Cheney Vice Presidency

This is the second of two articles adapted from "ANGLER: The Cheney Vice Presidency," which wil be published Tuesday by Penguin Press.

Cheney Shielded Bush From Crisis

By BARTON GELLMAN
Washington Post Staff Writer

Vice President Cheney convened a meeting in the Situation Room at 3 p.m. on Wednesday, March 10, 2004, with just one day left before the warrantless domestic surveillance program was set to expire. Around him were National Security Agency Director Michael V. Hayden, White House counsel Alberto R. Gonzales and the Gang of Eight — the four ranking members of the House and the Senate, and the chairmen and vice chairmen of the intelligence committees.

Even now, three months into a legal rebellion at the Justice Department, President Bush was nowhere in the picture. He was stumping in the battleground state of Ohio, talking up the economy.

With a nod from Cheney, Hayden walked through the program's vital mission. Gonzales said top lawyers at the NSA and Justice had green-lighted the program from the beginning. Now Attorney General John D. Ashcroft was in the hospital, and James B. Comey, Ashcroft's deputy, refused to certify that the surveillance was legal.

That was misleading at best. Cheney and Gonzales knew that Comey spoke for Ashcroft as well. They also knew, but chose not to mention, that Jack L. Goldsmith, chief of the Office of Legal Counsel at Justice, had been warning of major legal problems for months.

More than three years later, Gonzales would testify that there was "consensus in the room" from the lawmakers, "who said, 'Despite the recommendation of the deputy attorney general, go forward with these very important intelligence

See **CHENEY**, *A10, Col. 1*

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In Russia, Fears of Media Repression
The Kremlin tightens its grip on news coverage after the war with Georgia, to the dismay of many. A14

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Va. Crash Still Under Investigation
Prince William police release details on the events leading up to abducted Alexandria woman's death. B1

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Opera: A Change-Up at the Ballpark
The Washington National Opera launches first live simulcast from the Kennedy Center to Nationals Park. C1

WASHINGTON BUSINESS
Networking Fuels Political Donations
Local bundlers, business owners who persuade associates to give money to candidates, are strong fundraisers. D1

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Weather
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Wednesday: *Partly sunny. High 78. Low 63.*
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TUESDAY, SEPTEMBER 16, 2008

Stocks Plunge as Crisis Intensifies

BEHIND THE SCENES

No Bailout: Feds Made New Policy Clear in One Dramatic Weekend

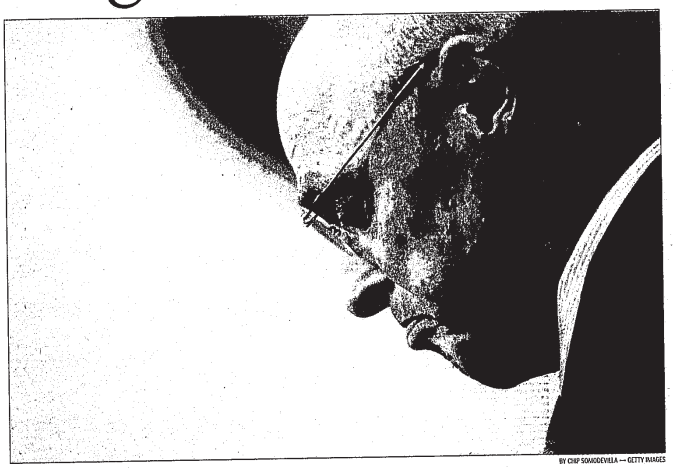
By DAVID CHO *and* NEIL IRWIN
Washington Post Staff Writers

When Treasury Secretary Henry M. Paulson Jr. flew to New York Friday evening, he brought only one change of clothes. And he planned to send a simple message to the powerbrokers of the financial world: No government bailouts would be offered to Wall Street.

Paulson ended up staying until Monday, relying on the Waldorf Astoria hotel to clean his clothes, while presiding over an unprecedented series of meetings that reshaped the financial landscape and sealed the fate of some of the biggest names in banking. On little sleep and with the underpinnings of world markets hanging in the balance, senior government leaders decided not to rescue Lehman Brothers and Merrill Lynch, forcing the former to file for bankruptcy protection and the latter to sell itself to Bank of America.

Accounts by insiders at the gathering show how senior government officials in a single weekend recast the debate about how the credit crisis would be addressed after the mammoth taxpayer bailouts of Fannie Mae and Freddie Mac this month, as well as investment bank Bear Stearns in March. These sources spoke on condition of anonymity because they either were not

See SCENE, *A6, Col. 1*



BY CHIP SOMODEVILLA — GETTY IMAGES

Treasury Secretary Henry M. Paulson Jr. discusses the turmoil on Wall Street. The Dow Jones industrial average lost 504 points yesterday.

ANALYSIS

Economy Becomes New Proving Ground For McCain, Obama

By DAN BALZ *and* ROBERT BARNES
Washington Post Staff Writers

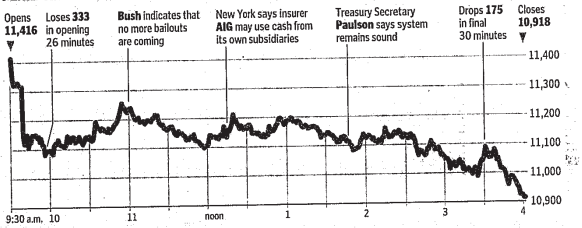
Yesterday's meltdown on Wall Street brought the economy roaring back to the center of the presidential campaign, and the question for the final seven weeks of the general-election campaign is whether Barack Obama or John McCain can convince voters that he is capable of leading the country out of the morass.

McCain faces the bigger challenge. As the Republican nominee, he must answer for what has happened on President Bush's watch and offer a plausible explanation for why his conservative administration would be genuinely different. Obama already is attacking him as ill-equipped to deal with the financial crisis and has aggressively moved to tie a future McCain administration to a lobbyist-dominated Washington culture.

Obama's challenge is different. He begins with the reality that Democrats are seen as the party that is more trusted to deal with the economy. Despite that, he has struggled through much of the year to develop a compelling economic message. Where he remains suspect is on the strength of his leadership and his ability to connect with working- and middle-class voters.

See ANALYSIS, *A4, Col. 3*

WHAT HAPPENED AND WHAT'S NEXT



Financial Markets
Wall Street firms race to fashion a lifeline for American International Group, while investors wait to see if the steep stock market declines will be repeated today. With a warning last night from major credit-rating agencies that the insurer could find it harder to meet its obligations, AIG's fate could become clearer today.

Government
Key Democratic lawmakers say the government may need to create an entity resembling the old Resolution Trust Corporation to manage the assets of insolvent institutions. Meanwhile, many investors are urging the Fed to lower the federal funds rate to keep the turmoil from spreading. But the Fed is unlikely to cut rates at its meeting today.

Consumers
Wall Street's troubles will affect some more than others. If you own Lehman stock, you may have to write it off. If you have a brokerage account with Merrill Lynch, it should be business as usual. If you have a life insurance policy with American International Group, check with your state's guaranty association.

COMPLETE COVERAGE

» **In Business:** Steven Pearlstein on Paulson's gamble, a Q&A for average investors, and a huge drop in oil prices. **D1**
» **In Style:** Livin' lean in Lower Manhattan. **C1** » **On washingtonpost.com:** Background, commentary and breaking news.

AIG at Risk; $700 Billion In Shareholder Value Vanishes

By GLENN KESSLER *and* DAVID S. HILZENRATH
Washington Post Staff Writers

The Federal Reserve and Treasury Department struggled yesterday to contain the fallout from an upheaval among the country's largest investment banks as they moved on to their next challenge — engineering a $75 billion private rescue of the nation's largest insurance company.

The insurer, American International Group, faces a cash crunch that grew more severe last night when the major credit-rating agencies warned investors that the company could have greater difficulty in meeting its obligations. It was unclear whether the downgrades by the agencies would force AIG to post additional collateral at a time when it is having difficulty raising money.

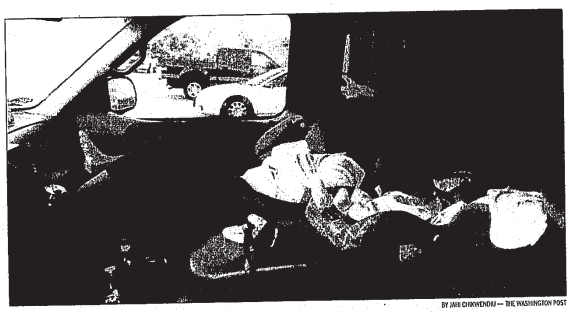
Investors sent the Dow Jones industrial average plunging more than 500 points, or 4.4 percent, for the biggest point loss since the Sept. 11 terrorist attacks seven years ago. About $700 billion in shareholder value disappeared in a single day of trading and the sell-off continued in Asian markets Tuesday.

The wrenching reshaping of Wall Street — which over the weekend included the demise of one big firm and the sale of another — also pushed the value of the dollar lower. It sent the price of crude oil below $100 a barrel for the first time since Feb. 15 as traders bet a global downturn would reduce the demand for energy.

Wall Street's biggest shakeout since the Great Depression stems from a collapse in housing prices, which spread losses among firms that bet on securities linked to mortgages. Twice in the past year, regulators intervened to save financial firms and prevent further erosion in the housing markets. But over the weekend, officials drew the line at rescuing the storied investment bank Lehman Brothers, which yesterday filed for bankruptcy protection.

"We had a very, very tough day on the market," said Art Hogan, chief market analyst at Jefferies & Co. "Investors are anxious about the spillover effect of Lehman and what is

See STOCKS, *A7, Col. 1*



BY JAIME CHIKWENDU — THE WASHINGTON POST

Unable to return home to Galveston Island, Beatrice Samora and her son Luis Angel Samora rest in Texas City, Tex.

Life After Ike: A Test of Endurance

By JOEL ACHENBACH
Washington Post Staff Writer

GALVESTON, Tex., Sept. 15 — Tommy LeCroy, proprietor of Bistro LeCroy, supervises the grilling of steaks and sausages, washed down with fine wine, on the deck of a loft overlooking a street buried in mud. This is the historic restaurant and retail district known as the Strand. The neighborhood is deserted. LeCroy is tending the last feeble embers of the good life.

"Look, we got gourmet wine, good food," he says, accompanied by a small group of hard-core survivors. "But we know we're going to run out of that. Then we'll have to eat MREs and get in line with the riffraff."

Hurricane Ike was terrifying for everyone, but for many the aftermath is worse. Conditions here are degenerating, with stagnant water breeding mosquitoes, toilets overflowing, no operating sewage system, hardly any running water, no power, no gas.

There's no functioning hospital. Officials fear a health crisis will result from the worsening sanitation. Electricity may not return for four weeks.

"The city is in ruins," Mayor Lyda Ann Thomas said Monday. She predicted that her pulverized city may not fully recover for three or four years. The island is still closed, even to residents who fled before the storm.

"There's nothing to come here for," she said at a news conference. The people who stayed on

See GALVESTON, *A2, Col. 1*

■ **Troubled Red Cross asks Congress for $150 million.** | *A2*

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Harriette Walters, who engineered the $48 million scam, could face up to 18 years in prison. Nine others already pleaded guilty. B1

James P. Gleason Dies: First elected executive of Montgomery County served in the 1970s. B6

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Emergency Care, Without the Wait
Inova's HealthPlex successfully diverts patients from traditional hospital trauma units. F1

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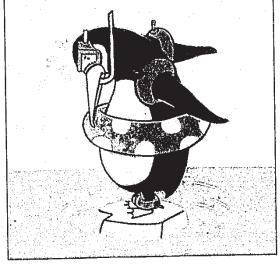
White House Hosts Lavish State Dinner
In possibly the last such event for President Bush, the guest is the president of Ghana. C1

KidsPost: Where the Candidates Stand
John McCain and Barack Obama speak out on the environment and global warming. C12



Power-Sharing Deal Is Signed In Zimbabwe

Mugabe to Control Army; Tsvangirai to Be Premier

By KARIN BRULLIARD
Washington Post Foreign Service

JOHANNESBURG, Sept. 15 — President Robert Mugabe ceded a large share of control over Zimbabwe's government Monday, in a power-sharing agreement that loosened his absolute hold over a nation he helped lead to independence nearly three decades ago.

The deal, signed in Zimbabwe's capital in a ceremony that featured a glum Mugabe shaking the hands of his rivals, provided an opening that could bring a much-needed turnaround to a nation that has been in economic free fall for years and in political crisis since elections this spring. But its success depends on the cooperation of longtime enemies who must now work together in a unity government tasked with lifting Zimbabwe out of ruin.

The pact envisions an even distribution of power between Mugabe's party and opposition groups, but sources close to the negotiations have said Mugabe will retain control over the army, whose members used force in attempts to intimidate opposition supporters earlier this year. Opposition leader Morgan Tsvangirai will become prime minister and oversee a council of ministers that will supervise a 31-member cabinet headed by Mugabe. The leader of a splinter opposition group will be deputy prime minister.

Tsvangirai, who was greeted by cheering supporters

See ZIMBABWE, *A18, Col. 4*

INSIDE» METRO • STYLE • BUSINESS • SPORTS • **HEALTH**

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Weather
Today: *Mostly cloudy. High 74. Low 61.*
Thursday: *Partly sunny. High 80. Low 58.*
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WEDNESDAY, SEPTEMBER 17, 2008

D.C. Tax Scam Mastermind Expanded Existing Ploy

By DEL QUENTIN WILBER
Washington Post Staff Writer

The woman who masterminded the biggest embezzlement in D.C. government history inherited a scam running in the city's tax office and relied on a culture of mismanagement and corruption so entrenched that she escaped notice for almost 20 years.

Harriette M. Walters learned how to steal in the mid-1980s from coworkers whose swindling ran the gamut, prosecutors revealed yesterday. They took cash and gifts from property owners in return for erasing penalties on overdue taxes, stole refund checks issued to deceased taxpayers and created phony property tax refunds with little effort or worry.

Yesterday, Walters pleaded guilty, as expected, to wire fraud, money laundering and other charges in a rip-off she designed that netted her and her co-conspirators $48.1 million. She could face 15 to 18 years in prison.

Walters, 51, spent her millions on dozens of gambling excursions to Las Vegas and Atlantic City, a 2005 family vacation to Paris and lavish spending sprees at high-end stores with a personal shopper.

She shared the money with friends and family members who helped engi-

See TAX SCAM, *A16, Col. 1*

U.S. House, D.C. Council Wrestle Over Gun Control

By PAUL DUGGAN *and* MARY BETH SHERIDAN
Washington Post Staff Writers

The struggle to regulate guns in the District in light of a historic U.S. Supreme Court ruling sparked competing legislative efforts yesterday as members of Congress debated taking control of the issue and the D.C. Council implored them to leave it in local hands.

On the most significant day of legislative activity on gun control since the high court ended the District's 32-year-old handgun ban in June, the council voted unanimously to ease some contentious firearms restrictions while the U.S. House of Representatives considered a more dramatic measure that would limit the city's power to regulate guns.

The issue of gun control in the nation's capital has been the focus of intense, often tortuous debate for two months, since the Supreme Court ruled that the Second Amendment guarantees an individual the right to own firearms. The

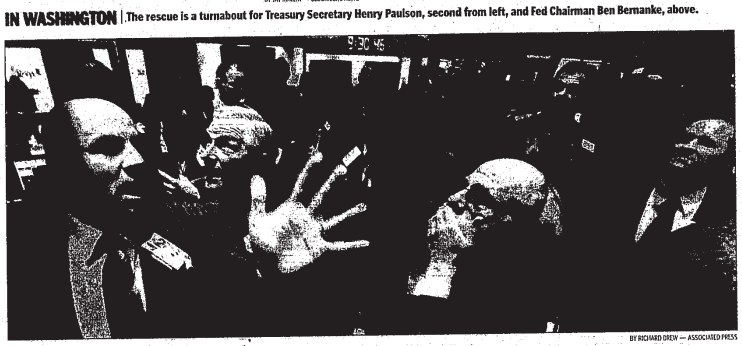
See GUNS, *A2, Col. 4*

U.S. Seizes Control of AIG With $85 Billion Emergency Loan

BY JAY MALLIN — BLOOMBERG NEWS

BY LAWRENCE JACKSON — ASSOCIATED PRESS

IN WASHINGTON | The rescue is a turnabout for Treasury Secretary Henry Paulson, second from left, and Fed Chairman Ben Bernanke, above.



BY RICHARD DREW — ASSOCIATED PRESS

IN NEW YORK | Traders handle transactions of AIG stock at the NYSE. More than 1.1 billion shares of the insurer changed hands yesterday.

Insurer's Wide Reach Justifies Intervention, Fed Says

By DAVID S. HILZENRATH *and* GLENN KESSLER
Washington Post Staff Writers

Invoking extraordinary powers granted after the 1929 stock market crash, the government seized control of the insurance giant American International Group to preserve a crucial bulwark of the global financial system.

The move to lend the Wall Street giant up to $85 billion in exchange for nearly 80 percent of its stock effectively nationalizes one of the central institutions in the crisis that has swept through markets this month.

The government had sought to avoid federal intervention by lining up private companies to rescue AIG. But the effort failed when companies were unwilling to take on the massive financial risk, forcing the government's hand.

AIG found itself on the verge of bankruptcy because of mounting losses from investments tied to subprime home mortgages and also from the insurance it was providing to others who invested in mortgages.

When credit-rating agencies downgraded the company Monday, AIG suddenly faced a crunch to come up with $14.5 billion to meet its commitments. If the company failed, it could have set off cascading losses across the global financial system.

"The Board determined that, in current circumstances, a disorderly failure of AIG could add to already significant levels of financial market fragility and lead to substantially higher borrowing costs, reduced household wealth and materially weaker economic performance," the Fed said in a statement.

"It's heavy, heavy, heavy. It's much more than has been done except Fannie and Freddie," said Sen. Charles E. Schumer (D-N.Y.), who heads the Joint Economic Committee, referring to the mortgage finance giants Fannie Mae and Freddie Mac, which were taken over by the government earlier this month. "But when you look at the alternatives, none of them are better."

Since years of loose mortgage lending caught up with the housing markets, spurring a decline in home prices and a wave of foreclosures, a contagion has spread through the fi-

See AIG, *A8, Col. 1*

CAMPAIGN REACTION

McCain Embraces Regulation After Many Years of Opposition

By MICHAEL D. SHEAR
Washington Post Staff Writer

A decade ago, Sen. John McCain embraced legislation to broadly deregulate the banking and insurance industries, helping to sweep aside a thicket of rules established over decades in favor of a less restricted financial marketplace that proponents said would result in greater economic growth.

Now, as the Bush administration scrambles to prevent the collapse of the American International Group (AIG), the nation's largest insurance company, and stabilize a tumultuous Wall Street, the Republican presidential nominee is scrambling to recast himself as a champion of regulation to end "reckless conduct, corruption and unbridled greed" on Wall Street.

"Government has a clear responsibility to act in defense of the public interest, and that's exactly what I intend to do," a fiery McCain said at a rally in Tampa yesterday. "In my administration, we're going to hold people on Wall Street responsible. And we're going to enact and enforce reforms to make sure that these outrages never happen in the first place."

McCain hopes to tap into anger among voters who are looking for

See CAMPAIGN, *A6, Col. 1*

THE GLOBAL ECONOMY

Oil's Dramatic Price Retreat Ripples Around the World

By STEVEN MUFSON
Washington Post Staff Writer

Just two months ago, spiking petroleum prices were emboldening confrontational oil exporters such as Venezuela, Russia and Iran, fueling inflation anxiety at the Federal Reserve, raising expectations at American biofuel producers, and crimping the budgets of airlines and ordinary households alike.

Suddenly, the oil market's dynamic has changed. Prices have beaten a two-month retreat, confounding forecasts that many experts had just revised upward, fanning tensions within OPEC, dimming the financing prospects for alternative-fuel firms, and erasing tens of billions of dollars of value of energy stocks and oil and gas investments.

Prices remain extremely high by historical standards, and the House of Representatives, sensitive to voters' unhappiness, passed an energy bill that would allow oil drilling in new offshore areas, trim oil company tax breaks, ease the way for oil shale development and help finance alternative energy sources.

But in two months, the world's total energy costs have dropped by more than $4 billion a day. That will hurt government budgets

See OIL, *A10, Col. 3*

COMPLETE COVERAGE

Fed Holds Key Rate: The central bank resists Wall Street requests to lower interest on federal funds. **D1**

The Road to a Bailout: How the mortgage market brought down AIG, and why the Fed stepped in. **D1**

Still Standing: Goldman Sachs and Morgan Stanley defend prospects for independent investment banks. **D1**

Today on washingtonpost.com: Breaking news throughout the day, analysis and background.

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Say goodbye to "Total Request Live" and the end of, well, 10 years of something. APPRECIATION, C1

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FOOD
Top Chefs in Town
Culinary legends drawn to D.C. are open for business. F1

CupcakeWars: The battle of the best rages on. F3

Female Suicide Bombers Are Latest War Tactic

By SUDARSAN RAGHAVAN
Washington Post Foreign Service

BAQUBAH, Iraq — Shortly after the Muslim sunset prayer, the beggar approached Naeem Jabbar as he stepped out of his car. She was no more than 19 years old. He was a leader of the Awakening, a U.S.-backed force that has helped improve security in Iraq. For the past four months, Jabbar had given the young woman food and money, enabling her to survive until the next day.

"He trusted her," said Jabbar's brother, Muntasar. "We never searched her."

On this evening in July, hidden under her black garments, she wore a vest filled with explosives, nails and ball bearings. As her benefactor greeted her, she triggered the bomb, killing him, four others and herself.

U.S. and Iraqi officials say Sunni insurgent groups, especially al-Qaeda in Iraq, are using religion, money and empty promises to persuade sometimes vulnerable women to conduct suicide attacks, highlighting the movement's desperation at a time when its influence and ranks have declined. Efforts by the U.S. military and Iraq's neighbors have limited the number of Arab fighters reaching Iraq, a flow that was once the major source of recruits willing to commit suicide.

But extremists say the women are acting on their own motives, including ideology and revenge, and describe the female bombers as the latest tactic in a slow-burning war.

BY ANDREA BRUCE — THE WASHINGTON POST

AFTERMATH: Baidaa Muhammed holds her daughter, born five days after her husband, Naeem Jabbar, died in a suicide bombing by a woman he knew.

Since the 2003 invasion, 53 Iraqi women have either carried out suicide attacks or were apprehended before they could do so, according to the U.S. military. The attacks have killed more than 370 people and injured 650. This year, there have been 31 female bombers, including 17 in Diyala province, northeast of Baghdad. The youngest bomber was 13, according to U.S. military statistics.

Two weeks ago, police in Baqubah, Diyala's capital, captured a woman with reddish-brown hair wearing what appeared to be an explosives-laden vest. She said that her name was Rania and that she was born in 1993. In an interrogation captured on a police video obtained by The Washington Post, she said a woman had wrapped the vest on her body and told her to take it off at home.

"Why did you come to blow yourself up?" asked Maj. Gen. Abdul-

See IRAQ, *A13, Col. 2*

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YOUR LOCAL NEWS EXTRA SCHOOLS • COMMUNITY EVENTS • HOME SALES • CRIME WATCH » INSIDE THE HOME SECTION

Weather
Today: *Mostly sunny. High 78. Low 55.*
Friday: *Sunny. High 71. Low 57.*
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Markets in Disarray as Lending Locks Up

ON CAPITOL HILL

Lawmakers Left On the Sidelines As Fed, Treasury Take Swift Action

By LORI MONTGOMERY
Washington Post Staff Writer

The frenetic pace of the financial crisis has forced the Treasury Department and Federal Reserve to make rapid-fire decisions in recent days, leaving Capitol Hill lawmakers effectively impotent — and frustrated.

Lawmakers on both sides of the aisle expressed concern yesterday that they have had no control over when and how federal money has been used to curb the panic on Wall Street. While many have been convinced that the moves so far have been necessary to prevent a wider financial meltdown, they said they felt confined to the sidelines as power to make momentous decisions has been concentrated in very few hands.

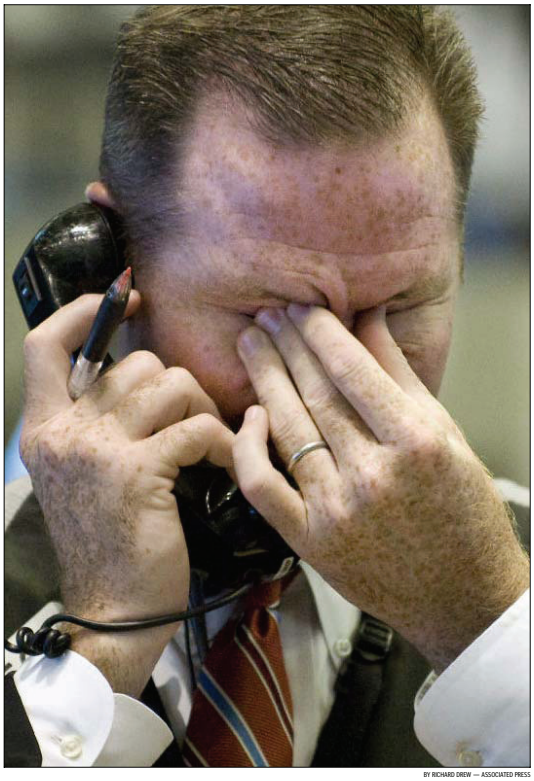
House Speaker Nancy Pelosi (D-Calif.) said she has dispatched Rep. Barney Frank (D-Mass.), chairman of the House Financial Services Committee, to determine whether Federal Reserve Chairman Ben S. Bernanke should retain authority to unilaterally bail out failing firms, as he did Tuesday with a loan of $85 billion to insurance giant American International Group.

Congressional leaders learned of the rescue late Tuesday during a hastily called meeting in the Capitol with Bernanke and Treasury Secretary Henry M. Paulson Jr., who explained the deal after it was done.

"My instincts and my gut tell me they made the wrong move. But I don't have all the information they do," said Rep. Paul D. Ryan (R-Wis.), the senior Republican on the House Budget Committee, who yesterday fielded furious calls from constituents. "People are angry because they see this as their tax dollars bailing out Wall Street speculators. And in some cases, it is."

Paulson and Bernanke have taken the lead not only from lawmakers but from President Bush. Bush has left direct man-

See **CONGRESS**, *A10, Col. 1*



BY RICHARD DREW — ASSOCIATED PRESS

Trader Christopher Crotty at the New York Stock Exchange. The Dow Jones industrials lost 4 percent.

Federal Intervention Fails to Stem Crisis of Confidence on Wall St.

By NEIL IRWIN *and* DAVID CHO
Washington Post Staff Writers

The flow of money through critical parts of the financial system all but stopped yesterday, prompting the stock market to plunge again as banks lost faith in one another and investors rushed to U.S. government securities to protect their savings.

Goldman Sachs and Morgan Stanley, the only major investment banks still standing amid the wreckage of Wall Street's old order, tottered.

In one of the most tumultuous days ever for financial markets, the Dow Jones industrial average fell 449 points, or 4 percent, and so much money fled into safe U.S. debt that buyers were at one point willing to accept interest rates for Treasury bills of only 0.2 percent, the lowest since World War II.

The financial toll continued to mount despite a series of escalating steps taken by the government in recent weeks. As one investment bank failed Sunday and another was taken over, the Federal Reserve loosened its lending to troubled institutions. Then, in its most dramatic step yet, the government on Tuesday took over the enormous insurance company American International Group and extended it an $85 billion emergency loan. None of these measures succeeded in stopping the accelerating troubles.

Investors "are worried there is a lot more out there," said Robert MacIntosh, chief economist for Eaton Vance Management in Boston.

See **BANKS**, *A12, Col. 1*

ANALYSIS

Scrambling to Clean Up After A Category 4 Financial Storm

By STEVEN PEARLSTEIN
Washington Post Staff Writer

You know you're in a heap of trouble when the lender of last resort suddenly runs out of money.

Having pumped $100 billion into the banking system and lent $115 billion more to rescue Bear Stearns and AIG, the Federal Reserve was forced to ask the Treasury yesterday to borrow some extra money to replenish its coffers. If there was any good news in that, it was that investors here and abroad were eager to help out, having decided that the only safe place to put their money is in U.S. government securities. Indeed, demand was so brisk at one point yesterday that, for an investor, the effective yield on a three-month Treasury bill was driven below zero, once the broker's fee was figured in.

This is what a Category 4 financial crisis looks like. Giant blue-chip financial institutions swept away in a matter of days. Banks refusing to lend to other banks. Russia closing its stock market to stop the panicked selling. Gold soaring $70 in a single trading session. Developing countries' currencies in a free fall. Money-market funds warning they might not be able to return every dollar invested. Daily swings of three, four, five hundred points in the Dow Jones industrial average.

What we are witnessing may be the greatest destruction of financial wealth that the world has ever seen — paper losses measured in the trillions of dollars. Corporate wealth.

See **PEARLSTEIN**, *A10, Col. 4*

COMPLETE COVERAGE

RUSSIA HALTS TRADING AGAIN
A $45 billion loan from the Kremlin to the three largest banks does not ease fears. **A10**

ART OF ASKING IN DOWN TIMES
Arts foundations are also nervous about the financial futures of their benefactors. **C1**

LOSSES EXTEND REACH
Troubles are hitting money-market funds, and investors are fleeing. **D1**

AIG BAILOUT'S COST
Some analysts say taxpayers will absorb losses, while others say it can be revived. **D1**

SOARING GOLD PRICES
Investors turn to the precious metal as a safe haven for their money. **D1**

CAMPAIGN 2008

High Turnout, New Procedures May Mean an Election Day Mess

By MARY PAT FLAHERTY
Washington Post Staff Writer

Faced with a surge in voter registrations leading up to Nov. 4, election officials across the country are bracing for long lines, equipment failures and confusion over polling procedures that could cost thousands the chance to cast a ballot.

The crush of voters will strain a system already in the midst of transformation, with jurisdictions introducing new machines and rules to avoid the catastrophe of the deadlocked 2000 election and the lingering controversy over the 2004 outcome. Even within the past few months, cities and counties have revamped their processes: Nine million voters, including many in the battleground states of Ohio, Florida and Colorado, will use equipment that has changed since March.

But the widespread changes meant to reassure the public have also increased the potential for trouble.

"You change systems and throw in lots of new voters, and you can plan to be up the proverbial creek," said Kimball Brace, president of Election Data Services, a consulting firm that has tracked the voting changes.

Since Congress passed the Help America Vote Act six years ago, $3 billion in fed-

See **VOTING**, *A6, Col. 1*

Attack Against U.S. Embassy In Yemen Blamed on Al-Qaeda

By ELLEN KNICKMEYER
Washington Post Foreign Service

SANAA, Yemen, Sept. 17 — Attackers used vehicle bombs, rocket-propelled grenades and automatic weapons to mount a coordinated assault on the U.S. Embassy here Wednesday, leaving 10 guards and civilians dead outside the main gate but failing to breach the walled compound. No Americans were killed.

Yemeni officials and experts on al-Qaeda said an aggressive new generation of the group's leaders in Yemen was responsible for the assault, the deadliest attack on a U.S. target in this country since the 2000 bombing of the USS Cole. Yemeni security forces have begun to pursue al-Qaeda fighters more vigorously this summer, following years of complaints by U.S. officials that the government was not fulfilling promises to counter the group.

"The attack on the U.S. Embassy was retaliation by al-Qaeda for the measures taken by the government to fight the terrorists," said Foreign Minister Abou Bakr al-Qurbi, according to a statement.

See **YEMEN**, *A14, Col. 1*

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A large-scale disaster in a major city would "overwhelm" groups such as the American Red Cross, whose roles are not clearly defined by FEMA. A18

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Tzipi Livni handily takes over the leadership of the Kadima party, giving her a chance to become Israel's first female prime minister in 34 years. A13

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Descendants of President James Madison and of the slaves who lived on his plantation participate in the event marking the five-year, $24 million restoration of the mansion. B1

D.C. Asks Feds for Tax Scam Details
Officials want to be sure that no accomplices of ringleader Harriette Walters, who embezzled $48 million, are still working for the city. B1

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Surgery Sidelines Gilbert Arenas
The Washington Wizards will start the NBA season without their all-star guard, who undergoes a third operation on his left knee. E1

HOME
Made for the Shade
There's a wide variety, from simple to splendid, of tents and canopies for cool comfort in your back yard. H1

FAMILY PHOTOS

David and Eunice Wolman, left, and Libby and Max Rubin had dinner together every Saturday. A car crash on their way home last weekend killed Eunice Wolman and Max Rubin, both 92.

A Final Dinner for Four Friends

After a Crash, a Widow and a Widower Remain

By DAN MORSE
Washington Post Staff Writer

For the Wolmans and the Rubins, it was the highlight of the week, a ritual double date that connected them to the rhythms of life outside the Leisure World retirement community.

Every Saturday, they would climb into a gold Buick LaSabre and travel four miles to Rockville's Baronessa Italian restaurant for the early-bird special.

David Wolman, who at 96 was the only one still driving after dark, would be behind the wheel. Beside him would be Libby Rubin, 92. In the back would be Eunice Wolman and Max Rubin, both 92.

Last Saturday, as they did every week, the foursome headed to Table 23 in the back of the restaurant, near a painting of Venice. Wolman and Rubin helped their wives into their chairs, a difficult feat for Rubin, given his cane and her walker, and one he executed slowly but with determination.

After dinner, returning to the Silver Spring retirement community, Wolman's Buick veered off Norbeck Road and struck a tree, killing Eunice Wolman and Max Rubin.

The crash left the two survivors, now a widower and a widow, in intensive care.

David Wolman was admitted to Suburban Hospital in Bethesda with a cracked sternum and broken ribs. Libby Rubin was at Washington Hospital Center in the District with a broken pelvis, rib and thumb. Eunice Wolman and Max Rubin were dead

They weren't at their spouses' funerals, Rubin's on Tuesday and Wolman's yesterday, at Judean Memorial Chapel, about a mile from Leisure World.

"My parents so enjoyed their special Saturday evenings with the Rubins," Anne Gel-

See **COUPLES**, *A18, Col. 1*

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YOUR GUIDE TO FUN THIS FALL
We tell you what's happening, when it's happening and where to go. » WEEKEND

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Today: *Mostly sunny. High 74. Low 57.*
Saturday: *Mostly sunny. High 75. Low 56.*
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The Washington Post

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CAMPAIGN 2008

GOP Sees Rebound in Battle for Congress

Party Hopes Momentum Will Help Limit Losses

By SHAILAGH MURRAY *and* PAUL KANE
Washington Post Staff Writers

Like many of her Republican colleagues concerned about their reelection prospects, Sen. Elizabeth Dole of North Carolina skipped the party's national convention to focus on campaigning back home. But even in her absence, the gathering may have given her bid for a return to office its biggest boost yet.

Volunteers began showing up at GOP campaign offices at quadruple the preconvention pace, many of them conservatives who were lukewarm to presidential nominee John McCain but ecstatic about his running mate, Alaska Gov. Sarah Palin. Their enthusiasm could be Dole's saving grace on Nov. 4.

"We have to move out of here and take on this fight big-time," Dole said at a GOP dinner in North Carolina earlier this month, acknowledging, "We're in a very tough cycle."

After months of fundraising doldrums, recruitment misfires and daunting polls, Republicans believe they are finally on the rebound in the battle for Congress. Both sides concede that the GOP stands almost no chance of taking back the House or Senate in November, but party leaders think the Palin factor and an increasingly competitive fight for the White House have generated enthusiasm and momentum that could limit GOP losses to only a few Senate seats and perhaps fewer than a dozen House seats.

As evidence of the jolt provided to the party base by the Republican conven-

See SENATE, *A6, Col. 1*

■ **Sarah Palin leverages her appeal to govern Alaska.** | *A4*

■ **Virginia Senate candidates hold debate in McLean.** | *Metro*

For a Global Generation, Public Health Is a Hot Field

By DAVID BROWN
Washington Post Staff Writer

Courses in epidemiology, public health and global health — three subjects that were not offered by most colleges a generation ago — are hot classes on campuses these days.

They are drawing undergraduates to lecture halls in record numbers, prompting a scramble by colleges to hire faculty and import ready-made courses. Schools that have taught the subjects for years have expanded their offerings in response to surging demand.

At Johns Hopkins, which has offered an undergraduate major in "public health studies" since 1976, there were 159 students studying the field 10 years ago; this year, there are 311 majors. At the College of William and Mary, a freshman seminar called "Emerging Diseases" is so popular that it is offered in two sections each semester. "It fills up instantly," said Beverly Sher, the immunologist who teaches it.

"We see exponential growth going on in the interest in these subjects," said Richard Riegelman, an epidemiologist and chief voice of the Educated Citizen and Public Health Initiative, which was put together two years ago by several higher education organizations and advocates undergraduate study of public health.

That group argues that the subject is essential knowledge in the flattened, crowded and worried world of the 21st

See HEALTH, *A8, Col. 4*

Citing Grave Financial Threats, Officials Ready Massive Rescue

BY LAUREN VICTORIA BURKE — ASSOCIATED PRESS

Treasury Secretary Henry Paulson announces the government's intentions with House Speaker Nancy Pelosi and Fed Chairman Ben Bernanke.

Lawmakers Work With Fed, Treasury To Try to Restore The Flow of Money

By BINYAMIN APPELBAUM *and* LORI MONTGOMERY
Washington Post Staff Writers

The Bush administration is urgently preparing a massive intervention to revive the U.S. financial system, including a plan to sweep away the unpaid loans that are choking banks and blocking the flow of money to borrowers.

Congressional leaders gave bipartisan support to the administration's efforts after a meeting last night with Treasury Secretary Henry M. Paulson Jr. and Federal Reserve Chairman Ben S. Bernanke.

Paulson and Bernanke presented a "chilling" picture of the state of the financial system, according to a participant in the meeting who spoke on condition of anonymity. Lawmakers were told that the consequences would be grave if they failed to pass legislation by the end of next week. Sen. Harry Reid (D-Nev.) and Rep. Nancy Pelosi (D-Calif.) committed to meeting that deadline.

The plan involves using hundreds of billions of dollars in government funding to buy bad loans, leaving banks with more money and fewer problems, according to two sources familiar with what was said at the meeting.

See FINANCE, *A10, Col. 1*

THE INSIDERS

In Crucible of Crisis, Paulson, Bernanke, Geithner Forge a Committee of Three

By DAVID CHO *and* NEIL IRWIN
Washington Post Staff Writers

The response to the gravest financial crisis in generations has been engineered to a remarkable degree by a committee of three.

From the rescue of Bear Stearns to the takeovers of Fannie Mae, Freddie Mac and American International Group, all the key decisions have been made by Treasury Secretary Henry M. Paulson Jr., Federal Reserve Chairman Ben S. Bernanke and Timothy F. Geithner, the president of the Federal Reserve Bank of New York.

It is this unusual collaboration among a consummate dealmaker, a professor and a seasoned public servant that could determine how the nation weathers the most profound threat to its economy in modern times. Despite their disparate backgrounds, the three men have formed a close, informal partnership built on rapid-fire phone calls and open debate that breaks the mold of Washington policymaking.

As they chart a government response to the crisis, the stakes could hardly be higher. If they succeed, they could tame the economic downturn and orchestrate a restructuring of Wall Street with minimal collateral damage. If they fail, the toll could be millions of jobs, trillions of dollars in lost wealth and a crisis of confidence in global capitalism.

Paulson, Bernanke and Geithner spent most of their careers in different worlds. They barely knew one another before beginning their current jobs and still rarely socialize — though they have spent more time working together in recent months than with their wives.

Paulson, 62, is an investment banker who rose through the ranks of Goldman

See INSIDERS, *A11, Col. 1*

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WATCHING YOUR MONEY
What financial advisers are saying to worried clients across the Washington area. **D1**

THE RAPID RESCUE PLAN
Steven Pearlstein makes his case for how the new government agency should be set up. **D1**

THE DOOMSAYERS
Even those who anticipated financial calamity now find themselves thunderstruck. **D1**

A WORLD OF WORRY
Governments from Britain to Australia act in unison to contain the global panic. **A10**

WALL STREET

Despite Late Surge, Markets Still Show Signs of Instability

By GLENN KESSLER
Washington Post Staff Writer

The rampaging credit crisis continued to roil the world's markets yesterday, but in a week of steep downdrafts, U.S. stock prices rallied on news of the government efforts to shore up the global financial system.

The respite came despite ominous signs that the markets remained remarkably unstable. Investors on Tuesday withdrew nearly $80 billion from money-market funds — long viewed as among the safest of investments — and some firms took the dramatic step of shutting down their funds at a loss to investors. Morgan Stanley, one of the two remaining independent investment banks, continued to flirt with selling a huge stake to a Chinese investor or agreeing to an outright sale.

Throughout the day, governments around the world worked to contain the crisis. In the morning, the Federal Reserve and central banks in Europe, Japan and Canada teamed up to inject as much as $180 billion into global markets to ease the cash crunch. Later, regulators here and in London took steps to crack down on trading tactics that have ham-

See WALL STREET, *A12, Col. 4*

On the Line: *The U.S. government — through the Federal Reserve and the Treasury — has already committed billions of dollars in financing for rescue plans this year. The tally may rise as a "more permanent" solution to the credit crisis is sought.*

What's Committed

U.S. TREASURY
Committed to buy Fannie Mae, Freddie Mac stock
Up to $200 billion

+

FEDERAL RESERVE
Loans to banks: **$183 billion**
Loan to AIG: **$85 billion**
Loans to investment banks: **$60 billion**
Financing J.P. Morgan Chase to buy Bear Stearns: **$29 billion**
$621 billion remaining
Federal Reserve balance: $978 billion

What's Left to Try
- Lower interest rates
- Inject more cash into the markets
- Expand the money supply

What Might be at Risk
Total liability for firms the government has backed — like Fannie, Freddie and AIG — are unknown.
Through other agencies, the government has committed to support other businesses, for example, FDIC-insured bank deposits.

SOURCE: Federal Reserve, as of Sept. 17

► ***Putting the amounts in perspective:*** *Federal budget* ***$2.9 trillion*** | *Market value of Exxon Mobil, the largest U.S. company* ***$403.8 billion*** | *District of Columbia budget* ***$9.7 billion***

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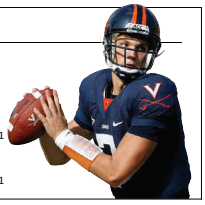
THE WORLD
China Confronts Milk Scandal
The Chinese government, in an attempt to avoid blame, is offering money to victims of the tainted milk and allowing them to speak out publicly. A13
Yemen Toll Rises: American woman is among 11 victims. A16

THE REGION
District in Red on Stadium
The Nationals Ballpark will come up short in tax revenue, and the Lerner family is still $3.5 million behind in rent. B1
Chaos in Prince William: Three schools locked down as police search for homicide suspect. B1

WEEKEND
The Dating Game
Our new feature, "On Dating," is a guide for singles trying to navigate the field.
New at the Movies: "Ghost Town," a romantic comedy, and the thriller "Lakeview Terrace." STYLE & WEEKEND

SPORTS
Virginia Dismisses QB »
Peter Lalich of Springfield, who started the first two games, is kicked off the team for drinking alcohol on probation. E1
'Make More Putts': The U.S. team, without Tiger Woods, pursues the Ryder Cup. E1



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Today: *Partly sunny. High 76. Low 60.*
Sunday: *Partly sunny. High 82. Low 60.*
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Historic Market Bailout Set in Motion

ANALYSIS

Bush's Shifting Ideology

2nd Term Markedly Different From 1st

By MICHAEL ABRAMOWITZ *and* DAN EGGEN
Washington Post Staff Writers

President Bush's decision to shore up the financial markets with massive government intervention is the latest sign of a broad ideological transformation of his presidency.

After a first term in which he largely adhered to conservative — or neoconservative — principles, Bush has moved away from longstanding positions on a range of foreign and domestic issues. In the final year of his second term, he has reached out diplomatically to North Korea and Iran, engineered a dramatic midcourse correction on the Iraq war and increased the government's role in the daily workings of the economy to a degree that would have seemed unimaginable when he first pursued the nation's highest office.

Given that Bush toppled two foreign governments and slashed taxes dramatically in his first term, the policies of his second term are striking, particularly to those who had hoped his presidency might usher in enduring conservative rule in Washington. Some leading conservatives seemed stunned yesterday by the turn of events that has left the federal government in control of one of the world's biggest insurance companies and the two largest financiers of home mortgages.

"I believe that the president is exhausted and the vice president has been marginalized, and what you now have is the Washington

See ANALYSIS, *A10, Col. 1*

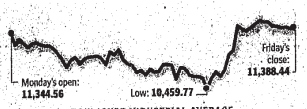
BY PABLO MARTINEZ MONSIVAIS — ASSOCIATED PRESS

President Bush returns to the Oval Office after delivering an address in the Rose Garden on the bailout plan. Behind him, from left, are Securities and Exchange Commission Chairman Christopher Cox, Treasury Secretary Henry M. Paulson Jr. and Fed Chairman Ben S. Bernanke.

The Pieces of the Package

Awaiting congressional approval:
» Creation of a program to buy troubled mortgage securities from Wall Street.

Announced yesterday:
» Insurance for money-market mutual funds.
» Fannie Mae and Freddie Mac will buy more securities that back mortgages.
» Treasury will expand its program to buy the same type of securities.



■ **The Week That Was on Wall Street** | *A9*

President Cites Urgent Need For Sweeping Intervention

By DAVID CHO *and* BINYAMIN APPELBAUM
Washington Post Staff Writers

The Bush administration yesterday proposed a historic $500 billion bailout of financial firms that would let the government rather than the cold judgment of the marketplace decide the winners and losers from the crisis that has shaken the U.S. economy for the past year.

The plan, which would be the most sweeping government intervention in the markets since the Great Depression, calls for the Treasury to buy the troubled mortgage securities that have been toppling major financial firms and are at the heart of Wall Street's turmoil.

Millions of Americans could also benefit from other dramatic stopgap measures. Regulators announced efforts to stabilize the mortgage market; curb stock speculation; and insure money-market mutual funds with government money, seeking to protect ordinary investors and preserve a vital source of corporate finance.

The initiatives were precipitated in part by concern that scared investors would race to withdraw their holdings from money-market funds, which hold $3.5 trillion in investments, depleting a major source of short-term funding for corporations.

President Bush, who had remained largely silent as the crisis broadened this week, said it is a "pivotal moment for America's economy." In a Rose Garden speech remarkable for its grim language and ominous tone, Bush said: "This action does entail risk. But we expect that this money will eventually be paid back. . . . The risk of not acting would be far higher."

Treasury Secretary Henry M.

See BAILOUT, *A8, Col. 1*

CONVINCING CONGRESS

A Joint Decision to Act: It Must Be Big and Fast

By LORI MONTGOMERY, NEIL IRWIN *and* DAVID CHO
Washington Post Staff Writers

Early Thursday morning, Treasury Secretary Henry M. Paulson Jr. sipped Diet Coke from a disposable cup in his large office overlooking the White House. Behind him, four flat-screen computer monitors flashed the latest financial data from around the world. Eight aides huddled nearby.

For months, Paulson had been running from crisis to crisis, engineering rescues for disintegrating firms. Now a cataclysm was rapidly enveloping global markets, triggering a run on money-market funds that once had been considered safe investments. Paulson decided there was only one way to stop it: The U.S. government must intervene big and intervene fast.

Across town, Federal Reserve Chairman Ben S. Bernanke had come to the same conclusion. Together they joined in on an 8:30 a.m. conference call with other top economic policymakers to sketch out what would become the most sweeping public intervention into the private economy in modern history. They thought their plan could soothe the hysteria. But first, they would have to sell it to a restless Congress in the middle of a fractious political campaign.

That decision led to a late-night meeting in the U.S. Capitol, where Paulson and Bernanke warned congressional leaders that they must take urgent action to prevent a global meltdown. The two men provided only a broad outline of their plan; yesterday, lawmakers still had many questions. And though Democratic leaders vowed to approve legislation next week giving the Treasury expansive new powers, it remains unclear

See MEETING, *A9, Col. 1*

More Coverage

CANDIDATES DIFFER: Senators McCain and Obama, with help of financial advisers, scramble to form economic rescue plans. **A6**

ADVERTISING: Financial firms are still running ads, created before the crisis, showing strength and confidence. **C1**

STEVEN PEARLSTEIN: The government has stretched laws and policies to save free-market capitalism from its own excesses. **D1**

ASIA: Deep investments in the United States entangle Japan and China in the turmoil as well as in its outcome. **D1**

A Modernized Taliban Thrives in Afghanistan

Militia Operates a Parallel Government

By PAMELA CONSTABLE
Washington Post Foreign Service

KABUL, Sept. 19 — Just one year ago, the Taliban insurgency was a furtive, loosely organized guerrilla force that carried out hit-and-run ambushes, burned empty schools, left warning letters at night and concentrated attacks in the southern rural regions of its ethnic and religious heartland.

Today it is a larger, better armed and more confident militia, capable of mounting sustained military assaults. Its forces operate in virtually every province and control many districts in areas ringing the capital. Its fighters have bombed embassies and prisons, nearly assassinated the president, executed foreign aid workers and hanged or beheaded dozens of Afghans.

The new Taliban movement has created a parallel government structure that includes defense and finance councils and appoints judges and officials in some areas. It offers cash to recruits and presents letters of introduction to local leaders. It operates Web sites and a 24-hour propaganda apparatus that spins every military incident faster than Afghan and Western officials can manage.

"This is not the Taliban of Emirate times. It is a new, updated generation," said Waheed Mojda, a former foreign ministry aide under the Taliban Islamic Emirate, which ruled most of the country from 1996 to 2001. "They are more educated, and they don't punish people for having CDs or cassettes," he said. "The old Taliban wanted to bring sharia, security and unity to Afghanistan. The new Taliban has much broader goals — to drive foreign forces out of the country and the Muslim world."

In late 2001, U.S. forces made common cause with ethnic groups

See AFGHANISTAN, *A15, Col. 1*

The Well-Heeled Find a Surprisingly Good Fit at Goodwill

BY NIKKI KAHN — THE WASHINGTON POST

Models get ready for a fashion show at the French Embassy featuring clothes donated to Goodwill, which has seen sales jump during the economic slump.

By PETULA DVORAK
Washington Post Staff Writer

Of course they don't shop at Goodwill, the women said.

At least that was their line at the start of the French Embassy event Thursday night. Buy secondhand couture? A toss of salon-fresh hair accompanied the "no, not me" wave of a well-manicured hand.

Then they saw the taupe-and-blue bugle-beaded number going for a mere $17. The $7 to-die-for green suede jacket. The $8 graphic print Diane von Furstenberg cocktail dress.

So wives of board members, friends of French envoys, lawyers and lobbyists flitting across the embassy's lobby dived with gusto into the racks. The scene was a fundraiser for Goodwill that featured a fashion show culled from the thrift store's donation bins.

These well-heeled Washingtonians were discovering that it's still possible to look fabulous without a Wall Street severance package, a realization that's sinking in across the country.

Goodwill has seen a 6 percent jump in sales nationwide as the economy has worsened in the past year. A recent survey of about 200 thrift stores found that more than half enjoyed sales jumps averaging

See GOODWILL, *A11, Col. 1*

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THE WORLD
Iraqi Civilians Die in U.S. Raid
American officials say three women were among those killed "inadvertently" during what was called a legitimate assault that targeted Sunni extremists. A12

THE REGION
D.C. School Enrollment Drops
There are 8.7 percent fewer students in public schools since last year, compared with an estimated 20 percent increase in charter schools. B1

STYLE »
A Well-Rounded View of History
The panoramic Gettysburg Cyclorama, a giant painting of the Civil War battle, vividly reopens to the public next week after a five-year, $15 million touch-up. C1

BY DOMINIC BRACCO II — THE WASHINGTON POST

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Monday: *Partly sunny. High 78. Low 59.*
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Washington Readies Sea Change for Wall Street

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How the bailout ripples through different lives. **C1**

PRIORITY NO. 1
Candidates rush to recast economic messages. **A6**

THE UNIVERSAL BANK
What combining banks means for consumers. **F1**

Cultural and Structural Shifts Rise Out of Risk-Taking Titans' Hard Fall

By Jill Drew, Cecilia Kang *and* Nancy Trejos
Washington Post Staff Writers

The credit crisis shaking the global economy is forcing a dramatic reconfiguration of Wall Street, where the financial industry in recent years has been driven to take ever-greater risks on increasingly esoteric investments.

The fragility of Wall Street's architecture was exposed this week when two icons of investment banking and the world's largest insurance company were fed into the maw as their competitors pushed for a historic government bailout to help salvage their own shaky businesses.

It is too early to tell whether Wall Street has truly been transformed by the series of upheavals or is simply witnessing a shuffling of its players. But as dealmakers and policymakers now sift through the debris, some shifts are already evident, both in the structure of high finance and the culture of those who practice it.

"The competitive landscape of finance is changing before our eyes and the losers are the investment banks," said Roger Leeds, director of the Center for International Business and Public

See WALL STREET, *A12, Col. 1*

Bank of America
$171 billion
Market capitalization as of Friday

Merrill Lynch
$45 billion

The End of the Bull's Run
No firm better illustrates the story of Wall Street's upheaval than Merrill Lynch, which was swallowed by Bank of America last week. A look at The Street's shifting landscape: **A12.**

Rescue Plan Grows to $700 Billion; Similar Measures Urged Overseas

By Lori Montgomery *and* David Cho
Washington Post Staff Writers

The Bush administration yesterday raised the price tag on its emergency plan to revive the U.S. financial system, asking Congress for authority to spend up to $700 billion to relieve crippled financial institutions of their mortgage-based assets; an investment that would exceed the current cost of the Iraq war.

Senior administration officials meanwhile pressed their counterparts in Japan, Germany, the United Kingdom and elsewhere to establish similar programs to rescue their own troubled firms in what would be an unprecedented bailout of the worldwide financial system. The move comes in recognition that complex interconnections among financial institutions have created a global crisis that the United States cannot solve alone.

Congressional leaders responded positively to the administration's rescue plan, though the price tag was $200 billion higher than they had been told to expect just three days ago. But House Democrats said

See TREASURY, *A13, Col. 1*

■ **The full text of the Bush administration's proposal.** *A13*

S. Africa's Mbeki Agrees to Step Down

Move by President Follows Recall Vote

By Karin Brulliard
Washington Post Foreign Service

JOHANNESBURG, Sept. 20 — South African President Thabo Mbeki, a former liberation leader and architect of his nation's post-apartheid democracy, agreed to resign Saturday after the top ranks of his party voted to recall him months before the end of his second and final term.

The party's decision ushered in a new era of South African politics, as one of its most prominent leaders bowed out of a bitter power struggle with his former deputy, Jacob Zuma, a populist who is considered likely to win the presidency next year.

The shake-up came a week after a court dismissed corruption charges against Zuma and suggested that Mbeki had plotted to have him prosecuted, a ruling that inflamed divisions within the dominant African National Congress, which Zuma leads.

Gwede Mantashe, secretary general of the party, said at a news conference that the decision was made out of a "desire for stability and for a peaceful and prosperous South Africa."

Mbeki's office released a statement saying that he had "obliged and will step down after all the constitutional requirements have been met." Mantashe said that Mbeki, on being told of the party's decision, "did not display shock . . . he welcomed the news."

Mbeki's resignation will leave Africa's regional powerhouse and largest economy in political limbo as it passes to the hands of an interim president, who Mantashe said will be selected by Parliament in the coming days.

"We have not lost the momen-

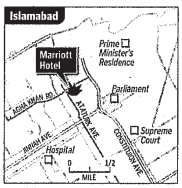
See MBEKI, *A22, Col. 1*

Blast Kills Dozens in Pakistan

BY ANWAR NAVEED — ASSOCIATED PRESS

Security officials collect evidence from the 30-foot-deep crater caused by the explosion at the Marriott Hotel in Islamabad, Pakistan. The suicide truck bomb devastated the heavily guarded hotel.

More Than 250 Injured as Suicide Bomber Detonates Truck Outside Hotel



BY NATHANIEL VAUGHN KELSO — THE WASHINGTON POST

By Shaiq Hussain *and* Pamela Constable
Washington Post Foreign Service

ISLAMABAD, Pakistan, Sept. 20 — A massive suicide truck bomb ripped through a luxury hotel in the Pakistani capital Saturday night, killing at least 60 people and wounding more than 250 as the building was engulfed in flames, officials said.

Witnesses and officials said the bomber drove up to one side of the heavily guarded hotel and detonated more than a ton of explosives, leaving a 30-foot-deep crater.

Television footage of the Islamabad Marriott Hotel, located just blocks from major government buildings, showed smoke billowing and flames leaping from windows as bloodied survivors staggered out of the lobby.

Police said that many people had been trapped inside and that the death toll would probably rise. Officials said some of the victims were foreigners, including at least one American. Marriott said in a statement that several hotel security guards who had gone out to examine the truck were among the dead.

The bombing occurred just hours after the new president of this nation of 160 million delivered his first speech to Parliament and vowed to free Pakistan from the "shackles of terrorism."

Asif Ali Zardari and his government face a rapidly growing

See PAKISTAN, *A20, Col. 1*

Scarless Surgery Uses Body's Own Openings

By Rob Stein
Washington Post Staff Writer

When Albert Pagliuca got gallstones, his surgeon offered to remove his gallbladder with a new operation designed to hurt less, get him back to work more quickly and leave no visible scars. But there was one catch: Doctors would pull the organ out through his mouth.

"I kept thinking, 'What if it gets stuck in my windpipe?' " said Pagliuca, 45, who lives outside Chicago. " 'What if I choke on it?' "

After doctors guaranteed that would not happen, he agreed, becoming one of several dozen Americans who have undergone experimental procedures that could take minimally invasive surgery to a new level — operations that do not cut the skin open. Instead, surgeons enter the body through a "natural orifice."

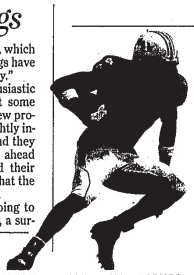
"It's potentially a very big deal," said Nathaniel J. Soper, who chairs the surgery department at Northwestern University. "This could be the endpoint in innovation, going from big incisions to little incisions to no incisions at all, which is the Holy Grail when things have to be removed from the body."

Many surgeons are enthusiastic about the possibilities, but some question the need for the new procedures when safe, only slightly invasive alternatives exist. And they fear that doctors will rush ahead before they have perfected their techniques and made sure that the benefits are worth the risks.

"That's exactly what's going to happen," said Ira J. Kodner, a sur-

See SURGERY, *A18, Col. 1*

INSIDE



THE WORLD
Economic Turmoil Tests Putin's Formula
The Russian leader's ability to deliver economic prosperity takes a hit. A19

« SPORTS
Terps' Offensive Talent Shows in Rout
Eastern Michigan proves no match for Darrius Heyward-Bey, left, and Maryland. D1

METRO
When GOP Stands For 'Gaga Over Palin'
Marc Fisher: A D.C. woman who went from "Hillary!" to "Hello, McCain!" C1

TRAVEL
Finding Southwestern England to One's Taste
Cornwall has many delights, not the least of which is its fresh clotted cream. P1

MAGAZINE
Dream Home As Wedge Issue
How Jeff and Alice Speck's flatiron house required "breaking a whole lot of rules," and other tales of local architecture in our Fall Home & Design issue.

Dining: Tom Sietsema finds genuine Chinese food in Glover Park.

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'MAD MEN,' '30 ROCK' RULE EMMYS

TOP AWARD FOR BASIC CABLE DRAMA IS A FIRST; COMEDY TAKES FOUR AWARDS. » COVERAGE IN STYLE

Weather

Today: *Partly sunny, warm. High 80. Low 61.*
Tuesday: *Mostly cloudy. High 72. Low 55.*
Details, **B8**

The Washington Post

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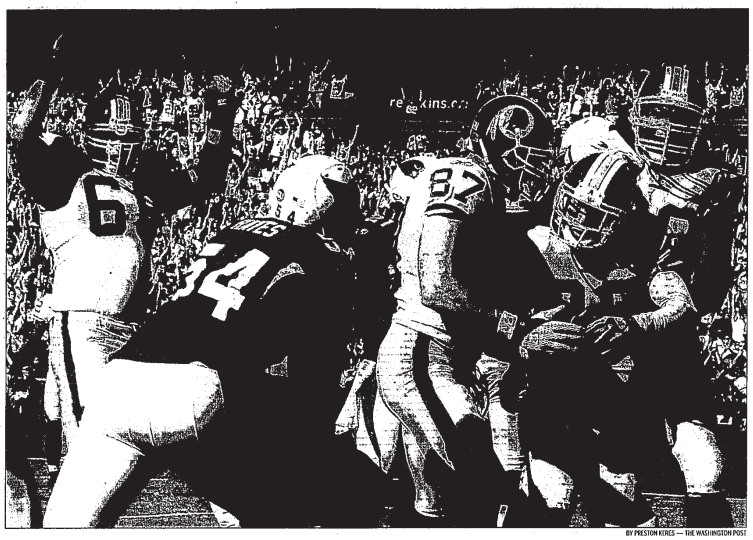
131ST YEAR No. 292 M2 DM *Printed using recycled fiber* MONDAY, SEPTEMBER 22, 2008 M1

REDSKINS 24, CARDINALS 17



BY PRESTON KERES — THE WASHINGTON POST

Redskins Pete Kendall, left, Todd Yoder, center, and Chris Samuels help Santana Moss, with ball, celebrate his 17-yard game-winning touchdown reception.

Victory Raises Stakes for Dallas Week

After Another Win, Redskins Confident as Rival Looms

By LES CARPENTER
Washington Post Staff Writer

As the day grew late and victory had been assured, a clamor rose in the stands behind FedEx Field's northwest end zone yesterday afternoon. It started small, buried in the throats of the heartiest few, the truest of believers and then slowly wafted into the afternoon sky.

"We want Dallas! We want Dallas! We want Dallas!" It bounced from seat to seat, row to row, until it had blossomed into a minor roar.

"We want Dallas! We want Dallas! We want Dallas!"

Some of the Washington Redskins heard the chant, smiled and then did the things that football players do when they win games, holding their helmets aloft, waving toward the cheering faces in the stands, throwing their gloves and sweatbands into grateful hands. This 24-17 victory over the Arizona Cardinals, their second win in a row, has given them confidence and emboldened so many of the fans who looked ready to abandon them just two weeks before. But their self-belief is not such that they were ready to wish for a game they normally dread.

Yes, a game looms Sunday against Washington's most hated rival, the Dallas Cowboys — perhaps the best team in the NFC — and the thought seemed to taunt Redskins Coach Jim Zorn, who is heading into his first Dallas week as a coach. To properly motivate himself, he said he was going to think of the Oakland Raiders, a hated rival from his days as a player with the Seattle Seahawks.

Mostly, though, the Redskins offered caution.

"Let's try and enjoy this win right now," tackle Chris Samuels said.

After all, it wasn't all that long ago that the last thing the fans in the stadium would have wanted to see was the Cowboys.

See REDSKINS, *A9, Col. 1*

More Coverage

THOMAS BOSWELL
A 2-1 record is no reason for Redskins fans to celebrate yet. **E1**

MIKE WISE
Wide receiver Santana Moss comes to the rescue again. **E1**

TALKING TODAY
Chat online about the Redskins with columnist Michael Wilbon at 1:15 p.m. and NFL editor Cindy Boren at 2:30 p.m.
www.washingtonpost.com

As Hill Debates Bailout, Wall St. Shifts Continue

Paulson, GOP Oppose Democrats' Proposal to Limit Executive Pay

By LORI MONTGOMERY *and* DAVID CHO
Washington Post Staff Writers

Congressional Democrats considering the Bush administration's emergency plan to shore up the U.S. financial system countered with their own demands yesterday, presenting draft legislation giving the government power to cut salaries of chief executives at firms that participate in the bailout and slash severance packages for their top management.

Democratic leaders have broadly embraced the administration's proposal to spend up to $700 billion to take troubled assets off the books of faltering firms and are not questioning the need to give the Treasury Department expansive authority to halt the meltdown in world markets. But by attempting to limit executive pay, they risk alienating key Republicans who object to such restrictions and delaying passage of the rescue plan, which in turn may stir renewed fear in the markets.

Treasury Secretary Henry M. Paulson Jr. was working last night to press House leaders to strike an agreement on the bailout bill by early this morning, according to three sources familiar with the matter. No deal with the Senate appeared close last night.

Sources familiar with Treasury's thinking said that the department

See BAILOUT, *A8, Col. 1*

GOLDMAN SACHS & MORGAN STANLEY

Giant Investment Banks Grasp for Government Safety Net

By NEIL IRWIN *and* BINYAMIN APPELBAUM
Washington Post Staff Writers

The Federal Reserve approved the conversion last night of the two remaining investment titans on Wall Street, Goldman Sachs and Morgan Stanley, into bank holding companies, offering them broader government protection in exchange for tighter regulation and constraints on their once fabulously profitable business.

With the federal government continuing its rapid and radical reshaping of the U.S. financial system, the two investment banks agreed to transform themselves in an effort to escape the financial turmoil that last week put their existence in jeopardy.

The move, approved by the Fed with unusual haste, gives Goldman Sachs and Morgan Stanley greater latitude to borrow from the Fed and access to stable sources of funding — namely, deposits from ordinary people and businesses. But the firms are also accepting regulation by the Fed that will make it far more expensive for them to borrow huge sums of money — long an essential ingredient in their investment strategy — and restrict what sorts of business activities they can engage in.

This development completes a sweeping transformation of Wall Street. Now extinct are the special-

See BANKS, *A8, Col. 5*

ON MAIN STREET

A Sense of Resentment Amid the 'For Sale' Signs

By JOEL ACHENBACH
Washington Post Staff Writer

The bailout doesn't smell right to the people of Manassas Park, where the foreclosure signs are as common as azaleas. They know all about bad debt here. This is a terrain of oversize dreams, misjudgment, financial calamity — and empty houses. "Foreclosure. Foreclosure. Foreclosure," said Ed Merkle, 58, as he pointed to the "for sale" signs lining his street.

But Merkle, a defense contractor, said he has lived within his means in an era of easy credit. He didn't take on a huge loan even when his bank encouraged him to dream bigger.

"I've been financially responsible with my own money. Why should I now be responsible for the fact that you were not?" he said.

This may be a Main Street bailout backlash in the making. The details of the financial crisis are still hard for most people to follow — what with talk of exotic "derivatives" known as "credit-default

See REACTION, *A8, Col. 1*

Local Fallout

ON CAMPUS
Market turmoil has MBA students worried about their job prospects. **D1**

CAMPAIGN **2008**

Virginians Giving At Record Pace to Obama, McCain

By ANITA KUMAR
Washington Post Staff Writer

RICHMOND — Virginia's status as a battleground state in the presidential election for the first time in more than four decades has led to a dramatic increase in donations from state residents, especially among Democrats in Northern Virginia.

Virginians have donated a record $25.3 million to candidates during this two-year election cycle, more than 85 percent of that from Northern Virginia donors, according to campaign finance reports filed last month. The total is nearly double the $14.2 million given during the same period in the run-up to the 2004 election and more than four times the $6.3 million raised before the 2000 election.

The Democratic nominee, Sen. Barack Obama of Illinois, received $8.1 million from Virginia donors through July 31, and the Republican nominee, Sen. John McCain of Arizona, took in $5 million. The rest went to other candidates who ran in the party primaries.

Virginians have given far more to Democrats than to Republicans — $15.9 million compared with $9.3 million — in this election cycle, the first time in at least 20 years that the GOP has not led the presidential money battle in the historically conservative state.

The boost in fundraising is in line with a national trend and is partly attributable to the prolonged nomination battle between Obama and Sen. Hillary Rodham Clinton of

See MONEY, *A5, Col. 1*

BY JOE BURBANK — ORLANDO SENTINEL VIA ASSOCIATED PRESS

Todd Palin and wife Sarah, the GOP vice presidential nominee, in Orlando with their children.

'First Dude' Todd Palin Illustrates Alaska's Blend of Private and Public

By ALEC MACGILLIS *and* KARL VICK
Washington Post Staff Writers

ANCHORAGE — Todd Palin grew up as the archetypal Alaskan — salmon fisherman, champion snowmobiler, North Slope oil worker. But since his wife became governor 20 months ago, his portfolio has broadened: househusband, babysitter, senior adviser, legislative liaison, and — when the occasion warrants — enforcer and protector.

He has supervised renovations to the governor's mansion and hopscotched by plane back and forth to Juneau to juggle duties as father and "First Dude," as he has come to be known. And to a degree that has surprised many state government observers, Todd Palin also has become involved in policy, sitting in on his wife's meetings, traveling on state business and weighing in on some legislative issues.

John Harris, the Republican speaker of the Alaska House, said he had never been called by the spouse of a governor before the two calls he got from Todd Palin. One was to argue for moving the state capital to Anchorage. The other was to ask Harris to "keep an eye" on a key aide who had an affair with the wife of one of Todd's best friends.

Political hands in both parties say the Palins are often referred to as a team — "Sarah and Todd" — and one Democratic

See PALIN, *A6, Col. 1*

INSIDE

SPORTS »
Americans Takes the Ryder Cup
U.S. wins for the first time since 1999. E1

THE NATION
White House, Pentagon Pressure EPA
The agency is likely to decline to set a safety standard for perchlorate levels. A2

Study: Egalitarian Men Earn Less Wages
Social scientists provide evidence that traditional men make more money. A2

THE WORLD
Israeli Prime Minister Resigns
Ehud Olmert steps down after a string of corruption probes. A10

Two Americans Killed in Pakistan
Bombing at hotel killed 21 foreigners, including two Americans. A10

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Weather
Today: *Mostly cloudy. High 76. Low 57.*
Wednesday: *Partly sunny. High 74. Low 56.*
Details, **B8**

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TUESDAY, SEPTEMBER 23, 2008

CAMPAIGN 2008

Obama, McCain In Tight Race in Va., Poll Shows

Economy Is Top Issue

By TIM CRAIG *and* JON COHEN
Washington Post Staff Writers

Sens. Barack Obama and John McCain are locked in an extremely competitive race for Virginia's 13 electoral votes amid widespread public anxiety over the economy and the direction the country is heading, according to a new Washington Post-ABC News poll.

The survey reinforces Virginia's status as a crucial swing state that could tip the fall election. And the tight race — likely voters are divided 49 percent for Obama, 46 percent for McCain — foretells a fierce battle across Virginia over the next six weeks. Should Obama prevail, he would become the first Democrat since 1964 to win the state.

Washington Post-ABC News Poll
Among likely voters in Virginia

Obama	49%
McCain	46%

Margin of error: +/- 4 points

Both candidates have core advantages as they head into the final stretch and try to sway the 19 percent of likely voters who have not made a choice or are not firmly committed to their candidate. Fifty percent of respondents said the economy is the most important issue in their choice of president, and Obama holds a 10-point advantage on who would better handle the problem.

McCain counters with similarly large advantages on the questions of who is better able to deal with the U.S. campaign against terror and an unexpected major crisis. The Arizona Republican also has a wide advantage as a prospective commander in chief.

Voter interest in the presidential race is the highest it has been in any statewide election surveyed by The Washington Post, with nearly six in 10 voters "very closely" tuned in. The poll was conducted Thursday

See VIRGINIA, *A6, Col. 1*

■ **Candidates on taxes in KidsPost.** | *C12*

Green City-Style Tysons Plan Wins Fairfax's Approval

By AMY GARDNER *and* SANDHYA SOMASHEKHAR
Washington Post Staff Writers

The Fairfax County Board of Supervisors yesterday approved an ambitious vision for transforming Tysons Corner from a sprawling office and retail suburb to a modern, environmentally green city with neighborhoods, sidewalk culture, new jobs and the arts — and less driving.

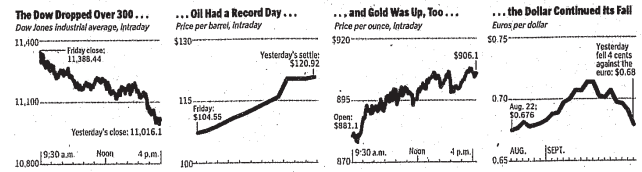
Supervisors unanimously approved a blueprint that was more than three years in the making. It hinges on giving landowners broad new permission to build city-style high-rises with urban-scale streets, sidewalks, restaurants and shops. It depends on the expected construction of four Metrorail stations in Tysons and is expected to take several decades before it is fully implemented.

"It is absolutely essential that we embrace this kind of mission," said Gerald E. Connolly (D), chairman of the Fairfax County Board of Supervisors. "We may not all agree on the details, but I hope we can find common ground in wanting to move Tysons to a different place, from an auto-dependent suburban model to something that is much more livable, pedestrian friendly, multi-modal, transit-oriented and green."

The Tysons Land Use Task Force recommended creating eight distinct neighborhoods within Virginia's largest jobs center, which is now a sprawling ocean of park-

See TYSONS, *A18, Col. 1*

Hill Clashes on Rescue Plan; Dollar Drags Down Markets



BY SARAH L. VOISIN — THE WASHINGTON POST

Sen. Christopher J. Dodd (D-Conn.), chairman of the banking committee, listens to Sen. Charles Schumer (D-N.Y.) while Sen. Bob Corker (R.-Tenn.) speaks. Lawmakers said negotiations may extend beyond Friday despite White House warnings to move quickly.

CHAIN REACTION

Currency's Dive Points to Further Pain

By ANTHONY FAIOLA, PETER WHORISKEY *and* RENAE MERLE
Washington Post Staff Writers

The dollar took its steepest one-day drop in years as the financial crisis eroded the nation's basic measure of value, helping to drive U.S. stocks sharply lower and the dollar-based prices of oil and gold sharply higher.

The convergence of negative sentiment came as investors focused on the uncertainties in the Bush administration's emergency plan for a massive bailout of the financial system, outlined this weekend. Indications yesterday that the administration would need more time to iron out a compromise with Congress raised questions about what the plan will ultimately look like, even as investors tried to assess how and whether it would work.

New concerns also emerged over the toll the crisis will take on the U.S. economy, with many analysts saying the slowdown could worsen, perhaps costing more jobs and hurting consumers.

The government's plan to spend up to $700 billion to take troubled assets off the books of ailing firms and billions more to guarantee money-market mutual funds will force the Treasury to add to the already massive national debt. It may have to raise that money by selling more Treasury bills and perhaps even printing more dollars. That, economists said, could trigger higher inflation and drag

See DOLLAR, *A8, Col. 1*

THE CANDIDATES AND THE ECONOMY

A New Landscape, the Same Proposals

By JONATHAN WEISMAN *and* SHAILAGH MURRAY
Washington Post Staff Writers

As the scale of the government's intervention transforms the nation's fiscal landscape, neither presidential candidate seemed ready yesterday to readjust his campaign promises to match a changing reality that could push the federal budget deficit next year toward $1 trillion.

Sens. Barack Obama and John McCain indicated they will not stand in the way of the Bush administration's $700 billion rescue of U.S. financial markets, and each offered his own proposals for making it more palatable to voters: Obama laid out a plan to overhaul federal contracting and save an estimated $40 billion a year, while McCain proposed an oversight board to monitor the bailout.

But advisers in both campaigns said they are not about to shelve their own plans to get the economy back on track — or embrace more aggressive budget-cutting measures — in the face of a short-term surge in the federal deficit.

"This is a major fiscal problem in the short run, but it doesn't alter the long-run fiscal picture," said Jason Furman, Obama's economic policy coordinator. "The biggest challenge we face in our economy over the next year is getting

See CAMPAIGN, *A9, Col. 1*

COMPLETE COVERAGE

What Are Those Assets Worth?
The bailout dilemma: The more effective the plan, the more it will cost taxpayers. **A8**

Hedge Funds In Turmoil
Huge losses and teetering funds threaten a vital component of pensions and endowments. **D1**

Wall Street Blame Game
Did fair-value accounting cause the collapse? Some bank executives are making that case. **D1**

The Crisis & Your Wallet
A daily Q&A for consumers begins today in Business. **D1**

Good News on Home Sales?
Fairfax sales up 10.7% in August. **D1**

Lawmakers Struggle to Gain Support For Bailout

By LORI MONTGOMERY *and* PAUL KANE
Washington Post Staff Writers

Democratic leaders said they were near agreement with the Bush administration yesterday on key provisions of a massive plan to revive the U.S. financial system, but the two sides remained at odds over other issues and were struggling to gain the support of rank-and-file lawmakers on both sides of the aisle.

Although the White House has warned of severe consequences if the bailout plan is not approved by Friday, lawmakers crafting the measure said their work may well stretch past that deadline.

The Bush administration is resisting changes to the measure being sought by Democratic leaders and many Republicans, including one that would grant the government authority to cut executive pay at firms that participate in the bailout and another that would guarantee that taxpayers share in the profits if those firms recover financially.

Meanwhile, rank-and-file lawmakers — returning to Washington after a weekend in their districts — voiced outrage that taxpayers were being asked to pay for the excesses of Wall Street and that Congress was being prodded to rubber-stamp the biggest federal intervention in the private market since the Great Depression. While Democratic leaders said they could embrace the bailout plan with certain modifications, a growing minority of lawmakers were starting to question the very premise of the Treasury Department's proposal.

Sen. Richard C. Shelby (Ala.), the ranking Republican on the Senate banking committee, yesterday issued a statement saying he was "concerned" that the bailout plan was "neither workable nor comprehensive, despite its enormous price tag.

"In my judgment, it would be foolish to waste massive sums of taxpayer funds testing an idea that has been hastily crafted, and may actually cause the government to revert to an inadequate strategy of ad hoc bailouts," Shelby said, urging Congress to "immediately undertake a comprehensive, public examination of the problem and alternative solutions rather than swiftly pass the current plan with minimal changes or discussion."

Lobbyists have swarmed Capitol Hill to press lawmakers for changes to the legislation. Representatives of community advocacy groups from around the country yesterday ap-

See CONGRESS, *A9, Col. 1*

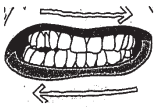
INSIDE

THE WORLD
Chinese Official Resigns
The embattled chief food inspector steps down amid the tainted-milk scandal that has killed four infants and sickened 53,000. A12

New Prime Minister in Japan
Taro Aso, the former foreign minister and tough-talking stalwart of the ruling party, is the third Japanese leader selected in two years. A12

THE REGION
Metro Needs $11 Billion
The transit system expects to double its capital spending in the next 10 years for maintenance and expansion of rail and bus service. B1

Maryland Lacks Inspectors:
Officials and environmental activists are concerned. B1



HEALTH
Are You a Bruxer?
About 10 percent of adults suffer from bruxism, grinding their teeth while sleeping. F1

SPORTS
Injury Sidelines Jason Taylor
The Redskins' star defensive end, who has started 133 straight games since 1999, has emergency surgery on his left leg and will miss Sunday's game at Dallas. E1

Mystics Fire GM: Team had one winning season in Linda Hargrove's four years. E1

Student Activism Brings Sudan Native to GWU

By SUSAN KINZIE
Washington Post Staff Writer

Makwei Mabioor Deng looked out the shuttle-bus window on his way to class at George Washington University and wondered aloud whether there were crocodiles in the Potomac River. Three weeks earlier, he had never been on a plane, never heard of a microwave oven, never seen a library full of books and computers.

Now, having spent 16 years in a refugee camp after his Sudanese village was destroyed, he has fast-forwarded into a new life as a college student in the United States. He is studying economics and Arabic and hopes to go to law school. He also is puzzling through numbered streets and marveling over air conditioning, experiencing a culture shock like few college freshmen.

He is here because of the work of a handful of GWU students who helped develop the scholarship program that provides Deng a free education. The student activists protested violence in Sudan's Darfur region and became concerned about the larger plight of that country, including the people who fled an earlier civil war in the south. They wanted to create long-term change by helping Sudanese students study here and then go home to improve their country.

BY MARVIN JOSEPH — THE WASHINGTON POST

Jeff DeFlavio, a George Washington University graduate and organizer of the scholarship program, helps Makwei Mabioor Deng acclimate to campus.

Their idea is spreading as Darfur has captured the imagination of student activists across the country. The GWU students' organization, which has chapters on 35 campuses and will receive an award this week from the Clinton Global Initiative, attracted such prominent supporters as former secretary of state Madeleine K. Albright and inspired several schools to begin developing similar efforts. Tufts University in Massachusetts is interested in funding a similar scholarship if an appropriate applicant is found, and Mills College in California has committed to the program.

It is all beginning with Deng, a 22-year-old from southern Sudan. He has been given a rare opportunity, but there's a condition. When Deng has finished his education, he will have to leave the United States behind: If he chooses not to go back to Sudan to work in public service

See SUDAN, *A14, Col. 2*

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COOKING HEALTHY FOR YOUNG EATERS
FOOD SECTION | BEHIND SPECIAL ADVERTISING SECTION

Weather
Today: *Mostly sunny. High 73. Low 58.*
Thursday: *Rain. High 70. Low 56.*
Details, **B8**

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Md., Va., D.C. Face Budget Upheaval

Next Step Is Tax Hikes, Service Cuts

By ANITA KUMAR *and* DAVID NAKAMURA
Washington Post Staff Writers

Virginia officials said yesterday that the state budget shortfall may be as wide as $3 billion over two years, triple what they estimated a month ago, while District officials said they are facing a gap of $131 million after years of surpluses.

Those forecasts and a projected shortfall of almost $1 billion in Maryland mean that Virginia and Maryland are considering cutting services they usually increase, including funding to state and local agencies, schools and colleges. Some of those reductions might include vital government services, officials said. District officials are just starting discussions about where to cut.

State and local governments across the country are struggling to balance budgets in the face of an economic slowdown, a weakening housing market and rising unemployment, all key factors in the revenue they collect.

"It's daunting. It's very daunting," Virginia Gov. Timothy M. Kaine (D) said. "These cuts will be tougher because some of the easier things we have already done. It's going to be difficult to do these cuts and just have

See BUDGETS, *A20, Col. 5*

Hurricanes Shift Debate On Embargo Against Cuba

By JOSHUA PARTLOW
Washington Post Foreign Service

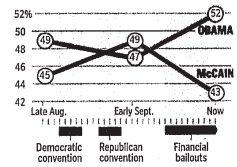
LOS PALACIOS, Cuba — A pair of devastating storms have prompted new calls for the United States to end its long isolation of Cuba, including from hard-line exile groups that are pushing for the Bush administration to loosen restrictions they had long favored.

For the first time in the 47-year history of the U.S. trade embargo against Cuba, Washington has offered direct aid to the island's Communist government, long dominated by Fidel Castro and his younger brother, Raúl, who is now nominally in charge. The offer marks a slight softening of the Bush administration's policy toward Cuba, motivated in part by a new generation of Cuban Americans who think a more open approach to the island during a time of political transition could help bring about a lasting change in government.

But even the most hawkish Cuban exile groups are pushing the Bush administration to go much further. Traditionally a voice for greater isolation of the Castro government, the Cuban exile lobby has asked Con-

See CUBA, *A20, Col. 1*

Q: If the **2008 presidential election** were being held today, for whom would you vote? (Among likely voters)



Q: How do you feel about the direction of the nation's **economy** over the next few years? (Among registered voters)

WORRIED		NOT WORRIED
Very	Somewhat	
41%	40	17

Not too worried: 13% Not worried at all: 4% No opinion: 2%

SOURCE: Washington Post-ABC News poll

CAMPAIGN **2008**

Economic Fears Give Obama Clear Lead Over McCain in Poll

By DAN BALZ *and* JON COHEN
Washington Post Staff Writers

Turmoil in the financial industry and growing pessimism about the economy have altered the shape of the presidential race, giving Democratic nominee Barack Obama the first clear lead of the general-election campaign over Republican John McCain, according to the latest Washington Post-ABC News national poll.

Just 9 percent of those surveyed rated the economy as good or excellent, the first time that number has been in single digits since the days just before the 1992 election. Just 14 percent said the country is heading in the right direction, equaling the record low on that question in polls dating back to 1973.

More voters trust Obama to deal with the economy, and he currently has a big edge as the candidate who is more in tune with the economic problems Americans now face. He also has a double-digit advantage on handling the current problems on Wall Street, and as a result, there has been a rise in his overall support. The poll found that, among likely voters, Obama now leads McCain by 52 percent to 43 percent. Two weeks ago, in the days immediately following the Republican National Convention, the race was essentially even, with McCain at 49 percent and Obama at 47 percent.

As a point of comparison, neither of the last two Democratic nominees — John F. Kerry in 2004 or Al Gore in 2000 — recorded support above 50 percent in a pre-election

See POLL, *A4, Col. 1*

■ **Mark Warner leads James Gilmore by 30 points in Va. Senate race.** | *B1*

Bailout Proposal Meets Bipartisan Outrage

BY SARAH L. VOISIN — THE WASHINGTON POST

Vice President Cheney leaves a policy lunch with Senate Republicans. He was one of the high-ranking officials dispatched to Capitol Hill.

Lawmakers Balk as Officials Press Case For Quick Action

By LORI MONTGOMERY, PAUL KANE *and* NEIL IRWIN
Washington Post Staff Writers

The Bush administration sent some of its most powerful figures to Capitol Hill yesterday to rally support for a $700 billion plan to revive the U.S. financial system, but they encountered stiff resistance from lawmakers who are deeply skeptical of the proposal and angered by the administration's push for its speedy approval.

Vice President Cheney, White House Chief of Staff Joshua B. Bolten and other Bush advisers shuttled from meeting to meeting, selling privately to worried lawmakers what Treasury Secretary Henry M. Paulson Jr. and Federal Reserve Chairman Ben S. Bernanke pitched publicly at a Senate hearing: a massive bailout for the financial markets. They urged Congress to authorize the plan quickly and without many alterations.

The issue transcended party lines. Democrats voiced doubts, and many Republicans, particularly in the House, balked at the entreaties from Cheney, Bolten and other officials.

"Just because God created the world in seven days doesn't mean we have to pass this bill in seven days," Rep. Joe Barton (R-Tex.) said after exiting a two-hour meeting with Cheney.

Democratic leaders warned that they would not approve the biggest government intervention in the private markets since the Great Depression without significant Republican support.

"It's their problem. It's their bill. And they're going to have to figure out if they can support it," said House Speaker Nancy Pelosi (D-Calif.).

Paulson and Bernanke, meanwhile, defended themselves before the Senate Banking, Housing and Urban Affairs Committee, where senators fumed that the administration had abetted the meltdown in the markets by failing to halt the spread of exotic home loans that are now falling into foreclosure at a record pace. A wide array of firms bought complicated financial instruments backed by those mortgages; the administration is proposing to purchase those troubled assets to help those firms stay afloat.

At times yesterday, Paulson and Bernanke almost seemed to echo the outrage from their

See BAILOUT, *A10, Col. 1*

■ **FBI opens investigation of troubled financial firms.** | *D1*

■ **Columnist Steven Pearlstein on what remains unsaid.** | *D1*

Alternative Solutions Diverge From Administration's Approach

By ANTHONY FAIOLA *and* DAVID CHO
Washington Post Staff Writers

To hear Henry M. Paulson Jr. and Ben S. Bernanke tell it, there is only one plan to save the economy — use $700 billion in taxpayer money to take the worst of Wall Street's assets off its books.

But leading economists and financial analysts argue that there are a host of alternatives that would reduce taxpayers' liabilities and perhaps more effectively address the urgent crisis in financial markets. Although these experts concede that the clock is ticking, they say other approaches have been dismissed too quickly.

While the government's plan is built around buying troubled assets, other options offer sharply different visions.

One approach seeks to reduce taxpayers' liability by offering collateral-backed loans to troubled banks, leaving them to work out their own solutions. Another idea is to have the government set up a profit-driven investment fund with the aim of infusing the financial system with cash without taking on bad debt. Still others suggest radically different tactics of directly helping homeowners by reducing mortgage principal or bolstering banks by suspending capital gains taxes.

The administration has said it is willing to negotiate key parts of its plan — including a possible concession allowing the government to take equity stakes in financial firms in exchange for bailing them out — but senior officials stand by the fundamental approach they have adopted to solve the crisis.

"They presented this as a comprehensive, decisive solution, but it's clearly not comprehensive and probably not decisive," said Simon Johnson, a former chief economist at the International Monetary Fund and a professor at Massachusetts Institute of Technology.

See ALTERNATIVES, *A11, Col. 1*

BY MELINA MARA — THE WASHINGTON POST

Wall Street Meets Your Street

As lawmakers debate rescue plans for Wall Street firms, the financial crisis is producing strong reactions from D.C. area residents on how the volatile economy is affecting their daily lives. For example, a grandmother worries how her granddaughter will pay for education; an antiques dealer sees a rise in necessity-item sales (such as the estate sale people above are waiting to start); and a real estate agent and car dealer are seeing changes in how they do business. Hear their testimonies and more in an interactive multimedia presentation. Go to **washingtonpost.com/photo.**

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THE NATION
Bush Reaches Out to U.N.
In his last address to the General Assembly, the president advocates his goals of fighting terrorism and promoting freedom. A8

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Then and Now
If this country is really in turmoil, as it was in 1968, then why are Americans so calm? C1

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The guard and former Maryland star adds depth in the absence of the injured Gilbert Arenas. E1

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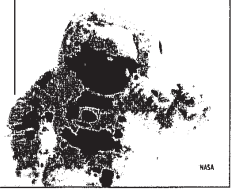
NASA at 50
After a half-century of space exploration, there's still much to discover. SPECIAL SECTION



NASA

Matchmakers, Matchmakers, Making a Mint

Dating Services Give Way to Coaches, Wingmen and Profile Writers

By ELLEN MCCARTHY
Washington Post Staff Writer

Really, you can't hurry love? Oh, and money can't buy it?

Don't tell that to the army of consultants working tirelessly to bring bliss to Washington's long-suffering lonely hearts.

For a fee, of course.

This is the fifth-best city for singles, according to a recent report by Forbes magazine. It's also a first-rate city for very-busy-and-important types who have high standards, healthy bank accounts, and limited patience for the wearying efforts that dating can entail. Little wonder then that so many romance entrepreneurs have rushed to the rescue.

Now available locally: a scribe to dash off a personal essay for your online profile ($150); a wingman to cruise the aisles of Macy's with you while you practice pickup lines on strangers ($50 an hour, two-hour minimum); a personal dating coach to refine your approach to finding that special someone (three-month one-on-one immersion program, $5,000).

Forget how Grandpa met Grandma. This is Romance 2008: outsourcing available. And even as the economy teeters, finding love is still, to many, worth the investment.

Here and across the nation, in myriad strange and sympathetic ways, a full-service dating industry has bloomed in recent years promising to assist lovelorn souls in that age-old quest for companionship.

The roots of the industry's rise? Frayed social ties in a time marked by hyperconnectivity and increased isolation.

People work more, know their neighbors less. They leave home towns full of family and friends in exchange for cities rife with interesting opportunities but few connections. They are tied to, and reliant on, technology — which has indelibly altered the way humans interact. It was only a few years ago that online dating was considered a realm of the

See SINGLES, *A14, Col. 1*

INSIDE» METRO • STYLE • BUSINESS • SPORTS • **FOOD**

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AFTER HALF A CENTURY OF EXPLORATION, THERE'S STILL SO MUCH LEFT TO DISCOVER. » SPECIAL SECTION

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Today: *Rain, windy. High 66. Low 59.*
Friday: *Cloudy, rain. High 70. Low 62.*
Details, **B10**

The Washington Post

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Bush Calls Bailout Vital to Economy, Will Meet With McCain and Obama

THE CAMPAIGNS: First Debate's Fate Unclear As Obama Resists McCain's Call to Postpone

By ROBERT BARNES
Washington Post Staff Writer

Sens. John McCain and Barack Obama will abandon the campaign trail today for a bipartisan meeting at the White House, as the financial crisis gripping the nation roils the presidential race and leaves the first debate between the nominees in limbo.

Obama agreed to the meeting after a phone call yesterday evening from President Bush, the finale of a remarkable day in which McCain tried to change the dynamics of the race by announcing that he would "suspend" his campaign until the crisis is solved and called on Obama to do the same.

With the economy moving squarely to the forefront of Americans' concerns and polls showing that voters trust Obama more than McCain to fix it, the Republican nominee made what he hoped would be a game-changing gambit yesterday: leave the campaign trail, delay tomorrow's debate and call for Obama to join him in trying to fashion an alternative to the Bush administration's $700 billion bailout of Wall Street before financial markets open on Monday morning.

"I am calling on the president to convene a meeting with the leadership from both houses of Congress, including Senator Obama and myself," McCain said in a hastily arranged appearance in New York, during which he declined to answer reporters' questions. "It is time for both parties to come together to solve this problem."

His aides said he was unilaterally pulling his campaign ads and ceasing fundraising activities.

Obama initially resisted the idea of returning to

See **CAMPAIGN**, *A10, Col. 1*

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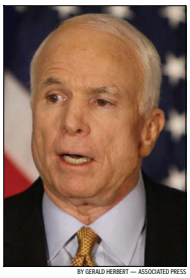


BY GERALD HERBERT — ASSOCIATED PRESS

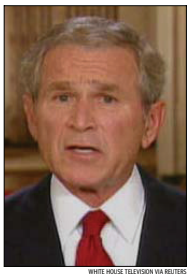
"I am calling on the president to convene a meeting with the leadership from both houses of Congress, including Senator Obama and myself. It is time for both parties to come together to solve this problem."
John McCain

4:48 P.M.

BY CHRIS CARLSON — ASSOCIATED PRESS

"I think there's no reason why we can't be constructive in helping to solve this problem and also tell the American people what we believe, and where we stand, and where we want to take the country."
Barack Obama

9 P.M.



WHITE HOUSE TELEVISION VIA REUTERS

"This rescue effort is not aimed at preserving any individual company or industry. It is aimed at preserving America's overall economy. . . . It will help send a signal to markets around the world that America's financial system is back on track."
George W. Bush

THE BAILOUT: Proposal Takes Shape In Congress, but Broad Support Is Lacking

By LORI MONTGOMERY *and* PAUL KANE
Washington Post Staff Writers

President Bush said yesterday that the credit crisis that has seized world markets could devastate the U.S. economy unless Congress acts quickly to approve a $700 billion bailout plan for the nation's financial system, a message aimed at reluctant lawmakers as much as a deeply skeptical public.

"Our entire economy is in danger," Bush said in an address from the White House, emphasizing that the massive bailout was not targeted at "any individual company or industry. It is aimed at preserving America's overall economy."

Warning that "America could slip into a financial panic," Bush blamed the crisis on "easy credit" in the housing market and "the faulty assumption that home values would continue to rise." As mortgage loans went bad and borrowers defaulted, he said, investors have succumbed to a "widespread loss of confidence" that threatens to shut down consumer lending, decimate the stock market, cause businesses and banks to fail — and cost millions of Americans their jobs.

"Ultimately, our country could experience a long and painful recession," Bush said. "Fellow citizens, we must not let this happen."

Bush delivered the prime-time speech, his first in over a year, after a clamor on Capitol Hill for him to acknowledge the most serious financial crisis in decades and to personally make the case for the government intervention his administration has proposed.

Five days after unveiling the bailout plan, which

See **BUSH**, *A11, Col. 1*

ANALYSIS

Selfless or Reckless? McCain Gambles On Voters' Verdict

By DAN BALZ
Washington Post Staff Writer

NEW YORK, Sept. 24 — John McCain is a gambler by nature, and the bet he placed Wednesday may be among the biggest of his political life.

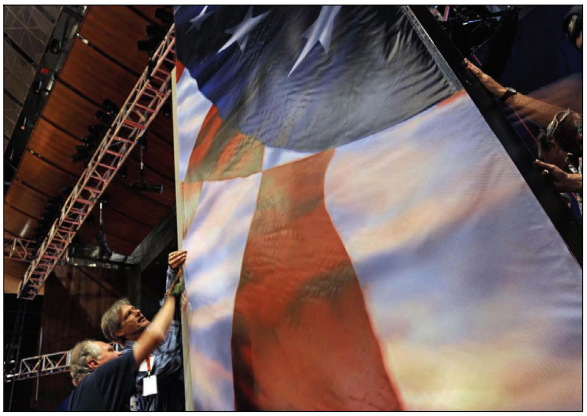
The Republican presidential nominee is hoping that his abrupt decision to suspend campaigning, seek a delay of Friday's debate with Democrat Barack Obama, and return to Washington to help prod negotiations over a financial rescue package will be seen as the kind of country-first, bipartisan leadership he believes Americans want.

What he risks, if things don't go as he hopes, is a judgment by voters that his move was a reckless act by an impetuous and struggling politician that hardened partisan lines in Washington at just the wrong moment and complicated efforts to deal with the biggest financial crisis in more than half a century.

McCain laid out his rationale in stark terms, saying that the economy is in crisis and that he does not believe the package now on the table in Washington can win enough votes to pass. "Americans across our country lament the fact that partisan divisions in Washington have prevented us from addressing our national challenges," he said here in New York. "Now is our chance to come together to prove that Washington is once again capable of leading this country."

In the heated atmosphere of Wednesday afternoon, as the two campaigns plotted and maneuvered around each other, it was impossible to know what the ultimate verdict would be on McCain's surprise decision. He managed once again, at least in

See **ANALYSIS**, *A10, Col. 1*



BY LINDA DAVIDSON — THE WASHINGTON POST

Stage technicians prepare for the first presidential debate, scheduled to be held at the University of Mississippi tomorrow.

The Financial Crisis: Complete Coverage

THEIR GREATEST ASSET IS TRUST
Columnist Marc Fisher finds a street where businesses have always played by the rules. **B1**

A WARNING FROM THE FED CHIEF
Bernanke tells why he believes the bailout is urgent, sees signs the crisis may spread. **D1**

WHO COULD LEAD THE TREASURY?
The person who replaces Paulson will have broad powers to spend $700 billion. **D1**

JUMPING BACK INTO THE MARKET
A few big investors are braving stocks again. Is it a sign of recovery, or just opportunism? **D1**

THE WORLD VIEW

U.S. Appeals Abroad Fall Flat as Leaders See No Crisis at Home

By STEVEN MUFSON *and* ANTHONY FAIOLA
Washington Post Staff Writers

As the world watched Congress struggle yesterday with a plan to bail out the U.S. financial system, foreign leaders balked at similar fixes for their own economies, a few even dismissing the credit meltdown as an American problem. Some foreign investors who had previously provided crucial injections of capital remained on the sidelines.

Senior U.S. officials, notably Treasury Secretary Henry M. Paulson Jr., have in recent days urged the leaders of other industrialized countries to help prop the global financial system. But the appeals have fallen short. While policymakers and economic analysts in Europe and Latin America said yesterday that they recognized the severity of the challenge facing the global financial system, they saw little need at the moment for major rescue packages in their own countries.

"The situation we face here in Europe is less acute, and member states do not at this point consider that a U.S.-style plan is needed," said Joaquín Almunia, the European Commissioner for Economic and Monetary Policy in Brussels.

Meanwhile, the sovereign wealth funds of Asian and oil-rich Middle Eastern nations, which have come to the rescue of U.S. firms before only to see these investments erode, showed little interest in taking a similar gamble.

"We are not responsible for saving foreign banks," said Badr al-Saad, managing director of the Kuwait Investment Authority, in remarks broadcast by al-Arabiya satellite television Tuesday. "This is the duty

See **GLOBAL**, *A12, Col. 1*

Iraqi Red Crescent Paralyzed by Allegations

By AMIT R. PALEY *and* ERNESTO LONDOÑO
Washington Post Foreign Service

BAGHDAD — The Iraqi Red Crescent, the country's leading humanitarian organization, has been crippled by allegations of embezzlement and mismanagement, including what Iraqi officials call the inappropriate expenditure of more than $1 million on Washington lobbying firms in an unsuccessful effort to win U.S. funding.

The group's former president, Said I. Hakki, an Iraqi American urologist recruited by Bush administration officials to resuscitate Iraq's health-care system, left the country this summer after the issuance of arrest warrants for him and his deputies. He and his aides deny the allegations and call them politically motivated.

The Red Crescent oversees the largest humanitarian operation in the country, with thousands of employees and an annual budget of $60 million funded in large part by the Iraqi government. The group has ceased nearly all its humanitarian work in recent months after the government froze its assets. The agency, which distributed more than 35,000 emergency food packages in June, handed out just 2,000 in July.

The crisis at the Red Crescent — detailed in interviews, internal agency documents and investigative reports — illustrates many of the challenges Iraq faces as its leaders seek to assert more control over security, reconstruction and humanitarian work. Iraqi officials point to Hakki and other former exiles brought to Iraq by the U.S. government as one reason

See **RED CRESCENT**, *A14, Col. 1*

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Fundamentals Expand in Milan
Fashion designers strive to be modern in a world that demands more diversity. C1

Katrina Survivors Tell Their Tales
"Trouble the Water," a documentary about Katrina, contains camera footage taken by two victims. C1

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N. Korea to Resume Nuclear Processing
The country will restart facility and is banning international inspectors. A13

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I-395 Gunman's Wife Found Slain
Body found at the home of a motorist who shot an officer and killed himself. B1

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For NASCAR, Traffic Is Light
Racing promotes itself as it battles low fan attendance in a bad economy. E1

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E-Decorating Proves Cost-Efficient
Web-based interior designers grow and click with budget-conscious clients. H1

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Saturday: *Showers. High 76. Low 61.*
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FRIDAY, SEPTEMBER 26, 2008

U.S. Forces WaMu Sale As Bank Founders

Historic Failure Prompts Deal With J.P. Morgan

By BINYAMIN APPELBAUM
Washington Post Staff Writer

Federal regulators last night seized the massive, troubled mortgage lender Washington Mutual in the largest bank failure in U.S. history, then immediately sold much of the company to J.P. Morgan Chase for $1.9 billion in a deal that will create the largest bank in the country.

The historic two-step was orchestrated by Sheila Bair, chairman of the Federal Deposit Insurance Corp., on terms that preserve Washington Mutual's deposits and avoid what could have been a huge drain on the insurance fund that protects deposits of up to $100,000.

The fall of Washington Mutual, which was the country's largest savings and loan, expands once again the vast, burned-over landscape of the financial industry. The federal government has seized mortgage financiers Fannie Mae and Freddie Mac and insurance giant American International Group. The five largest independent investment banks are closed or have changed their business model. Most of the largest mortgage companies are closed or have been sold. This is the first time, however, that a large bank funded mostly by deposits has failed during the current crisis.

The sale furthers the consolidation of the U.S. financial industry, which is increasingly dominated by a few colossal banks with more than $1 trillion in assets, offering a vast range of services. J.P. Morgan will become the largest, surpassing Bank of America.

The willingness of J.P. Morgan to cover all of Washington Mutual's deposits narrowly averts a

See BANK, *A14, Col. 1*

Financial Crisis Coverage

GUT CHECK TIME
Columnist Steven Pearlstein says the crisis will worsen if lawmakers don't act soon. **D1**

OUTSIDE THE FRAY
Small banks say the credit crunch has not hit Main Street and they're doing just fine. **D1**

WALL STREET HOPES
In anticipation of a bailout deal, stocks climbed, with the Dow gaining 196 points before talks stalled. **D1**

Talks Falter on Bailout Deal

White House Summit Fails to Yield Accord as House GOP Floats New Plan

President Bush meets with, from left, Sen. John McCain, Rep. John Boehner, Rep. Nancy Pelosi, Sen. Harry Reid, Sen. Mitch McConnell and Sen. Barack Obama.

By PAUL KANE *and* LORI MONTGOMERY
Washington Post Staff Writers

A renegade bloc of Republicans moved to reshape a massive bailout of the U.S. financial system yesterday, surprising and angering Bush administration and congressional leaders who hours earlier announced agreement on the "fundamentals" of a deal.

At a meeting at the White House that included President Bush, top lawmakers and both presidential candidates, House Minority Leader John A. Boehner (R-Ohio) floated a new plan for addressing the crisis that has bobbled global markets.

Democrats accused Boehner of acting on behalf of GOP presidential candidate Sen. John McCain (Ariz.) in trying to disrupt a developing consensus. The new proposal also displeased White House officials, including Treasury Secretary Henry M. Paulson Jr., who chased after Democrats leaving the meeting and — half-jokingly — dropped to one knee and pleaded with them not to "blow up" the $700 billion deal, according to people present at the meeting.

Before the meeting broke up, President Bush had issued a stark warning about the impact on the nation's economy if the measure did not pass. "If money isn't loosened up, this sucker could go down," Bush said, according to one person in the room.

Under the alternative Republican plan, the government would set up an expanded insurance system, financed by the banks, that would rescue individual home mortgages. The government would not have to buy up the toxic mortgage-backed assets that are weighing down financial institutions.

Paulson and Federal Reserve Chairman Ben S. Bernanke had already considered and discarded a similar idea, White House spokesman Tony Fratto said. "I'm not convinced it does what needs to be done for the banking system, and neither is Secretary Paulson or Fed Chairman Bernanke," he said.

Last night, after the White House meeting, Paulson shuttled back to the Capitol for a nearly two-hour meeting with Democrats and Senate Republicans, and the sides began drafting legislation based on the general agreement struck earlier in the day. That effort will continue this morning.

Democrats say they would not approve the legislation without a significant number of Republican votes to share in any political fallout from the controversial proposal, which comes just weeks before the November election. "We are working to try to get this bill ready, but if House

See CONGRESS, *A10, Col. 1*

FROM THE ACADEMICS

Away from Wall Street, Economists Question Basis of Paulson's Plan

By NEIL IRWIN *and* CECILIA KANG
Washington Post Staff Writers

The Bush administration's pitch for a sweeping bailout of the financial system has centered on two simple premises: that the economy could suffer a crippling downturn if action is not taken very quickly and that this action should consist of the government buying troubled mortgage securities from banks and other institutions.

But many of the nation's top economists disagree with one or both of those ideas, even as many top political leaders have swung behind them.

Wall Street economists have mostly endorsed Treasury Secretary Henry M. Paulson Jr.'s plan, or a variation thereof.

But almost 200 academic economists — who aren't paid by the institutions that could directly benefit from the plan but who also may not have recent practical experience in the markets — have signed a petition organized by a University of Chicago professor objecting to the plan on the grounds that it could create perverse incentives, that it is too vague and that its long-run effects are unclear. Sen. Richard C. Shelby (Ala.), ranking Republican on the Budget Committee, brandished that letter yesterday afternoon as he explained his opposition to the bailout outside a bipartisan summit at the White House. The petition did not advocate any specific plan, including that offered yesterday by House Re-

See ECONOMISTS, *A12, Col. 1*

Election Coverage

BY BILL O'LEARY — THE WASHINGTON POST

THE CONTRARIAN
Sen. Richard Shelby, above, has made no secret of his distaste for the recovery plan. **A14**

8 QUESTIONS
Dan Balz explores what voters need to know about the debate. **A4**

PALIN INTERVIEW
The Alaska governor tells CBS's Katie Couric that the United States has achieved "victory" in Iraq. **A8**

GOVERNOR'S GIFTS
Sarah Palin has accepted gifts worth $25,367, state records show. **A8**

ON THE TRAIL

Debate Still in Limbo as Democrats Blame McCain For Interrupting Process

By MICHAEL D. SHEAR *and* JONATHAN WEISMAN
Washington Post Staff Writers

The first debate between John McCain and Barack Obama, scheduled for tonight, remained in limbo last night after the presidential candidates left a White House meeting without a deal on a $700 billion economic rescue plan.

Democrats immediately blamed McCain for disrupting the effort at compromise, saying his decision to suspend his campaign and return to Washington shifted the klieg lights of the White House contest to the tense and delicate congressional negotiations.

Those discussions, which had appeared promising early in the day, culminated in the late-afternoon meeting held by President Bush. But instead of producing a joint statement of success, McCain and Obama slipped out of a gathering that those present described as contentious and unproductive.

"What this looked like to me was a rescue plan for John McCain for two hours," said an angry Sen. Christopher J. Dodd (D-Conn.), who had all but declared the deal done earlier in the day. "To be distracted for two to three hours for political theater doesn't help."

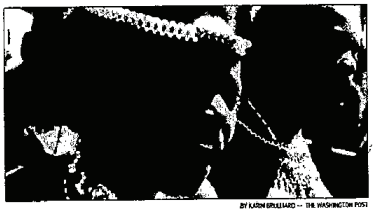
In interviews after the meeting, Obama pointed a finger at his rival for the faltering talks, saying on CNN that "when you start injecting presidential politics into delicate negotiations, you can actually inject

See CAMPAIGN, *A8, Col. 1*

Zulus Eagerly Defy Ban on Virginity Test

S. Africa's Progressive Constitution Collides With Tribal Customs

By KARIN BRULLIARD
Washington Post Foreign Service



BY KARIN BRULLIARD — THE WASHINGTON POST

A South African Zulu girl who was publicly inspected to ensure she is a virgin sings for the tribal king. Parliament last year outlawed the procedure.

NONGOMA, South Africa — One week before, Nonhlanhla Mhlize had risen early, walked to her tribal chief's home, climbed a desolate hill and lain on a blanket for what leaders of her Zulu culture call an "inspection" of her genitals. Now the teenager glowed as she held up a document she had earned for the fourth year. It declared her a virgin.

"Here is my certificate!" Mhlize, an 18-year-old with magenta-streaked hair, said giddily.

Surrounding her were thousands of girls — some barely school-age, most adolescents — who had traveled to this windswept valley for an annual dance in honor of the Zulu king. Like Mhlize, all were bare-breasted and wearing traditional beaded skirts and necklaces. All were certified virgins, a requirement for participation.

In this rural Zulu stronghold on South Africa's eastern coast, it seemed of little matter that the Zulu custom of virginity testing, decried by gender and human rights activists, was banned for most girls in a bill passed by Parliament and enacted last year. Zulus here, who say it is a way to curb teenage pregnancy and AIDS, defiantly embrace the practice.

"There are changes and development in life, but that does not mean people have to change their culture," King Goodwill Zwelithini told the crowd, the fur tassels of his animal-skin cloak whipping in the wind.

The debate over virginity testing is an example of the clash common throughout Africa as governments try to regulate traditional practices

See VIRGINITY, *A19, Col. 1*

INSIDE

THE WORLD
Global Goal to Stop Malaria
World leaders and health experts, encouraged by results in Africa, are hopeful that malaria deaths can be eliminated by 2015. A16

U.S., Pakistan Exchange Fire
American troops on ground patrol along the Afghan border shoot at Pakistani soldiers, who fired on U.S. helicopters. A18

Chinese Astronauts in Space
The mission is heralded as a "milestone" in China's march toward space exploration. A18

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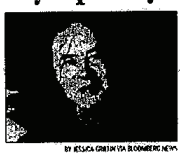
Lose 100 Games? A Disgrace
Columnist Thomas Boswell says there's plenty of blame for the Nationals' dismal year. E1

No. 1 Southern Cal Upset: Oregon State holds on to win, 27-21. E1

NEW MOVIES
Spike Lee's epic "Miracle at St. Anna" and "The Duchess" starring Keira Knightley.
STYLE & WEEKEND

Christoph Eschenbach to Lead National Symphony

By ANNE MIDGETTE
Washington Post Staff Writer



BY JESSICA GRIFFIN VIA BLOOMBERG NEWS

The conductor and pianist also will serve in the new position of Kennedy Center music director.

Ending months of speculation and years of searching, the National Symphony Orchestra has chosen its next music director: the German conductor and pianist Christoph Eschenbach, best known for his recent stint as head of the Philadelphia Orchestra.

His designation, announced last night by Kennedy Center officials, comes with a twist: Eschenbach, 68, also will hold the newly created title of music director of the Kennedy Center. In this role, he will work closely with the center's president, Michael M. Kaiser, and the center's programmers on the kinds of interdisciplinary, themed festivals and projects that have become something of a Kennedy Center hallmark.

Eschenbach will officially start in the 2010-11 season, after Ivan Fischer's two-year stint as principal conductor. However, he will function as music director designate in 2009-10, and he will begin working with the orchestra even earlier. In November, he is coming to Washington to start hearing auditions for the eight vacancies the orchestra has in its 100-member roster. Eschenbach's contract lasts through the 2013-14 season.

Eschenbach's association with the NSO goes back to the 1970s, but he had not conducted the orchestra since the early 1990s when

See NSO, *A7, Col. 1*

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Sunday: *A shower. High 81. Low 64.*
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CAMPAIGN 2008

In First Debate, Candidates Quarrel On Iraq, Express Optimism for Bailout

POOL PHOTO BY CHIP SOMODEVILLA

Before moderator Jim Lehrer at the University of Mississippi, Sens. Barack Obama and John McCain sparred over the wars in Iraq and Afghanistan, and the fight against terrorism in Pakistan.

Obama Ridicules Support for War; McCain Faults Criticism of 'Surge'

By Michael D. Shear *and* Shailagh Murray
Washington Post Staff Writers

OXFORD, Miss., Sept. 26 — Sen. Barack Obama sharply criticized Sen. John McCain's judgment on the war in Iraq, repeatedly telling his presidential rival "you were wrong" to rush the nation into battle, directly challenging the Republican nominee on foreign policy as the two met in their first debate of the general-election season.

McCain aggressively pushed back, accusing Obama of failing to understand that a new approach employed by Gen. David H. Petraeus in Iraq would lead to victory and mocking him as naive for his willingness to meet with some of the world's most brutal leaders.

With 40 days remaining before Election Day and the U.S. economy teetering, the two clashed on taxes, energy policy, Russian aggression in Georgia and the threat posed by Iran. Neither made a serious mistake in an encounter that capped one of the most chaotic weeks of the campaign, nor was either able to claim a decisive victory.

The debate itself almost did not happen. McCain's dramatic mid-week announcement that he was suspending his campaign to focus on the nation's financial crisis left the face-off in limbo as both candidates rushed back to Washington on Thursday and plunged themselves into the acrimonious negotiations over a $700 billion economic bailout.

On Friday, McCain reversed his pledge to

See **DEBATE**, *A9, Col. 1*

BAILOUT NEGOTIATIONS

How McCain Stirred a Simmering Pot

By Jonathan Weisman
Washington Post Staff Writer

When Sen. John McCain made his way to the Capitol office of House Minority Leader John A. Boehner (R-Ohio) just past noon on Thursday, he intended to "just touch gloves" with House Republican leaders, according to one congressional aide, and get ready for the afternoon bailout summit at the White House.

Instead, Rep. Paul D. Ryan (Wis.), the ranking Republican on the House Budget Committee, was waiting to give him an earful. The $700 billion Wall Street rescue, as laid out by Treasury Secretary Henry M. Paulson Jr., was never going to fly with House Republicans, Ryan said. The plan had to be fundamentally reworked, relying instead on a new program of mortgage insurance paid not by the taxpayers but by the banking industry.

McCain listened, then, with Sen. Lindsey O. Graham (S.C.), he burst into the Senate Republican policy luncheon. Over a Tex-Mex buffet, Sens. Robert F. Bennett (Utah) and Judd Gregg (N.H.) had been explaining the contours of a deal just reached. House Republicans were not buying it. Then McCain spoke.

"I appreciate what you've done here, but I'm not going to sign on to a deal just to sign the deal," McCain told the gathering, according to Graham and confirmed by multiple Senate GOP aides. "Just like Iraq, I'm not afraid to go it alone if I need to."

For a moment, as Graham described it, "you could hear a pin drop. It was just unbelievable." Then pandemonium. By the time the meeting broke up, the agreement touted just hours before — one that Sen. Lamar Alexander (Tenn.), the No. 3 GOP leader, estimated would be supported by more than 40 Senate Republicans — was in shambles.

An incendiary mix of presidential politics, delicate dealmaking and market instability played out Thursday in a tableau of high drama, with $700 billion and the U.S. economy

See **TALKS**, *A10, Col. 1*

Lawmakers Get Down to Details of Drafting Bill

By Lori Montgomery *and* Paul Kane
Washington Post Staff Writers

Talks over the Bush administration's plan to stabilize the U.S. financial system lurched forward yesterday, as rebellious Republicans returned to the negotiating table and congressional aides began the tortuous work of drafting a bill to execute one of the biggest interventions into the private market in modern history.

One day after they nearly derailed the plan, House Republicans agreed to send their second-ranking leader to negotiate with Democrats and Senate Republicans.

Lawmakers canceled plans to adjourn yesterday for the November election and instead prepared to work through the weekend on the proposal, which would authorize the Treasury Department to spend up to $700 billion to take bad assets off the books of faltering financial institutions. Democrats said they hoped to announce an agreement late Sunday before Asian financial markets open, with a House vote on the measure possible by Monday. A Senate vote would follow later in the week.

"Great progress is being made. We will not leave until legislation is passed that will be signed by the president," said House Speaker Nancy Pelosi (D-Calif.).

Added Rep. Barney Frank (D-Mass.), an architect of the legislation: "I am convinced that by Sunday we will have an agreement people will understand."

With global markets hanging on every twist of the debate in Washington, White House officials swarmed Capitol Hill in an attempt to salvage a deal, while President Bush issued another call for action during a brief appearance outside the Oval Office.

"There are disagreements over aspects of the rescue plan, but there is no disagreement that something substantial

See **CONGRESS**, *A11, Col. 1*

Coverage Inside

BY NIKKI KAHN — THE WASHINGTON POST

PAULSON'S PERSUASION TESTED
Until this week, Treasury Secretary Henry Paulson — backed by Ben Bernanke — was remarkable in getting support for his rescue plans for the financial sector. **A10**

A SELL-OFF IN BANKING STOCKS
Wachovia's shares sink lower as investors move from banks saddled with troubled mortgages. **D1**

STEVEN PEARLSTEIN
The GOP's answer to attracting capital with additional tax cuts is only repeating flawed thinking that caused the meltdown. **D1**

DEBATE FACT CHECK
Assessing the accuracy of McCain saying Obama would talk with Iran's leader without preconditions. **A8**

TOM SHALES
The folks out there, losing their homes to foreclosure or seeing their retirement nest eggs obliterated, deserved more thoughtful and heartfelt answers. **C1**

ANALYSIS

Economic Jabs, Then Punches On World Affairs

By Dan Balz
Washington Post Staff Writer

OXFORD, Miss., Sept. 26 — John McCain and Barack Obama came to their first debate with clear missions. McCain's was to paint his rival as naive and inexperienced, Obama's was both to prove McCain wrong on that front and to tag his rival as a participant in eight years of failed Bush administration policies at home and abroad.

Each rose to the challenge here Friday night, forcefully scoring points on one another, sparkling at times, but neither emerged as the obvious winner except perhaps to their partisans. There were good exchanges but few big moments of the kind that can change a presidential race.

With the country facing an unresolved financial crisis as big as any since the Great Depression and the two candidates running in a highly competitive race for the White House, this was obviously a debate with enormously high stakes for both McCain and Obama. By the time it was over, it was evident just how large the differences were between them on many of the biggest national security issues that will await the next president — and some domestic ones as well.

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City of Manassas school officials admit they gave municipal investigators personal data about some students. B1

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At fashion week in Milan, columnist Robin Givhan notes that whatever Gucci is these days, it's not sexy. C1

SPORTS
Head Redskin's Path Began in Dallas
Coach Jim Zorn shares with columnist Mike Wise his memories of breaking into the NFL under Tom Landry. E1

BY NATHANIEL VAUGHN KELSO — THE WASHINGTON POST

On a Vital Route, a Boom in Piracy

Somali Marauders Step Up Attacks in Gulf of Aden; Shipping Costs Soar

By Ellen Knickmeyer
Washington Post Foreign Service

ABOARD A YEMENI COAST GUARD VESSEL — Somali pirates plying the Gulf of Aden in speedboats equipped with grenade launchers and scaling ladders have launched what the maritime industry calls the biggest surge of piracy in modern times, sending shipping costs soaring and the world's navies scrambling to protect the main water route from Asia and the Middle East to Europe.

Pirates from the failed African state of Somalia have attacked at least 61 ships in and around the Gulf of Aden this year, 17 of them in the first two weeks of September alone, according to the International Maritime Bureau's Piracy Reporting Center in Malaysia. That compares with 13 attacks in the area for all of 2007.

"In my time here, I must say, this is the most concentrated period of destabilizing activity I have seen in the Gulf of Aden," said British Commodore Keith Winstanley, deputy commander of the Combined Maritime Forces, whose members have confronted the pirates repeatedly since mid-August. The coalition, headquartered in Bahrain, includes the militaries of the United States and 19 other nations.

The latest hijackings include the capture off Somalia on Thursday of a Ukrainian cargo vessel with 33 Russian-made T-72 tanks aboard, as well as ammunition. As of Friday, the Somali pirates were holding 14 oil tankers, cargo vessels and other ships with a total of more than 300 crew members, demanding ransoms of $1 million or more per ship.

Worldwide, pirates attacked 263 vessels in 2007, up from 239 in 2006, according to the Piracy Reporting Center. Southeast

See **PIRATES**, *A15, Col. 1*

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Today: *Showers. High 81. Low 64.*
Monday: *Mostly sunny. High 78. Low 62.*
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The Washington Post

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MORTGAGE CRISIS

How Fannie — and You — Bought a Hapless House

By JOEL ACHENBACH
Washington Post Staff Writer

The American taxpayers own Yellowstone, Yosemite, the Grand Canyon, dozens of parks, monuments, wildlife refuges, forests, pastureland, government complexes and historic sites. And now, for all intents and purposes, the American people are the major stakeholders in a little townhouse at 14746 Barksdale St. in Dale City.

The titular owner is Fannie Mae, which the U.S. government effectively subsumed this month, though the legal machinations are still ongoing. With the Treasury backing Fannie Mae, taxpayers have a huge interest in the fate of the mortgage giant's assets. They include the 1,296-square-foot, two-level, three-bedroom, 1½-bath house on Barksdale.

The most recent owner, Phyllis High Jones, refinanced the house through Countrywide Home Loans in 2006, taking out a $208,000 mortgage that would gradually inflate to $226,000. That same year, Fannie Mae bought the loan from Countrywide. Then the housing market collapsed in Prince William County. Jones defaulted this year. The townhouse went up for auction, but there were no takers. Fannie Mae had no choice but to become the buyer of record — sale price $226,000.

See HOUSE, *A18, Col. 1*

Financial Crisis Coverage

UN-AMERICAN AS APPLE PIE
A bailout would not be a major departure in U.S. capitalism but a step in its evolution toward a better future, a Yale economist says. **B1**

SURVIVING THE STORM
Many Post readers have asked our advice. We look at some of their stories and have experts address their concerns. **F1**

Lawmakers Near Accord On Details of Rescue Bill

How to Cover Cost of Program Remains Under Debate

By LORI MONTGOMERY *and* PAUL KANE
Washington Post Staff Writers

Congressional negotiators said they were close to agreement yesterday on a $700 billion plan aimed at shoring up the U.S. financial system, and were meeting late into the evening in hopes of striking an accord that could be ratified by the House as soon as today.

Democrats and Republicans from both chambers met with Treasury Secretary Henry M. Paulson Jr. through the afternoon in an effort to forge a compromise on a variety of outstanding issues, including how quickly the government should make money available for the program and whether participating firms should be required to limit executive pay.

Talks also focused on a new issue: how to cover the cost of the program so taxpayers don't get stuck with the bill.

Under the Bush administration's proposal, the government would buy assets that have lost much of their value from faltering financial institutions in hopes of restoring investor confidence. That, in turn, could ease the credit crunch that has seized global markets and made it much harder for businesses and ordinary people to borrow money.

Administration officials have stressed that the ultimate cost of the bailout would be much less than $700 billion because the government would eventually sell the assets it purchased and recover most, if not all, of what it spends.

Yesterday, Democrats said they were pressing hard for further taxpayer protections, including a fee that would be imposed on the financial services industry if after five years the government had not

See RESCUE, *A19, Col. 1*

APPRECIATION

Forget Cool: Paul Newman Knew How to Play It Smart

By STEPHEN HUNTER
Washington Post Staff Writer

Paul Newman, who died Friday at 83 of cancer, was a beautiful man who never seemed to notice his own beauty.

He was at his worst when the camera did.

But far more often, he was at his best when he was too busy thinking to care about the looks he'd been given. He stood for an American archetype: He was the shrewd guy. Practical, tough, urban. He figured angles, calculated odds, charted courses, deployed distractions, maneuvered brilliantly. He wasn't violent, he wasn't a leader, he wasn't Mr. Cool with the babes, he had limited gifts for comedy and highly articulate, dialogue-driven set pieces. But nobody played shrewd better than Paul Newman. He became great playing shrewd.

You could see it in his eyes, and he probably didn't care much that they were blue or not. You'd see them narrow as he lapsed into concentration, then come alive again as they read cues, divined patterns, perceived dynamics, sniffed weaknesses. He figured it out with a gusto he sold to audiences brilliantly, and you — with him — enjoyed his triumphant cerebration.

See NEWMAN, *A8, Col. 1*

ASSOCIATED PRESS

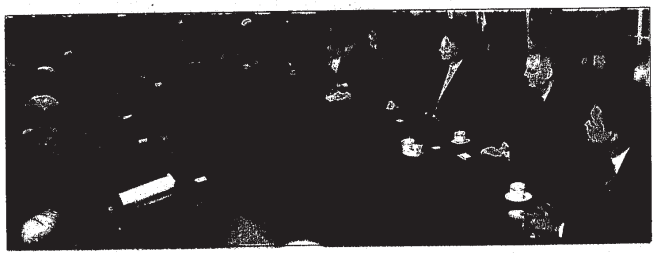
■ **Actor, philanthropist and racer died of cancer.** | *C8*

CAMPAIGN **2008**

A Wild Week on the Trail

BY BRIAN SNYDER — REUTERS

BY JASON REED — REUTERS



It was a week when a closely watched and highly competitive presidential race collided head-on with the nation's rapidly developing financial crisis. For John McCain, it meant a roll of the dice that one dramatic act signifying the end to business as usual could lead to a way out of the crisis and give his campaign a much-needed boost at the same time. For Barack Obama, it was a chance to demonstrate the calm and assurance that befits a potential president in difficult times. While the Bush administration and Congress struggled toward a deal to bail out Wall Street, McCain and Obama engaged in their own contest, behind the scenes and in public, in Washington and in Mississippi. For each campaign, it may have been a defining moment.

Stories by Michael D. Shear and Anne E. Kornblut | *A10*

TABLE PHOTO BY PABLO MARTINEZ MONSIVAIS — ASSOCIATED PRESS. HANDSHAKE PHOTO BY LINDA DAVIDSON — THE WASHINGTON POST

Focus on Economy May Hurt McCain

Crisis Pulls Him From Perceived Strong Points

By DAN BALZ *and* SHAILAGH MURRAY
Washington Post Staff Writers

In the two weeks the Wall Street financial crisis has dominated the political debate, the presidential race has shifted from what had been essentially a dead heat to one in which Democratic Sen. Barack Obama has opened up a narrow but perceptible advantage nationally, as well as in a number of key battleground states.

The burden now falls on Republican Sen. John McCain to reverse the effects of the focus on the economy and keep the contest close enough so that a dominant debate performance, a gaffe by Obama, or some outside event can shift the momentum back to him.

Although Friday's debate in Oxford, Miss., produced no outright winner, strategists in both parties said the coming weeks, which will include three more debates — two between McCain and Obama and the third between vice presidential candidates Gov. Sarah Palin and Sen. Joseph R. Biden Jr. — could be decisive in determining whether the election remains on a trajectory favorable to Obama or shifts back toward too-close-to-call status.

McCain advisers are well aware that the past two weeks have brought a shift in the race, but they say that between now and Election Day, there is plenty of time for the fortunes of the two candidates to change again.

"The first lesson of this campaign, going back to 2007, is not to be panicky or reactive to poll numbers," said McCain senior adviser Steve Schmidt. "A few weeks

See CAMPAIGN, *A12, Col. 1*

Two Portraits of a Bioterror Suspect

As FBI Paints Ivins as Killer, Friends Recall Him as Good, if Flawed

By ANNE HULL, MARILYN W. THOMPSON *and* LYNDSEY LAYTON
Washington Post Staff Writers

Two days before he was found unconscious at home, felled by a lethal dose of Tylenol and valium, microbiologist Bruce E. Ivins logged on to one of the "express computers" on the second floor of the library in downtown Frederick.

He typed in the name of a Web site devoted to the anthrax-mailings investigation, a perplexing, unsolved case that had dragged on for seven years. At 7:13 p.m., the computer connected to a page that included comments from FBI Director Robert S. Mueller III, who was confident that the case soon would be solved. "I tell you, we've made great progress in the investigation," he said.

Earlier that day, Ivins had been released from a psychiatric hospital, where the FBI had used the opportunity to obtain a DNA sample from him. Agents assigned to 24-hour surveillance followed him as he returned to his modest Cape Cod house outside the gates of Fort Detrick. Then Ivins "wasn't seen again," FBI documents say, until paramedics carried him out of his home unconscious.

The scientist who had spent his career studying lethal bacteria chose one of the simplest but most painful ways to die: acetaminophen poisoning, which causes liver damage and internal bleeding.

Some details of Ivins's final days emerged last week in a new release of FBI documents. The bureau found no suicide note, as it had hoped, and only sketchy evidence to bolster its case that Ivins was a diabolical and plotting criminal.

See IVINS, *A16, Col. 1*

INSIDE

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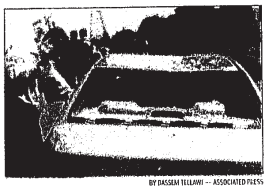
The Story Behind The D.C. Tax Scandal
A look at who was involved, how it happened and why the biggest embezzlement scandal in the city government's history came undone. C1

Studies Find Busy Not Bad for Kids
Research ties organized activities to positive outcomes at school and at home. C1


BY DASSEM TELLAWI — ASSOCIATED PRESS

THE WORLD
Car Bomb Kills 17 in Syrian Capital
The government seeks to learn who is behind the attack, which occurred in a Damascus community that includes thousands of Iraqi refugees. A20

SUNDAY SOURCE
Think Your Boss Is Bad?
Cubicle dwellers tell tales of horror. N1

SPORTS
At Texas Stadium One Last Time
Clint Longley in 1974. Mark Brunell to Santana Moss in 2005. Today's Redskins-Cowboys game is the last at a venue filled with memories of dramatic moments in the storied rivalry. D1

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REDSKINS UPSET COWBOYS, 26-24

Weather
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Tuesday: *Partly sunny. High 76. Low 60.*
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Sweeping Bailout Bill Unveiled

COMPROMISE: Lawmakers Work to Secure Support

CONDITIONS: Oversight Tools, Limits on Executive Pay Added

THE NEXT STEPS: House Set To Vote Today, Then Senate

THE TREASURY

Broad Authority, Lots of Money And Uncertainty

By BINYAMIN APPELBAUM, DAVID CHO *and* NEIL IRWIN
Washington Post Staff Writers

Congress is on the verge of granting Treasury Secretary Henry M. Paulson Jr. sweeping powers to stabilize the nation's financial system. He would stand largely unfettered by traditional rules, largely unrestricted in his ability to spend $700 billion of federal money.

The Treasury Department would decide what kind of assets to buy, and which financial firms could sell them. It would decide how much to pay. And it would hire firms to manage its acquisitions, without having to obey the normal rules for hiring contractors. These decisions would take several weeks, Paulson said.

The results will determine whether $700 billion is enough to end the financial crisis.

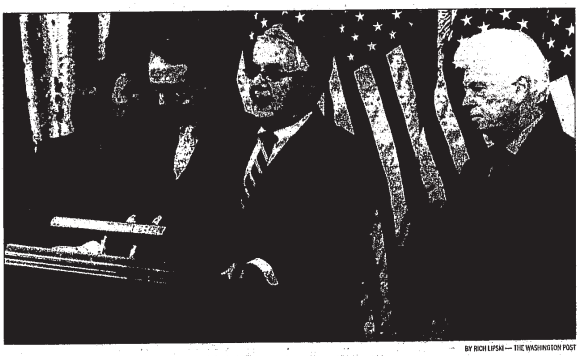
"This is really an unusual situation, a highly unusual situation. And we need flexibility, we need a variety of tools, we need to figure out how to get out there in weeks," Paulson said in an interview last night.

It is not clear how patiently investors and depositors in troubled institutions will wait. Nor is it clear whether, in the meantime, the banking system itself will begin to recover from the uncertainty that is freezing the flow of loans to major corporations, small businesses and individuals.

Two European banks moved toward failure over the weekend: Bradford & Bingley, a British mortgage lender, and Fortis, a giant banking and insurance company based in Belgium. Several American institutions continue to teeter.

The legislation, which the House

See PLAN, *A11, Col. 1*



BY RICH LIPSKI — THE WASHINGTON POST

Rep. Barney Frank (D-Mass.), above at microphone, and other Democratic leaders forged a compromise with Republican congressional leaders to draft a historic plan to strengthen firms weakened by mortgage-related assets.

BY SUSAN BIDDLE — THE WASHINGTON POST

House Minority Leader John A. Boehner (R-Ohio) emerged last night from a meeting of House Republicans to say he is "encouraging every member whose conscience will allow them to support this."

By LORI MONTGOMERY *and* PAUL KANE
Washington Post Staff Writers

After a week of political tumult and deepening economic anxiety, congressional leaders yesterday rallied support for an historic proposal that would grant the government vast new powers over Wall Street and offer fresh help to homeowners at risk of foreclosure.

The proposed legislation, which is scheduled for a vote today in the House, would authorize Treasury Secretary Henry M. Paulson Jr. to initiate what is likely to become the biggest government bailout in U.S. history, allowing him to spend up to $700 billion to relieve faltering banks and other firms of bad assets backed by home mortgages, which are falling into foreclosure at record rates.

The plan would give Paulson broad latitude to purchase any assets from any firms at any price and to assemble a team of individuals and institutions to manage them. In wielding those powers, Paulson and others hope to contain a crisis that already has caused the failure or forced the rescue of a half-dozen major Wall Street firms and unnerved markets around the world.

The measure was forged during a marathon negotiating session between lawmakers from both parties and Paulson — who at one point appeared to negotiators to be on the verge of collapse. Restive Republican lawmakers originally criticized the package as putting taxpayers at risk and violating free-market principles, but many of them appeared yesterday to be dropping their opposition.

House Minority Leader John A. Boehner (R-Ohio) emerged last

See BAILOUT, *A12, Col. 1*

ANALYSIS

Dr. Paulson's Tough Medicine, In a Pill the Public Can Swallow

By STEVEN PEARLSTEIN
Washington Post Staff Writer

After a week of political brinksmanship and 100 pages of concessions to political reality, Treasury Secretary Hank Paulson seems to have finally won the power and money he asked for to mount an unprecedented rescue of the financial system.

If approved by a reluctant Congress and signed into law by the president, the Economic Stabilization Act of 2008 will authorize Paulson to continue in a bigger and systematic way what the Treasury and Federal Reserve have been doing since March when they committed $29 billion to facilitate the sale of Bear Stearns to its stronger rival, J.P. Morgan Chase. And although the initial focus will be on home mortgages and mortgage-backed securities, there remains enough flexibility in the legislation for Paulson to address similar problems with auto loans, credit card debt and loans for commercial real estate.

Global investors no doubt will cheer the weekend's political breakthrough, focusing less on the details than on the perceived commitment by the United States to do whatever is necessary to prevent a meltdown in global financial markets.

But nobody should view even this effort as sufficient to keep the U.S. economy out of recession, stabilize housing markets or prevent the failure of additional banks, investment houses, insurers and hedge funds. Although more than $600 billion in private-

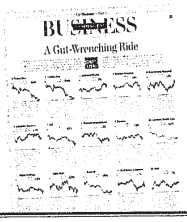
See PEARLSTEIN, *A10, Col. 3*

Unprecedented Power *The bill would give Treasury Secretary Henry M. Paulson Jr. vast authority, including:*

BY CHIP SOMODEVILLA — GETTY IMAGES

- Broad power to determine, in consultation with the Federal Reserve and other federal agencies, which assets the government should buy, when and at what price.
- Authority to decide which foreign institutions can participate in the bailout plan.
- Authority to waive provisions of federal contracting procedures in compelling circumstances.
- Power to reshape existing executive compensation packages if a firm negotiates for direct help from the Treasury.

WHO'S WATCHING HIM: The Treasury secretary often can act without consulting Congress, although he generally has to inform Congress soon after the actions have been executed. In addition, the troubled asset relief program will be monitored by the head of the Government Accountability Office, a special inspector general and a congressional oversight panel.



More Coverage

WILL McCAIN, OBAMA VOTE FOR IT?
The candidates give cautious support to the bill, reserving the right to change their minds as details emerge. **A8**

WILL THE PUBLIC SUPPORT IT?
Across the Washington region, residents voice anger, apprehension, relief, hope and doubt. **B1**

« LOCAL BUSINESS FALLOUT
How the area's 20 largest firms' stocks are weathering the credit crisis. **D1**

Medevac Fleet Grounded After Deadly Md. Crash

4 on Rescue Copter Killed in Pr. George's

By DEL QUENTIN WILBER, MATT ZAPOTOSKY *and* DAN MORSE
Washington Post Staff Writers

The Maryland State Police rescue helicopter that crashed and killed four people yesterday vanished from radar in worsening weather moments after the pilot reported problems in acquiring a radio signal needed to guide him to its landing spot.

The helicopter went down in dense woods three miles north of Andrews Air Force Base, where the aircraft was rerouted because of the weather after picking up two car crash victims in Southern Maryland.

The helicopter crash, the worst accident in the history of Maryland's rescue helicopter program, prompted authorities to ground the fleet yesterday until air safety investigators make a preliminary finding on the cause. Until then, helicopters from the U.S. Park Police, Delaware and Pennsylvania state police, and commercial companies will cover the state, police said.

Federal transportation investigators will probably not issue a final report on the accident's cause for months. "Certainly, these were challenging conditions for this pilot," said Debbie Hersman, a member of the National Transportation Safety Board.

The helicopter, an American Eurocopter Dauphin II based at Andrews, was carrying five people, including the car accident victims, when it slammed into the middle of Walker Mill Regional Park in Prince

See HELICOPTER, *A4, Col. 1*

■ **Family and friends mourn a shared loss.** | *A4*

INSIDE

METRO
'This Is Not Your Grandfather's Synagogue'
Downtown's Sixth and I attracts young Jews by using comedy, concerts and a sex therapist in its nontraditional celebration of Jewish faith. B1

Former Newsweek Editor Osborn Elliott Dies at 83
Innovative journalist fueled the successful reinvention of the magazine when he moved there from Time, and he was later deputy mayor of New York. B6

STYLE
Writers Read and Inspire At National Book Festival
Dark clouds loomed overhead from a night of rain, but that didn't stop fans from coming to the Mall for readings by Geraldine Brooks, Dionne Warwick, Laura Bush and other authors. C1

Redskins Fashion a Fine Farewell

In Texas Stadium's Final Year, A Rare and Euphoric Victory

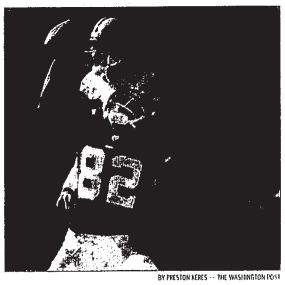
By LES CARPENTER
Washington Post Staff Writer

IRVING, Tex., Sept. 28 — For one final Sunday afternoon, a Washington Redskins team looked up at the clock dangling from the almost-domed roof of the doomed, old stadium and willed time to tick away. And for one final Sunday afternoon in Texas Stadium it went ever so slowly.

"It's painful to only have one second become another second and another second," Redskins Coach Jim Zorn would later say.

But when the seconds finally disappeared on what may be the last Redskins-Dallas Cowboys game in Texas Stadium, there erupted on one sideline a euphoria. They had survived, 26-24.

This is when they laughed and danced; when defensive end Rob Jackson held his helmet aloft and began to chant; when teammate Anthony Montgomery stood on the bench and waved at the crowd as he shouted "Bye-bye" at the faces that glared back from just five feet away. No other stadium in the NFL has the intimacy of this place that has come to haunt the Redskins for most of four decades. It has led to a tempestuous intersection of players and fans in a game that is annually one of the National Football League's fiercest.



BY PRESTON KERES — THE WASHINGTON POST

Antwaan Randle El spikes the ball after a second-quarter touchdown in front of the Cowboys' Ken Hamlin.

Then suddenly, in the last regular season Redskins-Cowboys game before the gates are closed on Texas Stadium and the rivalry heads to a sparkling new home, the Redskins did something that seemed to

See REDSKINS, *A7, Col. 1*

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House Rejects Financial Rescue, Sending Stocks Plummeting

THE VOTE

How the Numbers Failed the Leaders

By PAUL KANE *and* LORI MONTGOMERY
Washington Post Staff Writers

Just before lunchtime yesterday, House Minority Leader John A. Boehner (R-Ohio) and his lieutenants went through the final vote count and realized they had a problem: A rank-and-file uprising was on the verge of torpedoing a bill that had been heralded by President Bush, his top advisers and congressional leaders from both parties as the remedy for Wall Street and Main Street.

Boehner and House Minority Whip Roy Blunt (R-Mo.), recognizing the danger of the situation, discussed whether to urge Democrats to pull the bill from the floor rather than have it go down in defeat. Instead, less than three hours later, the gavel fell on a stunning rebuke to Capitol Hill leaders on both sides of the aisle.

"We did everything possible to maximize our votes. Begged, pleaded. We didn't threaten anyone. And we had a pretty good idea of where we were," Boehner said in an interview in his office after the vote.

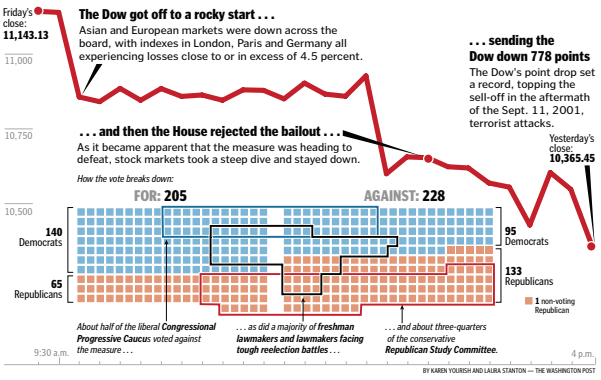
Just 65 House Republicans — less than one-third of Boehner's members — and 140 Democrats supported the bill. The vote was 12 shy of a majority, even after it was held open almost an additional 30 minutes for an effort at tepid arm-twisting. As most lawmakers headed out of town for a legislative break of undetermined length, both sides broke into partisan recriminations.

Democrats blamed the failure on Republican

See **CONGRESS**, *A10, Col. 1*

BY DAYNA SMITH FOR THE WASHINGTON POST

"The Democratic side more than lived up to its side of the bargain," said House Speaker Nancy Pelosi, with Rep. Rahm Emanuel.



BY KAREN YOURISH AND LAURA STANTON — THE WASHINGTON POST

Opposition Crosses Party Lines; Dow Falls A Record 778 Points

By JONATHAN WEISMAN
Washington Post Staff Writer

A bipartisan rebellion in the House killed a $700 billion rescue plan for the nation's financial system yesterday, sending global stock prices plunging, prompting fierce recriminations on the presidential campaign trail and dealing President Bush his worst legislative defeat.

House Democratic and Republican leaders vowed to go back into negotiations to devise compromise legislation to stabilize the credit markets, but no talks were scheduled. After U.S. financial markets closed, with the Dow Jones industrial average down a one-day record of 778 points, or 7 percent, Treasury Secretary Henry M. Paulson Jr. tried to calm frazzled traders, assuring them that work on a market intervention would resume.

"I will continue to work with congressional leaders to find a way forward to pass a comprehensive plan to stabilize our financial system and protect the American people by limiting the prospects of further deterioration in our economy," he said. "We've got much work to do, and this is much too important to simply let fail."

Rarely has a congressional vote held such high drama and produced such immediate repercussions, directly from the House floor to the trading floor. Wall Street traders huddling around television screens watched lawmakers

See **HOUSE**, *A10, Col. 1*

BANKING CRISIS

Wachovia Is Sold As Depositors Flee

By BINYAMIN APPELBAUM
Washington Post Staff Writer

The sale of Wachovia's banking business to Citigroup yesterday marked the second time in five days that a major U.S. bank was forced from existence in part by fleeing depositors, raising serious questions about the stability of other financial firms and the health of the banking system.

The deal also continues the rapid consolidation of an industry that has long been kept fragmented as a matter of public policy but now is being encouraged by the government to conglomerate.

In the latest rescue urged by federal regulators, Citigroup agreed to pay $2.16 billion for Wachovia, the nation's third-largest retail and commercial banking franchise. Wachovia was fast-growing and widely admired, run by Treasury Secretary Henry M. Paulson Jr.'s former deputy Robert Steel. Citigroup is a long-standing colossus of the American financial services industry.

Citigroup, based in New York, would become the largest bank in the Washington area. The deal would protect all deposits at Wachovia, according to a statement from the Federal Deposit Insurance Corp., which presided over the companies' shotgun wedding.

To consummate the deal, the FDIC promised to limit Citigroup's losses on a $312 billion portfolio of Wachovia's most troubled loans. The government agreed to absorb all losses beyond $42 billion, a threshold that could be exceeded based on

See **BANKS**, *A9, Col. 1*

WORLD MARKETS

As Contagion Spreads, Moods Abruptly Shift

By EDWARD CODY *and* MARY JORDAN
Washington Post Foreign Service

PARIS, Sept. 29 — The turmoil that began on Wall Street now spans the globe.

Stock markets around the world cascaded lower Monday, European regulators announced the rescue of four major banks, and U.S. and foreign officials pledged to make hundreds of billions of dollars available to ensure that banks would continue lending to one another.

Yet the contagion continued. U.S. stocks opened weak, then fell off a cliff after the House of Representatives voted against a $700 billion plan intended to restore stability to the nation's wobbly financial system. That sent Brazil's stock market down nearly 10 percent, prompting authorities in Sao Paulo to temporarily suspend trading, amid worries of a deep U.S. economic slowdown.

When markets opened Tuesday morning in Asia, the trend continued. Stocks fell by 3 to 6 percent in early trading throughout the region. At midday, Japan's stock market had skidded more than 4 percent.

In the seldom-interrupted cycle of global financial markets, the extraordinary pace and scale of events brought an abrupt end to the confident attitude displayed by European officials as recently as last week, when officials claimed that shareholders and investors there had less to fear than their American counterparts because European banks were not as heavily exposed to the troubled mort-

See **WORLD**, *A8, Col. 1*

THE BACKLASH

For Many Americans, Fear and Distrust Run High

By JOEL ACHENBACH *and* ASHLEY SURDIN
Washington Post Staff Writers

The leaders of the country said: Trust us.

The people said: Not this time.

The Emergency Economic Stabilization Act of 2008 in the end was a $700 billion piece of legislation that few people could truly love, and it offered citizens from across the ideological spectrum a little something to hate. Conservatives said they could not abide the government intrusion on the free market. Liberals recoiled at government checks rescuing Gucci-wearing Masters of the Universe. There were those who sniped that this was a "No Banker Left Behind" program.

A political establishment held in higher regard might have been able to hold together some kind of coalition of the willing. But distrust of the nation's leaders, from the leaders of Congress to the president of the United States, foreclosed that possibility.

Members of Congress in both liberal and conservative districts were inundated with e-mails and phone calls from angry voters opposing the bailout. With Election Day a little more than a month away, many lawmakers appeared to pay greater heed to their constituents than to their party

See **BACKLASH**, *A11, Col. 1*

■ **Market Meltdown:** *As stocks collapse, oil falls $10 a barrel and gold soars.* | **D1**

■ **What's Plan B?** *The Treasury and Fed have few tools left for dealing with the crisis.* | **A9**

■ **Area Deposits**: *Smaller local banks are carefully watching Wachovia-Citi merger.* | **D1**

■ **The Campaign:** *Obama, McCain point blame at each other for Hill deadlock.* | **A7**

Md. Mother Jailed After Bodies Of 2 Children Found in Freezer

By MATT ZAPOTOSKY, PETULA DVORAK *and* PAUL DUGGAN
Washington Post Staff Writers

Phillip Garrett was passing time outside a neighbor's Calvert County home, smoking a cigarette, when he noticed a girl in pigtails wandering on the street. Her pink nightgown was caked with mud, her small body covered in bruises.

"Where's your mother?" he asked. "Where are you from?"

The girl said her mother had locked her out of their home, Garrett said yesterday, recalling Friday afternoon's encounter. She said she hadn't eaten in three days. And there was more: "She let us know that she had two sisters and that 'my mother beat them to death.' "

Early Saturday, Calvert authorities made a gruesome discovery: the bodies of two children encased in ice in a freezer in the home of Renee D. Bowman, 43. Bowman has been receiving a monthly government subsidy of $2,400 to care for her three adopted children: the 7-year-old girl on the street and two others who are now officially missing.

"You think you've seen it all," Sheriff Mike Evans said yesterday in announcing the discovery, "but you haven't."

With Bowman in jail, charged with child

See **CALVERT**, *A5, Col. 1*

BY LINDA DAVIDSON — THE WASHINGTON POST

Neighbor Nancy Sears with Phillip Garrett, who saw an injured girl on the street Friday, leading to the gruesome discovery.

INSIDE

SCIENCE
NASA Probe Finds Snow in Clouds Above Mars
Scientists are not sure if the icy powder falls to the surface, but also find more signs of water in the soil. A2
Hubble Telescope Fails: Repair mission delayed. A2

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Cadbury Recalls Chocolate Made in China
The British candy-maker, Kraft Foods and Mars are concerned about tainted milk in their products. A13

THE REGION
Pr. George's Schools Superintendent Plans to Resign
John Deasy will leave in February to become a deputy director of the Bill and Melinda Gates Foundation. B1

SPORTS
White Sox Force Playoff for AL Central Title
Minnesota plays at Chicago for postseason berth. E1

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Thursday: *Partly sunny. High 69. Low 49.*
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CAMPAIGN **2008**

Most Voters Worry About Economy

Majority Consider Situation a Crisis

By DAN BALZ *and* JON COHEN
Washington Post Staff Writers

Voters are deeply divided over the terms of the government's $700 billion economic rescue package but overwhelmingly fear that the House's rejection of the measure on Monday could deepen the country's financial woes, according to the latest Washington Post-ABC News poll.

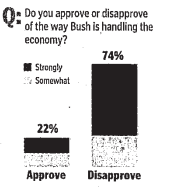
A majority of voters see the turmoil in financial and credit markets as an economic "crisis," are guarded in their confidence that government action will resolve the situation and remain deeply pessimistic about the direction of the nation's economy. Concern about the House's rejection of the plan is widely shared across party lines.

Fluctuations on Wall Street continue to roil the presidential contest between Sens. Barack Obama and John McCain, the poll shows, with the economy still by far the dominant issue among voters with just five weeks to go before Election Day.

Negativity about the country's financial prospects continues to lift Obama, but he now has a narrower advantage over McCain in Post-ABC polling than he did last week. Overall, the senator from Illinois holds a slim lead in the new national poll, with likely voters dividing 50 percent for Obama and 46 percent for McCain.

In the last poll, Obama led by a nine-point margin. At that time, McCain advisers sharply criticized the results as being out of step with other surveys. Still, the new poll marks only the second time either of the candidates has reached 50 percent. Other na-

See POLL, *A6, Col. 1*



SOURCE: Washington Post-ABC News poll

■ **Both candidates talk to the president about the fiscal crisis.** | *A4*

■ **Sarah Palin, shakin' up fans and detractors with her delivery.** | *Style, C1*

Nov. 4 Isn't the Only Election Day

Campaigns Adjust as Early Voting Rises

By MARY PAT FLAHERTY
Washington Post Staff Writer

In Columbus, college students pitched tents overnight so they could be first to vote. Advocates in Cleveland shuttled voters from homeless shelters to the polls. In Akron, voters arrived as soon as the doors were unlocked and waited in folding chairs for their turn.

Yesterday opened Ohio's unusual week-long window in which voters can register and cast absentee ballots at the same time. Hundreds arrived in steady streams, part of a first wave of people already voting across the country, five weeks before Election Day.

Given Ohio's pivotal role in presidential races, its one-stop registration and voting drew attention — and legal challenges.

But nationally, early voting, by mail or in person, is becoming more common and is likely to account for one-third of all votes cast in the November elections, up from 14 percent in 2000, predicts Paul Gronke, a researcher with the Early Voting Information Center in Portland, Ore.

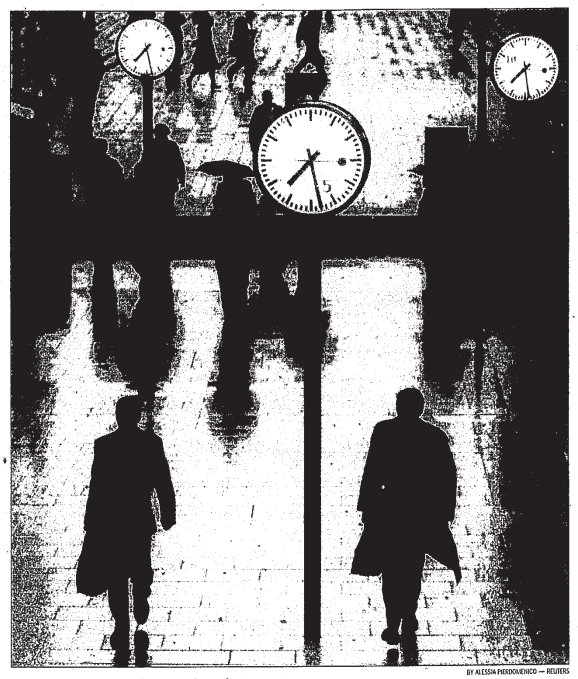
That projection tracks with growth that three other election analysts have noted, with the rate of early voting rising from 20 percent in 2004 to 25 percent in 2006. Experts and state election officials have followed the growth in early voting for more than a decade.

The change has not been lost on the campaigns, whose strategists have adjusted their operations mightily to woo those who cast ballots early, viewing them as electoral gold — captured votes.

"Every vote we get in early is one less to run down on Election

See VOTING, *A6, Col. 1*

Lawmakers Revise Rescue Plan


BY ALESSIA PIERDOMENICO — REUTERS

In London's Canary Wharf financial district and elsewhere around the world, banking leaders and elected officials acknowledged that they are dependent on Washington to solve the global financial crisis. Story, A12

Stocks Rise; Senate Aims To Vote Tonight

By SHAILAGH MURRAY *and* PAUL KANE
Washington Post Staff Writers

Prodded by a wave of angry calls from constituents, congressional leaders dialed back partisan bickering over the $700 billion Wall Street rescue plan yesterday and advanced modest changes to the legislation in an effort to win over House Republican holdouts.

Leaders of the Senate, where most members have indicated support for the plan, said they would seek a vote on a revised rescue package tonight that would include a one-year increase in Federal Deposit Insurance Corp. caps for bank and credit union accounts, extensions of numerous business tax breaks that have expired and a fix to the alternative minimum tax for individual taxpayers.

The FDIC and tax provisions could make the bill more appealing to House Republicans, but they could also prove unpalatable to a coalition of conservative Democrats who have long opposed the tax changes. The Senate banking committee's chairman, Christopher J. Dodd (D-Conn.), who helped negotiate the revised package, expressed confidence that the revisions would yield a majority of House votes.

Although U.S. financial markets swung sharply upward yesterday, with the Dow Jones industrial average gaining 485.21 points, Monday's record 778-point loss, which was fueled by the House's rejection

See CONGRESS, *A11, Col. 1*

More Coverage

BY JAJA CHIKWENDIU — THE WASHINGTON POST

Crisis Hits Home for Area Businesses
Small-business owners such as Amber Sutton of Woodbridge, who owns a dog day-care center, are finding that the credit crisis is more than an abstraction, as they see sources of credit drying up. | **D1**

Stock Market Bounces Back

MONDAY	TUESDAY
-778	+485

U. S. investors appeared wary but hopeful yesterday that a bailout deal is still possible, as the market regained much of the losses it suffered on Monday. | **D1**

A Two-Pronged Push To Aid Ailing Banks

By BINYAMIN APPELBAUM *and* CARRIE JOHNSON
Washington Post Staff Writers

Two federal agencies moved yesterday to ease the financial pressure on banks even as Congress continued to debate the wisdom of a broader intervention.

The Federal Deposit Insurance Corporation said it would ask Congress to extend the government's guarantee of bank deposits beyond the current limit of $100,000 on each standard account, hoping to convince queasy depositors that there is no need to pull money from troubled banks.

Meanwhile, securities regulators and accounting rule-makers granted banks greater power to decide the value of their investments, even if market data suggest that prices should be lower. That could allow some banks to report smaller losses, perhaps comforting investors.

The carefully calibrated moves are trial balloons from an administration under intense pressure. Regulators, convinced that financial firms' problems are becoming economic problems, are searching for ways to help the financial industry without further provoking an angry public — or its elected representatives in Congress.

If successful, yesterday's moves could stanch the bleeding at commercial banks in two ways: limiting their losses as the value of their mortgage investments declines and as customers withdraw deposits.

But both proposals drew quick criticism as attempts to hide rather than solve the industry's problems. An increase in the deposit guarantee also could have the effect of sheltering banks from their own

See FINANCE, *A11, Col. 1*

A Veritable 'Who's That?' of U.S. History

Statuary at New Capitol Center An Eclectic Bunch

By MICHAEL E. RUANE
Washington Post Staff Writer

When the first crowds surge through the doors of the lavish new Capitol Visitor Center this fall, they will be steeped in the saga of American Democracy and greeted with a statue of that pillar of the nation . . . Ephraim McDowell, the pioneering hernia surgeon.

Elsewhere in the glittering tribute to good government, pilgrims will find a bronze of the noted agriculturalist Julius Sterling Morton . . . the founder of Arbor Day!

And what temple to the political life of the United States would be complete without a statue of . . . Philo T. Farnsworth, the inventor of television?

That's not all. When the visitor center opens Dec. 2 on the east side of the Capitol, tourists will also encounter statues of such figures as Ernest Gruening, Alaska's first U.S. senator; Joseph Ward, founder of now-defunct Yankton College; John M. Clayton, co-negotiator of the oft-forgotten Clayton-Bulwer Treaty of 1850. There will be a Hawaiian king, a Montana pacifist and a Colorado astronaut.

In vain will visitors look for statues of the titans in U.S. history in the $621 million underground com-

See STATUES, *A8, Col. 1*

BY PRESTON KERES — THE WASHINGTON POST

A statue of Wade Hampton, right, will occupy the new Capitol Visitor Center.

INSIDE

THE WORLD
Violence Declines in Iraq
As hopeful Iraqis gather in the open to celebrate Eid, the Pentagon reports that attacks are at their lowest level in four years. It warns, though, that security gains are "reversible." A13-14

STYLE
Olsson's Closes the Book
The local and independent chain of book and music stores goes out of business.
APPRECIATION, C1
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SPORTS
White Sox Reach Playoffs
Jim Thome's home run is enough to beat Minnesota and win the AL Central. E1

Repeat for Red Sox? There are seven eager challengers in the postseason. E1

FOOD
Wanted: Cash Cow
A Maryland dairy farmer is being sued over his plans for an organic creamery. F1

Girls Might Have Been Dead More Than a Year, Police Say

By MATT ZAPOTOSKY *and* PETULA DVORAK
Washington Post Staff Writers

Two children whose frozen bodies were found in Calvert County might have been dead for a year or more, hidden in a large freezer and moved from house to house since last fall by the adoptive mother suspected of killing them, authorities said yesterday.

Renee D. Bowman, 43, who arrived in Calvert in February, "indicated" in an interview that the bodies were in the freezer when she moved out of her former residence in the Rockville area, investigators have said. Yesterday, authorities revealed that she left that area last October or November and then stayed briefly in Prince George's or Charles County before moving to Calvert.

"At this point in time, everything is looking like she left Montgomery County with the freezer," said Detective Sgt. Michael Moore of the Calvert sheriff's office.

The case continued to raise questions about D.C child welfare services yesterday, three days after the bodies were found. The D.C. Child and Family Services Agency recommended Bowman as a suitable adoptive parent even though she filed for bankruptcy protection in 2001, the year she adopted one foster child, and had just emerged from it in 2004, when she adopted two others. In between, she lost her Landover house to foreclosure.

Bowman, now jailed on child abuse charges, had also been convicted in 1999 of a misdemeanor charge of "threatening bodily harm" to a 72-year-old man.

"We want to know how did this person . . . qualify to become an adoptive parent?" said D.C. Council member Tommy Wells (D-Ward 6), chairman of the Committee on Human Services and a former social worker. "Is there anything we don't know or should have known that would have prevented the adoption?"

Acting Attorney General Peter Nickles said he was not aware of the bankruptcy filings or the misdemeanor conviction and does not be-

See BODIES, *A8, Col. 1*

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Today: *Partly sunny. High 69. Low 49.*
Friday: *Partly sunny. High 70. Low 54.*
Details, **B10**

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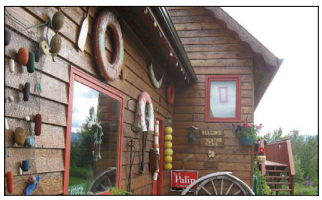


BY JAMES V. GRIMALDI — THE WASHINGTON POST

The home of Sarah Palin's parents in Wasilla, Alaska, is adorned with a collection of items amassed by her naturalist father.

Palin's Strengths Rooted in Alaska

Family and Friends Hope She'll Show Trademark Confidence During Debate

By SALLY JENKINS
Washington Post Staff Writer

WASILLA, Alaska — The valley where Sarah Palin was raised is vast and tree-packed, and so quiet that once, when Palin's parents left a door open in their antler-festooned house, a moose poked its nose into their den.

You can't blame the moose for being curious. The wood-plank loft home of Chuck and Sally Heath is known for its odd, bristling lawn art. A towering sculpture of bleached antlers sits by the driveway. Bright buoys and fishing lures dangle from silver birch trees. But this riot of objects is merely a warm-up for the interior: Fox pelts. Orca teeth. Bear fangs. Owl wings. A brown, bony thing with a huge span occupies the living room wall. "That's a walrus scapula," Chuck Heath says brightly.

The unusual collection has been amassed over a lifetime by the inspiring Heath, a hard-chested, cinch-waisted 70-year-old retired public school science teacher and an inveterate naturalist. Children skitter in and out of doors: Palin's daughter Piper is newly arrived from New York. Piper's cousin, a small boy named Heath, hums to himself beneath the snarling pelt of a grizzly bear.

"Can I have a soda?" the child asks. "I want a soda."

"Did you earn it?" Chuck asks sternly.

That's how it goes in the Heath home, and how it has always gone. It's a household that explains much about Palin, 44, and how she acquired her set-jawed, swaggering demeanor, one that her mother first noticed "about the time she started to walk." Above all, the house suggests how she came by her dissident, out-of-category feminism, a code by which she tackles old-boy networks relentlessly, while remaining blank if not unsympathetic on traditional women's issues with a capital W, such as sexism in the workplace.

"I'm a little absent from that discussion, because I've never thought of gender as an issue," she told Alaska Business Monthly

See **PALIN**, *A6, Col. 1*

■ **Biden prepares, with eye on female voters.** | *A4*

Vice Presidential Debate

Who: Alaska Gov. Sarah Palin vs. Sen. Joseph R. Biden Jr.
When: Tonight, 9 p.m. **Where:** Washington Univ., St. Louis

Debate Decoder: To watch the debate live, get instant analysis from Fix columnist Chris Cillizza and the Fact Checker, and join a discussion with other armchair pundits, go to **washingtonpost.com/debates**.

Skepticism of Palin Growing, Poll Finds

By JON COHEN *and* JENNIFER AGIESTA
Washington Post Staff Writers

With the vice presidential candidates set to square off today in their only scheduled debate, public assessments of Sarah Palin's readiness have plummeted, and she may now be a drag on the Republican ticket among key voter groups, according to a new Washington Post-ABC News poll.

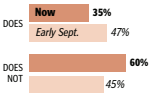
Tonight's heavily anticipated debate comes just five weeks after the popular Alaska governor entered the national spotlight as Sen. John McCain's surprise pick to be his running mate. Though she initially transformed the race with her energizing presence and a fiery convention speech, Palin is now a much less positive force: Six in 10 voters see her as lacking the experience to be an effective president, and a third are now less likely to vote for McCain because of her.

A month ago, voters rated Palin as highly as they did McCain or his Democratic rival, Sen. Barack Obama, but after weeks of intensive coverage and several perceived missteps, the shine has diminished.

Nearly a third of adults in a new poll from the Pew Research Center said they paid a lot of attention to Palin's interviews with CBS News's Katie Couric, a series that prompted grumbling among some conservative commentators about Palin's competency to be the GOP's vice presidential standard-bearer. The Pew poll showed views

See **POLL**, *A4, Col. 1*

Q: Do you think Sarah Palin **does or does not** have the kind of experience it takes to serve effectively as president, if that became necessary?



SOURCE: Washington Post-ABC News poll

Senate Approves Bailout

House to Take Up Bill With Added Tax Breaks, Higher FDIC Limits

By LORI MONTGOMERY *and* SHAILAGH MURRAY
Washington Post Staff Writers

The Senate last night easily approved a massive plan to shore up the U.S. financial system, but the measure faces a tougher test tomorrow in the House, where leaders will try to reverse the stunning defeat the legislation suffered earlier this week.

As the Bush administration issued fresh warnings that Congress's failure to act would have dire consequences for the economy, the Senate revived the package the House defeated Monday and voted to approve it, 74 to 25.

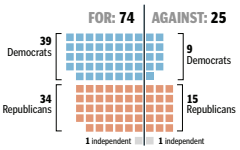
The proposal — which calls for spending up to $700 billion to buy bad assets from faltering financial institutions — was heavily revised to attract wider support. The bill passed last night would extend an array of tax breaks worth $108 billion to businesses and families next year. It would also temporarily increase the limit on federal insurance for bank deposits to $250,000 from $100,000.

Sen. Christopher J. Dodd (D-Conn.), chairman of the Senate Banking Committee, acknowledged last night that it was tempting to oppose a bailout and "stick a finger in the eye of the bankers and the tycoons whose greed brought us to this crisis."

"But after the rush of righteousness fades, what then?" said Dodd, an architect of the package. "We can take a cut at Wall Street, but Wall Street won't feel the brunt of the pain."

See **SENATE**, *A14, Col. 1*

A look at how the Senate vote on the bailout package breaks down:



ACROSS THE POND
European lawmakers tone down their criticism of Wall Street. **A12**

SAVINGS ANXIETY
Many bank customers are pulling out their deposits, even though they are insured. **D1**

WAITING ON THE FED
Investors are convinced it will lower interest rates, but the central bank isn't so sure. **D1**

AUTO INDUSTRY HIT HARD
U.S. sales plummeted 27 percent in September as loans got harder to come by. **D1**

Bringing the Holy Month to a Close

BY KATHERINE FREY — THE WASHINGTON POST

Aminah Oladapo, 4, joined hundreds of fellow Muslims yesterday morning in honoring Eid al-Fitr, the three-day period that marks the end of the holy month of Ramadan. Aminah accompanied her mother, Aizat Oladapo, to the gathering at the Discovery Sports Center in Boyds in Montgomery County.

FDA Takes End Run to Award Contract to PR Firm

By ROBERT O'HARROW JR.
Washington Post Staff Writer

The U.S. Food and Drug Administration had an image problem. For months last year the agency had been pummeled by Congress for poor inspections of tainted vegetables, drugs and other products.

FDA leaders decided to hire a contractor for a public relations campaign that would "create and foster a lasting positive public image of the agency for the American public," according to agency documents.

A competition, as prescribed by government policy, was not held to get the lowest bid for the $300,000 contract. Instead, FDA officials came up with a plan to ensure the work would go to a Washington public relations firm with ties to the FDA official arranging the deal, according to an examination by The Washington Post.

The plan used a circuitous route around the standard government contracting procedures. The contract was awarded in July to Alaska Newspapers Inc., a firm owned by an Alaska Native corporation that does not have to compete for federal work because it qualifies for special set-asides. The idea was for ANI to hand over the work to Qorvis Communications, the Washington firm, documents show.

After being made aware of The Post's findings, FDA deputy commissioner John Dyer said this

See **FDA**, *A8, Col. 1*

Needy Students Closing Test Gap Under 'No Child'

By MARIA GLOD *and* DANIEL DE VISE
Washington Post Staff Writers

Since enactment of the No Child Left Behind law, students from poor families in the Washington area have made major gains on reading and math tests and are starting to catch up with those from middle-class and affluent backgrounds, a Washington Post analysis shows.

The achievement gap between economic groups, long a major frustration for educators, has narrowed in the region's suburban schools since President Bush signed the law in 2002, according to Maryland and Virginia test data.

In Montgomery County, for instance, students in poverty have earned better scores on Maryland's reading test in each of the past five years, slicing in half the 28 percentage-point gulf that separated their pass rate from the county average. They also have made a major dent in the math gap. In Fairfax County, another suburban academic powerhouse, such students have slashed the achievement gaps on Virginia tests.

See **NO CHILD**, *A10, Col. 1*

INSIDE

BY JAMIE SQUIRE — GETTY IMAGES

SPORTS
Dodgers Open Playoffs With Win
A grand slam ignites Los Angeles's 7-2 victory over the Cubs; elsewhere, the Phillies topped the Brewers, 3-1. E1

THE WORLD
Nuclear Pact With India Approved
The Senate's vote on the trade bill is a key Bush administration victory. A17

STYLE
Architectural Ambition — and Books
The D.C. Public Libraries have exciting plans for two distressed branches. C1

HOME
A Potomac-Minded Renovation
Opening a house's eyes to the river. H1

Senate Approves $1.5 Billion Plan For Metro Funding

By LENA H. SUN
Washington Post Staff Writer

The U.S. Senate voted last night to authorize long-sought federal funding for Washington's cash-strapped and aging Metro system, clearing a major hurdle toward providing $1.5 billion over 10 years to help maintain the nation's second-busiest rail system.

The Senate passage is the furthest the measure has advanced since Rep. Tom Davis (R-Va.) began the effort two years ago to secure a reliable source of financial support for Metro.

The bill, part of a major rail safety reform package with billions of dollars for Amtrak, was passed by the House last week and goes to the president for signing. Supporters say a veto is unlikely, partly because of the veto-proof margin of last night's 74 to 24 vote.

Although several other requirements must be met before Congress begins appropriating the funds, last night's vote was critical because the Senate had never voted on the plan. With this step, officials predicted that the federal money

See **METRO**, *A8, Col. 4*

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Weather
Today: *Partly sunny. High 70. Low 52.*
Saturday: *Mostly sunny. High 71. Low 54.*
Details, **B10**

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The Washington Post

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Friday, October 3, 2008

M1 M2 M3 M4 V1 V2 V3 V4

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Shopping On eBay As Girls Lay Dead

Investigators Work To Retrace Twisted Path of Md. Mother

By Petula Dvorak, Meg Smith *and* Ashley Halsey III
Washington Post Staff Writers

As summer neared an end, and the bodies of two children lay in her basement freezer, Renee Bowman sat at her computer and went shopping for a fall wardrobe.

She considered faux-fur cropped jackets and bought a pair of cheap ones, size XXL, on eBay. She pondered inexpensive jewelry before buying a gold ring with fake diamonds shaped into a heart for $27.01 and a gold bracelet that said "I Love You" for $36.

On Saturday, when police found the bodies, they charged Bowman with abusing her 7-year-old adopted daughter and began building a case against her in the deaths of the two children, presumed to be her older adopted daughters.

But that fact-finding is unlikely to answer one of the questions that make the case so horrifying: How could a mother go on with life knowing that her daughters lay encased in ice in the freezer?

No more than a glimpse and a wave to most of her neighbors in Lusby, a Calvert County town on the western shore of the Chesapeake Bay, Bowman, 43, is best known to a very few friends and neighbors on Linden Place, the Northeast Washington street where she spent much of her childhood and teenage years.

Those people mostly have recoiled in silence when asked for details, but the ones who have talked and various official sources give a view of a woman whose early life was violent and destructive, who in high school was taunted about the odd shape of her head and who more recently spent hours at her desktop computer e-mailing friends, making dozens of purchases on

See **BOWMAN**, *A12, Col. 4*

U.S. to Fund Pro-American Publicity in Iraqi Media

By Karen DeYoung *and* Walter Pincus
Washington Post Staff Writers

The Defense Department will pay private U.S. contractors in Iraq up to $300 million over the next three years to produce news stories, entertainment programs and public service advertisements for the Iraqi media in an effort to "engage and inspire" the local population to support U.S. objectives and the Iraqi government.

The new contracts — awarded last week to four companies — will expand and consolidate what the U.S. military calls "information/psychological operations" in Iraq far into the future, even as violence appears to be abating and U.S. troops have begun drawing down.

The military's role in the war of ideas has been fundamentally transformed in recent years, the result of both the Pentagon's outsized resources and a counterinsurgency doctrine in which information control is considered key to success. Uniformed communications specialists and contractors are now an integral part of U.S. military operations from Eastern Europe to Afghanistan and beyond.

Iraq, where hundreds of millions of dollars have been spent on such contracts, has been the proving ground for the transformation. "The tools they're using, the means, the robustness of this activity has just skyrocketed since 2003. In the past, a lot of this stuff was just some guy's dreams," said a senior U.S. military official, one of several who discussed the sensitive defense program on the condition of anonymity.

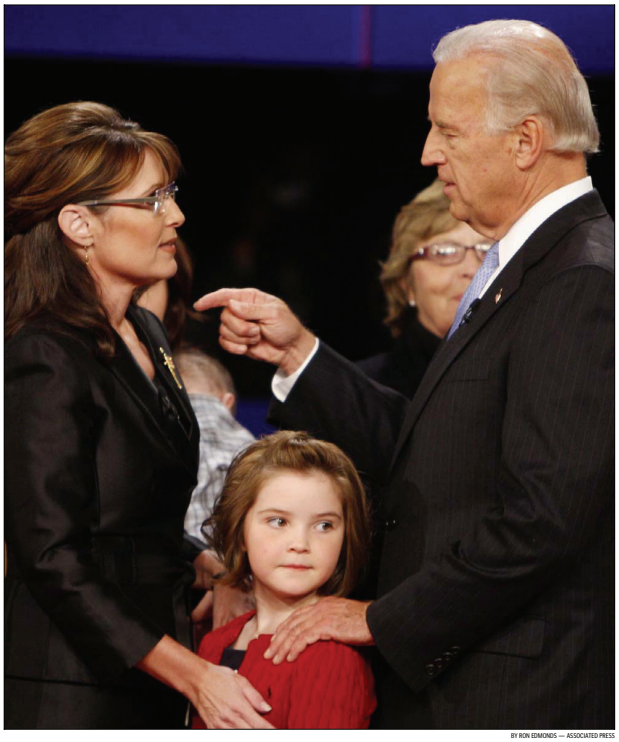
The Pentagon still sometimes feels it is playing catch-up in a propaganda market dominated by al-Qaeda, whose media operations include sophisticated Web sites

See **PUBLICITY**, *A16, Col. 1*

CAMPAIGN 2008

Courting Middle-Class Voters

Palin and Biden State Cases for Changing Washington, Repairing Economy



BY RON EDMONDS — ASSOCIATED PRESS

Gov. Sarah Palin, with daughter Piper, talks with Sen. Joseph R. Biden Jr. after their debate in St. Louis.

By Robert Barnes *and* Juliet Eilperin
Washington Post Staff Writers

ST. LOUIS, Oct. 2 — Republican Sarah Palin and Democrat Joseph R. Biden Jr. each sought to cast themselves as the "kitchen table" candidate in the first and only debate between the major-party vice presidential candidates last night, each making the claim that their running mates better understand the concerns of middle-class Americans worried about the nation's faltering economy.

On a night when presidential nominees John McCain and Barack Obama were relegated to the sidelines, Palin and Biden raced through a fast-paced debate that touched on same-sex marriage, the war in Iraq, and the nation's energy and foreign policies. Each escaped without major mishap, and Palin in particular seemed to repair an image that had been damaged by recent media interviews and increasing public doubts about her readiness for the nation's No. 2 job.

From the opening moments of their highly anticipated 90-minute debate, each portrayed themselves as a voice for middle America and attempted to make the case that their ticketmates are best prepared to bring change to Washington and the nation.

Palin, the first female governor of Alaska, referred to "average, middle-class families like mine,"

See **DEBATE**, *A11, Col. 1*

ANALYSIS

Palin Delivers, but Doubt Not Erased

By Dan Balz
Washington Post Staff Writer

ST. LOUIS, Oct. 2 — Alaska Gov. Sarah Palin spent much of the past two weeks on the defensive, hounded by critics over halting performances in television interviews and questioned even by conservative writers doubtful about whether she is ready to be vice president.

But the Palin who showed up for Thursday's debate against Democratic Sen. Joseph R. Biden Jr. was anything but defensive. In a fast-paced exchange about a range of domestic and foreign policy issues, she was the aggressive campaigner who in the first weeks of her candidacy had so energized the Republican faithful.

As a result, what was touted as a moment of truth for Palin instead turned into a lively and civil argument between the two vice presidential nominees over the policies and records of Sens. John McCain and Barack Obama. For 90 minutes, they sparred over Iraq and Afghanistan, energy and global warming, the economy and taxes, and which candidate would do more to protect the middle

See **ANALYSIS**, *A11, Col. 3*

VIEW FROM THE COUCH
Critic Tom Shales says this Palin performance provided little fodder for "SNL." **C1**

JUST THE FACTS?
Putting the words of Biden and Palin to the Fact Checker Pinocchio test. **A10**

POST POLITICS HOUR
Discuss the debate at 11 a.m. today with our politics team.
www.washingtonpost.com

Support Rallied as House Readies for Its Second Bailout Vote

By Lori Montgomery *and* Dan Eggen
Washington Post Staff Writers

A tide of lobbyists representing corporate executives, small-business owners, farmers and retirees swamped Capitol Hill yesterday in hopes of pushing an emergency economic rescue plan through Congress, but the fate of the measure remained uncertain as the House prepared for a climactic vote at midday today.

Leaders of both parties said they were optimistic that they would be able to marshal more support for the Bush administration's $700 billion bailout than they mustered on Monday, when the House delivered a shocking defeat to the measure and sent the Dow Jones industrial average plummeting 778 points, or about 7 percent.

The market's gut-wrenching reaction offered lawmakers a glimpse of the consequences they could face if they don't approve the bailout package. Since Monday, investors' angst over the fate of the legislation has contributed to a gloomy week on Wall Street. The Dow fell more than 3 percent yesterday, with losses extending beyond the financial services industry to include agriculture, construction and industrial stocks.

Meanwhile, indicators have shown the outlook for the economy to be bleak. Yesterday, the Commerce Department reported that orders for manufactured goods dipped 4 percent in August, the largest decline since October 2006. Last week, new claims for unemployment benefits jumped to a seven-year high.

Some analysts say the economy will not pick up until the middle of next year, even if the Bush administration succeeds on Capitol Hill today. And even if Congress approves the bailout, it may be too little, too late to unfreeze global credit markets. The package might not do much to help offset shrinking bank balance sheets or free up capital for nonfinancial companies, experts say.

See **HOUSE**, *A14, Col. 1*

INSIDE

BY ANN CAMERON SIEGAL FOR THE WASHINGTON POST

METRO
Rhee to Enact Program to Fire Ineffective Teachers
Unhappy with the pace of labor negotiations, the D.C. schools chancellor announces a plan containing a provision that gives some instructors 90 days to improve performance or face dismissal. B1

Redskins Ordered to Help the Deaf
A federal judge rules that the team must take steps beyond what it has already implemented at FedEx Field for the benefit of deaf fans. B1

WEEKEND
A Comfortable Distance Into the Wild
Nature centers such as Springfield's Hidden Pond, above, offer urbanites a chance to connect with the outdoors.

SPORTS
Phillies Push Brewers to Brink
In playoff baseball, Philadelphia's Shane Victorino hits a grand slam to give his team a 2-0 lead in the best-of-five series, while Evan Longoria's two homers help the Rays beat the White Sox in his team's first-ever postseason game. E1

On the Sunny Beaches of Brazil, A Perplexing Inrush of Penguins

By Joshua Partlow
Washington Post Foreign Service

RIO DE JANEIRO — Not everyone in Rio de Janeiro has taken to the penguins quite the way Cecilia Breves has, but even for her, there is a learning curve.

Her new penguin friends do not, it turns out, care for the red plastic igloo she purchased, except when it rains. Nor are all the young ones adept at swallowing whole sardines — she has ruined more than one blender grinding their daily fish smoothies. And when she took to cradling them on her lap to watch TV in the evenings — being, as they are, wild flightless birds that aren't housebroken — it didn't take long for her to realize she must first swaddle them in a towel, for cleanliness.

"I was very happy when I had one or two, because they are so cute. They'd follow me around everywhere," said Breves, 57, a retired photographer. "It's much harder when there are eight of them."

The sheer quantity of young penguins that have washed up on Brazil's sun-

BY FRED P. ALVES FOR THE WASHINGTON POST

Two of the more than 1,000 penguins that have washed ashore. Many have died.

drenched beaches this year has confounded nearly everyone who comes in contact with them. Each summer and early fall, some gray-and-white Magellanic penguins could be expected to drift here, washed by ocean currents more than 2,000 miles north from their homes in southern Argentina near the bottom of the world.

This year is different. Like some mar-

See **PENGUINS**, *A18, Col. 3*

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Weather
Today: *Mostly sunny. High 71. Low 54.*
Sunday: *Partly sunny. High 76. Low 57.*
Details, **B10**

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Bush Enacts Historic Financial Rescue

BID FOR WACHOVIA

After Change In Tax Law, Wells Fargo Swoops In

By BINYAMIN APPELBAUM
Washington Post Staff Writer

Wells Fargo's deal for Wachovia could cost the federal government billions of dollars in lost revenue as the San Francisco company takes advantage of a new change in federal tax regulations designed to encourage bank mergers.

The change was made Tuesday by the Treasury Department, one day after Wachovia agreed to be rescued by Citigroup, and two days after Wells Fargo walked away from the table, leaving Citigroup as the only bidder.

With the change in place, Wells Fargo renewed its pursuit of Wachovia, and yesterday announced a surprise deal to buy the entire company for about $15.4 billion, topping Citigroup's $2.2 billion deal for most of it. Citigroup still could sue or make a counteroffer. The winner will become the largest bank in the Washington area.

In touting the deal, Wells Fargo executives said they did not need money from the Federal Deposit Insurance Corp., which had agreed to limit Citigroup's losses on a portfolio of Wachovia's most troubled loans.

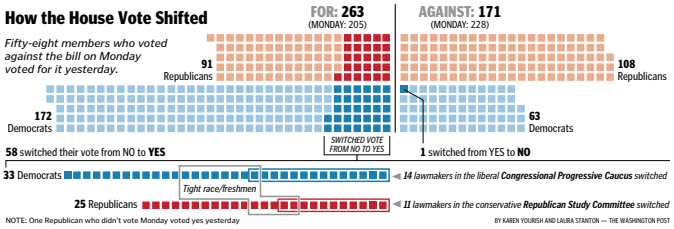
"This agreement won't require even a penny from the FDIC," Wells Fargo chairman Richard Kovacevich said.

But experts in tax law said the Wells Fargo deal actually was likely to be more expensive for the government. Losses on Wachovia's portfolio of bad loans would have been absorbed by the FDIC, which is funded by the banking industry. Under the tax law change, those losses

See **WACHOVIA**, *A10, Col. 1*

BY JAHI CHIKWENDIU — THE WASHINGTON POST

President Bush signed the rescue bill, and Treasury Secretary Henry Paulson, at right, said he plans to start spending the money within weeks.



House Passes Plan By Wide Margin, but Stocks Keep Falling

By LORI MONTGOMERY *and* PAUL KANE
Washington Post Staff Writers

With evidence mounting that the nation faces a sharp economic downturn, Congress yesterday gave final approval to what may be the biggest government bailout in American history, authorizing the Bush administration to spend $700 billion to try to thaw frozen credit markets and prevent a deep recession.

Prodded in part by calls from fearful constituents reporting an alarming drop in their ability to borrow money, the House voted by a wide margin to reverse its earlier defeat of the measure and send it on to the White House. Many lawmakers were swayed by revisions to the bill that offer fresh cash for disaster assistance and extend an array of tax breaks for families and businesses worth an additional $107 billion over the next 10 years.

In an unusual display of urgency, President Bush signed the bill less than two hours later, and Treasury Secretary Henry M. Paulson Jr. said he plans to start spending the money within weeks. The measure gives Paulson expansive powers — unprecedented outside of wartime — to intervene in financial markets by relieving faltering firms of distressed assets backed by home mortgages, which are falling into foreclosure at record rates.

Experts said the plan might not be enough to offset widening problems with the overall economy. The Dow Jones industrial average dropped 157.47 points yesterday, or 1.5 percent, despite

See **BAILOUT**, *A8, Col. 1*

PRESSURE AND TURMOIL

With No Plan B, House Reluctantly Passes Politically Risky Measure

By JONATHAN WEISMAN, DAVID CHO *and* PAUL KANE
Washington Post Staff Writers

Henry M. Paulson Jr. was in his corner office in the Treasury Department on Monday afternoon, too nervous to turn on his television, when his chief of staff poked his head into the Treasury secretary's office to tell him the stunning news playing out on Capitol Hill: The House had just defeated the Wall Street rescue plan that Paulson had helped craft.

Within minutes, Paulson was on his way across the street to the White House, his senior staff hustling to keep up, for a meeting in the Roosevelt Room with the administration's economic team. There was no time for pleasantries, and before everyone had taken their seats, the former Goldman Sachs chief began firing off options.

Should they push for an immediate vote in the Senate? Should the Democratic leaders be flashed a green light to put together a bill that they could pass on their own, without Republicans? Should they make small changes to win over the dozen or so votes they would need on a second try in the House?

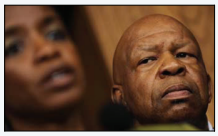
Forty-five minutes into the meeting, they were joined by President Bush, who asked the one question no one had considered: If his plan is not working, what is Plan B?

Paulson looked at his boss, then delivered the answer he did not want to hear: There is no Plan B. The Treasury Department and the Federal Reserve had stretched their authorities to the limits, employing obscure powers never before used to keep their fingers in the dikes. The rescue package had to pass.

Yesterday, when the House reversed itself and ap-

See **VOTE**, *A9, Col. 1*

More Crisis Coverage



BY LINDA DAVIDSON — THE WASHINGTON POST

SWITCHING VOTES
Distressed constituents called to sway Maryland Democrats Donna F. Edwards and Elijah E. Cummings, above. **A10**

EMPLOYERS SLASH MORE JOBS
The nation's payrolls were cut for the ninth month in a row. Unemployment for black workers reached 11.4 percent. **D1**

PAULSON SEEKS BRAIN TRUST
The Treasury secretary begins the bailout's next phase with a search to tap the expertise of Wall Street firms. **D1**

SILVER LININGS SCARCE
The rescue plan may yield fewer valuable investments than the savings-and-loan crisis did during the 1980s. **D1**

TAX INCENTIVES ABOUND
NASCAR, rum makers and solar power producers are among the winners. **D1**

Gallaudet's New Aesthetic of Openness

University's Sixth Street NE Development Plan Marks Paradigm Shift

By PAUL SCHWARTZMAN
Washington Post Staff Writer

Sidewalks wide enough to accommodate pedestrians using sign language. Rounded corners and strategically placed reflective glass so people who cannot hear can see who's coming and who's behind them. Glass elevators so passengers can communicate with outsiders in case of emergency.

These features distinguish Gallaudet University's vision for developing four acres of vacant land across the street from its rolling campus in Northeast Washington, a plan that represents a dramatic shift in the philosophy that has long guided the nation's only university for the deaf.

Rather than cloistering itself from the rest of the community, Gallaudet for the first time is designing a streetscape and architecture to bring together deaf and hearing people. The changes will be made on two spacious parcels where the university is designing a mix of housing, offices, retail, restaurants and cultural attractions.

"It would create a connection to the city and tear down the walls," said Hansel Bauman, an architect retained by Gallaudet to help design the project. "It's a sea change in thinking."

Since its founding 144 years ago, Gallaudet's separation has been driven by the belief that the deaf were better off immersing themselves in their own culture. Their insularity is symbolized by the eight-foot-high fencing and thick stone walls that line the university's perimeter.

But the school intends to begin removing those barriers in part because of recruiting challenges and

See **GALLAUDET**, *A4, Col. 1*

Filipinos Draw Power From Buried Heat

By BLAINE HARDEN
Washington Post Foreign Service

ORMOC, Philippines — Ferdinand Marcos, the despot who ruled here for 21 years, is remembered mainly for the staggering quantity of his wife's shoes. But there is another Marcos legacy, and it is drawing new attention at a time of high oil prices, global warming and urgent questions about the role of government in alternative energy development.

Reacting to the early 1970s oil shock, Marcos created a major government program to find, develop and generate electricity from hot rocks deep in the ground. Since then, the Philippine government has championed this form of energy.

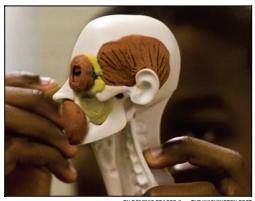
Geothermal power now accounts for about 28 percent of the electricity generated in the Philippines. With 90 million people, about 40 percent of whom live on less than $2 a day, this country has become the world's largest consumer of electricity from geothermal sources. Billions of dollars have been saved here because of reduced need for imported oil and coal.

"Goes to show that things aren't always the way we might expect," said Roland N. Horne, a Stanford University expert on geothermal power who has visited this country more than 20 times. "The Philippines would be in hugely worse shape without geothermal as an indigenous energy source."

In installed geothermal power capacity, the country ranks No. 2 in the world, narrowly trailing the United

See **PHILIPPINES**, *A14, Col. 1*

INSIDE



BY DOMINIC BRACCO II — THE WASHINGTON POST

METRO
Getting a Head Start in a Growing Field
Students at area high schools, such as Wheaton's Philip Deke, are increasingly being offered classes that give them early training in health care. B1

STYLE
No Debating the Boffo Numbers
Thursday's face-off between Gov. Sarah Palin and Sen. Joe Biden was not only the most-watched vice presidential debate ever, but, as columnist Lisa de Moraes notes, it was probably the second-most-watched political debate of any kind. C1

SPORTS
Rays Stay Undefeated in Postseason Play
An Akinori Iwamura home run helps Tampa Bay win its second-ever playoff game, 6-2, over the White Sox to take a 2-0 lead in the series. E1

REAL ESTATE
Rebuilding a Home You Didn't Know You Wanted
A Bethesda couple's search for a place to park their boat turns into a DIY beach house project. F1

CAMPAIGN 2008

McCain Plans Fiercer Strategy Against Obama

By MICHAEL D. SHEAR
Washington Post Staff Writer

Sen. John McCain and his Republican allies are readying a newly aggressive assault on Sen. Barack Obama's character, believing that to win in November they must shift the conversation back to questions about the Democrat's judgment, honesty and personal associations, several top Republicans said.

With just a month to go until Election Day, McCain's team has decided that its emphasis on the senator's biography as a war hero, experienced lawmaker and straight-talking maverick is insufficient to close a growing gap with Obama. The Arizonan's campaign is also eager to move the conversation away from the economy, an issue that strongly favors Obama and has helped him to a lead in many recent polls.

"We're going to get a little tougher," a senior Republican operative said, indicating that a fresh batch of television ads is coming. "We've got to question this guy's associations. Very soon. There's no question that we have to change the subject here," said the operative, who was not authorized to discuss strategy and spoke on the condition of anonymity.

Being so aggressive has risks for McCain if it angers swing voters, who often say they are looking for candidates who offer a positive message about what they will do. That could be especially true this

See **MCCAIN**, *A6, Col. 1*

INSIDE» METRO • STYLE • BUSINESS • SPORTS • **REAL ESTATE** • **APARTMENT LIVING** — **Online:** washingtonpost.com

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FINANCIAL TIMES

Monday September 15 2008 | £1.50

Newspaper of the year | World Business Newspaper

Banks in crisis

Full coverage of the battle to salvage Lehman and shore up the US financial system

NEWS Pages 2-4, COMMENT Page 15, LEX Page 22

Fight for survival on Wall Street

Merrill Lynch chief John Thain leaves the Federal Reserve Bank of New York during weekend talks, where he approached several rivals, asking them whether they would be interested in bidding for his firm AP

Merrill Lynch secures $35bn BofA merger

Lehman heading for bankruptcy filing

By Francesco Guerrera in London, Krishna Guha in Washington and Greg Farrell in New York

Wall Street was in turmoil last night as Merrill Lynch found shelter in a $35bn-plus (£19.3bn) takeover by Bank of America and Lehman Brothers headed towards filing for bankruptcy.

BofA's bold bid for Merrill came as the world's top banks appeared close to abandoning efforts to save Lehman and set out to build a firewall against further financial chaos with a $50bn liquidity pool to support other vulnerable institutions.

The Federal Reserve was set to make it easier for financial institutions to access Fed liquidity by easing terms on its borrowing facilities and accepting a much wider range of assets as collateral. The Fed meets to decide on interest rates tomorrow. The moves capped a weekend of high drama that could lead to one of the most radical reshapings in Wall Street's history.

Today's market reaction will be closely watched by regulators and banking executives, to gauge investor sentiment towards the credit crunch that has wreaked havoc on the financial sector for more than a year. Futures contracts last night indicated that New York shares could open sharply lower.

BofA's rapid U-turn, which saw it abandon talks to buy Lehman and move to Merrill in the space of a few hours, will throw the spotlight on the future of Morgan Stanley and Goldman Sachs. The two could soon become the only leading independent investment banks in the US.

Merrill's board voted last night to approve BofA's all stock takeover bid, believed to have been pitched at more than $25 per share. That is a premium of more than 47 per cent on Friday's closing price. Merrill's shares have fallen nearly 70 per cent this year.

The sudden and dramatic turn of events came at the end of a weekend that saw top Wall Street executives locked in intensive and desperate talks over the future of Lehman and the state of the financial sector with Hank Paulson, US Treasury secretary, and Tim Geithner, president of the New York Federal Reserve.

However, bankers familiar with the talks said a rescue plan for Lehman had been seriously undermined after Britain's Barclays and BofA had walked away. Barclays pulled out in the afternoon after the US government refused to provide a guarantee to enable Lehman to continue trading until a deal had been completed.

Bankers said that Lehman, a 158-year-old firm and one of the biggest names on Wall Street, could file for bankruptcy by the end of the week.

A bankruptcy filing would be likely to cause thousands of job losses among Lehman's 25,000 strong staff. Last night several employees were seen leaving Lehman's Manhattan headquarters with boxes stacked with their possessions, stationery and, even, some paintings.

In a separate move, regulators prepared the ground for a Lehman bankruptcy by asking its derivatives counterparties to settle trades between themselves in a special trading session in the afternoon.

Merrill's decision to enter talks with BofA, which has long coveted its rival's large retail brokerage business, came after it became apparent that Lehman's woes could spread to the rest of the investment banking sector in the coming weeks.

John Thain, Merrill's chief executive who was attending the Lehman crisis talks, approached some rivals asking them whether they would be interested in bidding for his firm, according to people close to the situation. Morgan Stanley, BofA and some foreign banks were contacted but many of them declined to pursue the talks because they had insufficient time to pore over Merrill's complex trading books, they added.

Merrill, Morgan Stanley and BofA declined to comment.

A Merrill takeover would be a victory for Ken Lewis, BofA's chief executive, who has long wanted to combine the lender's commercial banking operations with Merrill's vast army of retail brokers.

However, a deal could saddle BofA with more troubled assets. The bank bought the stricken mortgage-lender Countrywide and a purchase of Merrill would force it to clean up the bank's trading books, which have already cost Merrill some $52bn in writedowns and credit losses.

Mr Thain, the former Goldman Sachs executive and former head of the New York Stock Exchange who joined Merrill last year after the departure of Stan O'Neal, is almost certain to leave the firm if the BofA takeover goes through.

He is a fervent supporter of John McCain, the Republican presidential candidate, and some experts expect him to seek a political career.

Crisis on Wall Street, Pages 2-4
Hubris, Page 15
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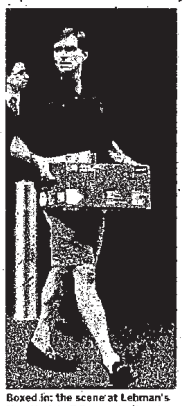
www.ft.com/lehmanbrothers



Boxed in: the scene at Lehman's New York building yesterday

AIG seeks backing from buy-out groups and access to Fed support

KKR, JC Flowers and TPG are in the frame

By Julie Mackintosh and Greg Farrell in New York and Francesco Guerrera and Gillian Tett in London

American International Group, the US insurer, is seeking to raise $10bn-$20bn (£5.5bn-£11.1bn) in equity from buy-out investors that could include Kohlberg Kravis Roberts, TPG and JC Flowers as part of an emergency plan to shore up its balance sheet.

It also aims to restructure its debt and sell up to $20bn in assets, according to people close to the company. Any funds from private equity would come on top of $20bn-plus raised this year.

It is asking to be allowed to borrow from the Federal Reserve discount window which it argues will help stabilise its business. Such access would be unprecedented for an insurer.

AIG, which has suffered $18.5bn in losses in the past three quarters, is considering selling businesses including its Transatlantic Holdings reinsurance group, its consumer finance group, its financial products division and a leasing unit. AIG's exposure to the real estate and credit default swaps market has prompted ratings agencies to threaten to cut its credit ratings, a move that could require the insurer to amass billions of dollars in extra collateral.

The three buy-out firms had been asked to work together on an investment, but JC Flowers broke away on its own on Sunday to pursue an investment alone or with a new partner. The investors have been combing over AIG's books since Saturday morning.

If AIG is not able to secure private equity capital, it may attempt to round up a consortium of banks to provide it with debt, which it would back with its own collateral.

AIG's share price dropped more than 30 per cent on Friday amid concerns over its involvement in the business of writing insurance against defaults on mortgage bonds.

The cost of buying protection against a default on AIG's debt using credit default swaps leapt to record levels that day and its bonds traded at distressed levels.

The insurer, being advised by Citigroup, JPMorgan Chase and Blackstone, would prefer to secure nearly $20bn in capital from the private equity investors to provide itself with a thicker cushion. Blackstone might also invest money, according to a person involved in the talks.

People close to the company cautioned talks were continuing but said AIG hoped to have a deal in days.

The erosion of AIG's balance sheet shows problems associated with mortgage securities backed by subprime debt are not confined to the investment banks that sold these products. AIG plays a central role in the credit default swaps market and in structured finance.

News Briefing

UBS chases deal with US over offshore unit

UBS, the Swiss bank, is trying to strike a deal with the US over allegedly breaches by its offshore private banking unit for rich Americans in time for its October shareholder meeting. Page 17; www.ft.com/banking

Obama tackles jitters

Barack Obama sought to allay supporters' fears at a rally in New Hampshire amid mounting jitters in the Democratic ranks about declining poll numbers and escalating Republican attacks. Page 4; Editorial Comment, Page 8; Clive Crook, Page 9; www.ft.com/uselection

EA abandons bid talks

Electronic Arts said it had abandoned talks over a deal to buy rival video-game maker Take-Two and would not press on with a bid, ending its battle to buy the company. Page 17

Nato ire over Georgia

Nato's top official has attacked the EU-brokered deal for Russian troops to pull out of Georgia as "not acceptable" because it cedes too much ground to Moscow. Page 6; www.ft.com/southossetia

Tap water's revival

Consumers in the US and Europe are ditching the plastic water bottle, long the bane of green campaigners, as incomes slump and returning to the tap for a free drink. Page 17; Green aspirations: Page 20

Ike evacuees warned

Emergency officials are urging Texans who fled their homes ahead of hurricane Ike to stay away, keeping roads passable for rescue workers. Page 6

Leaders act on Bolivia

Latin American leaders gather in Chile today to seek a solution to a dramatic upsurge of violence in Bolivia that has seen an estimated 30 people killed since Thursday. Page 6; www.ft.com/americas

Alitalia hits partial deal

Alitalia's trade unions and potential buyers were reported to have reached a partial deal on a rescue plan for the ailing airline, but it was denounced by labour groups barred from the talks. www.ft.com/transport

Ferry sinks off Turkey

A ferry carrying about 100 passengers sank near the Turkish port of Bandirma, killing at least one person and leaving 26 missing, officials said. Officials said 68 people had been rescued and that 31 of them were injured. www.ft.com/europe

Bomb blasts kill 21

India faced up to a massive security failure after Islamist militants claimed responsibility for bomb attacks on New Delhi, which killed 21 people. Page 4

Harare cabinet posts

The three Zimbabwean parties that signed last week's unity deal have agreed on cabinet posts ahead of today's signing ceremony in Harare. Page 4

Russian debt backlog

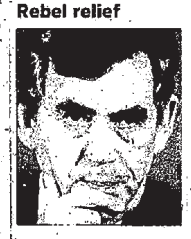
A backlog of $15bn in foreign debt held by Russian companies and banks must be refinanced by the end of the year amid difficult conditions as Western investors reprice the risk of doing business there. Page 17

Separate sections

Global Traveller
Host China and what the Emirates A380 has to offer at www.ft.com/A380

Plus...
Business Turnrounds & FTfm

Rebel relief



Gordon Brown's cabinet refused to join the rebellion against his leadership, but there were private warnings he was living on borrowed time. Mr Brown was relieved that calls from about a dozen Labour MPs for a leadership contest did not trigger ministerial resignations but some senior colleagues have agreed that Mr Brown should be given time to show he can lead Labour out of its malaise.

Report, Page 6

World Markets

STOCK MARKETS

			Wk's chg
Dow Jones Ind	11421.99	11220.96	+1.79
Nasdaq Comp	2251.27	2250.84	+0.24
S&P 500	1251.70	1242.31	+0.76
FTSEurofirst 300	1162.35	1125.46	+3.26
DJ Euro Stoxx 50	3278.02	3185.83	+2.89
FTSE 100	5416.7	5240.7	+3.36
FTSE All-Share UK	2757.03	2680.91	+2.84
CAC40	4332.86	4196.66	+3.24
Xetra Dax	6234.89	6127.44	+1.75
Nikkei	12254.76	12252.23	+0.02
Hang Seng	16952.90	19933.25	-2.91
FTSE All World $	209.4	207.7	+0.8

CURRENCIES

	Sep 12	Sep 5		Sep 12	Sep 5
$ per €	1.418	1.427	€ per $	0.705	0.701
$ per £	1.789	1.768	£ per $	0.559	0.566
$ per C	0.994	0.937	€ per £	1.260	1.239
¥ per $	107.3	106.7	¥ per €	152.0	151.3
¥ per £	191.5	188.1	£ Index	89.9	88.5
$ Index	86.8	86.3	€ Index	101.5	101.9
SFr per €	1.605	1.582	SFr per £	2.022	1.959

COMMODITIES

	Sep 12	Sep 5	Wk's chg
Oil Brent $/bbl	97.58	104.58	-7.00
Oil WTI $/bbl	101.18	106.70	-5.79
Gold $	754.90	811	-56.10

INTEREST RATES

	price	yield	Wk's chg
US Gov 10 yr	102.31	3.72	+0.07
UK Gov 10 yr	103.02	4.60	+0.22
Ger Gov 10 yr	109.52	4.18	+0.15
Jap Gov 10 yr	99.65	1.54	+0.10
US Gov 30 yr	103.16	4.31	+0.04
Ger Gov 2 yr	100.99	3.35	-0.05
	Sep 12	Sep 5	Wk's chg
Fed Funds Eff	2	1.99	+0.01
US 3m $Libor	1.47	1.65	-0.18
Euro Libor 3m	4.95	4.95	-
UK 3m	5.67	5.76	-0.11

Prices as at close Friday

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FINANCIAL TIMES

Tuesday September 16 2008 | £1.50

Newspaper of the year

World Business Newspaper

Banking's Black Monday

Full coverage of the crisis on Wall Street; NEWS **Pages 2-7**; ANALYSIS **Page 13**; COMMENT **Page 15**; LEX **Page 18**; Markets **Pages 40-42**

News Briefing

Brown seeks to head off no-confidence vote
Gordon Brown will today try to head off attempts by his MPs to hold an effective no-confidence vote in his leadership amid signs that his ministers may be starting to mobilise against him. **Page 8; Notebook, Page 14**

Oil at seven-month low
Oil prices tumbled to their lowest in seven months, well below $100 a barrel. **Page 19; Hurricane fears, Page 11; Investors warned, Page 21; Commodities, Page 40; Emerging economies, Page 41; www.ft.com/oil**

Russia stability fears
Russian business leaders warned that Moscow's moves to stabilise the country's financial markets "may not be sufficient" in spite of assurances by president Dmitry Medvedev that banks would get all the liquidity they needed. **Page 12; www.ft.com/russiafinance**

HP to cut 25,000 jobs
Hewlett-Packard, the world's biggest information technology group, announced plans to cut nearly 25,000 jobs. **Page 19**

Tories attract business
The Conservatives have attracted more delegates than Labour to the party conference corporate event for the first time in at least a decade reflecting a broader switch in business allegiances. **Page 9**

Cable property warning
Britain must confront its national obsession with property and stop using homes as "gambling chips", Liberal Democrat deputy leader Vince Cable warned. **Page 8**

Zimbabwe deal signed
Zimbabwe's rival politicians pledged to work together for a better Zimbabwe after signing a power-sharing agreement. **Page 10; Editorial Comment, Page 14: www.ft.com/zimbabwe**

BASF £1.7bn deal
The world's biggest chemicals company BASF agreed to buy Switzerland's Ciba for [illegible]. **Page 19; Integration trend, Page 26; www.ft.com/lex**

Hirst sale tops £70m
A sale of new works by Damien Hirst at Sotheby's auction house raised more than £70m. **Page 9**

China cuts rate
China's central bank cut the country's benchmark interest rate for the first time in more than six years amid evidence of a slowing domestic economy. **Page 12**

Iran probe 'dead end'
The UN nuclear watchdog said it had reached a 'dead end' in its year-long effort to get Iran to clarify whether it covertly researched the development of a nuclear weapon. **Page 10; www.ft.com/iran**

Bolivia talks hope
Bolivian officials and regional leaders said they had made progress in talks aimed at resolving a crisis which has risked escalating into civil war. **Page 11**

Pirate crackdown plan
European Union foreign ministers approved plans for a possible naval mission to crack down on pirates off Somalia. **Page 10**

Separate sections

Modern Energy
The sector is facing up to an unprecedented variety of demands
Climate Change
Part two. Policy

Day of reckoning on Wall St

Last call: Lehman Brothers employees in front of the stricken US financial group's European headquarters at London's Canary Wharf yesterday, where they were told 'it's over' AP

Biggest one-day decline since 9/11

Investors flee to safety of cash and bonds

By Michael Mackenzie and Aline van Duyn in New York, Krishna Guha in Washington and Francesco Guerrera in London

US stocks yesterday suffered their biggest one-day decline since the market reopened after the terrorist attacks of September 11 2001, as investors sought the safety of cash and government debt after the historic collapse of Lehman Brothers and the emergency sale of Merrill Lynch to Bank of America.

The unprecedented upheaval on Wall Street – which was also gripped by rising fears about the health of AIG, one of the world's biggest insurers – left investors more concerned with preserving their capital than in generating returns. Yields on short-dated government debt collapsed, falling far below 1 per cent, amid frenzied buying.

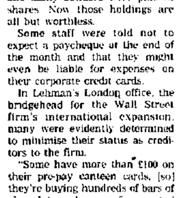
"It was a brutal day across risky markets," said Ted Wieseman, economist at Morgan Stanley. "As ugly a day as it was for stocks, credit did worse."

The Federal Reserve battled a ferocious storm in the overnight money market, where the federal funds rate briefly hit 6 per cent – three times the target rate of 2 per cent – as financial groups scrambled to raise cash. The Fed injected $20bn, then another $50bn in liquidity, before the fed funds rate finally fell back later.

The US central bank meets today amid market speculation that it could cut rates by 25 or even 50 basis points. However, unless market chaos escalates, the Fed is likely to keep rates on hold while indicating that it will cut rates if required in future.

The S&P 500 fell 4.7 per cent, its worst one-day decline in seven years and closed below 1,200, its lowest level since October 2005. The FTSE 100 fell 3.9 per cent, while the FTSE Eurofirst 300 dropped 3.6 per cent. The yield on the US 30-year bond fell to an all-time low of 4.02 per cent.

Financial stocks
FTSE World index



Source: Thomson Datastream

AIG
Share price ($)

Source: Thomson Datastream

Sentiment soured as New York state regulators threw AIG a lifeline by allowing it to use $20bn of assets held by its subsidiaries as collateral for a bridge loan. AIG shares fell almost 61 per cent.

AIG forms a key part of the US financial system. Its failure would be like "taking the foundation stone out of a skyscraper", said Trevor Jones, managing director of consultants Insurance Security Services.

Bank of America also came under pressure after it announced its $29 a share offer for Merrill. Its shares fell 21 per cent, while Merrill ended the day barely in positive territory.

Wachovia shares were down 25 per cent and Washington Mutual was down 27 per cent as other banks seen as vulnerable were shunned by investors.

Treasury secretary Hank Paulson predicted turmoil would continue until US house prices levelled off. "I believe that there is a reasonable chance that the biggest part of that housing correction can be behind us in a number of months. I'm not saying two or three months, but in months as opposed to years."

It emerged that Fed and Treasury officials encouraged Merrill's tie-up with BofA, telling John Thain, Merrill's chief executive, on Friday that his bank would be next to come under attack once Lehman failed.

Goldman Sachs shares fell 12.1 per cent before its third-quarter fiscal results today. Morgan Stanley declined 13.5 per cent.

"The locusts may be running out of big names to attack, but there are still some big names in the market's sights," said Alan Ruskin at RBS Greenwich Capital.

The European Central Bank and Bank of England together poured about $51bn into markets. Oil prices sank, closing well below $100 a barrel for the first time since March.

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www.ft.com/crisisonwallstreet

AIG thrown $20bn lifeline

US authorities were yesterday fighting a fresh fire in the crisis on Wall Street, throwing a $20bn (£11.1bn) lifeline to AIG while convening a fresh set of crisis talks to deal with the troubled insurer that sits at the heart of the financial system.

The deal between AIG and New York state insurance regulators allows the company to access $20bn of assets from its own subsidiaries to use as collateral for a loan in an attempt to stave off a liquidity crisis and credit downgrades.

The New York move – which was announced by David Paterson, the state's governor, in a sign of the growing political fallout from the crisis on Wall Street – came just hours after the collapse of Lehman Brothers, and Bank of America's $50bn rescue offer for Merrill Lynch.

The New York Federal Reserve yesterday also hosted a fresh set of emergency talks to deal with the problems at AIG.

The Fed, which convened the parties, was facilitating the discussions but was not discussing whether to lend indirectly to AIG via back-to-back transactions intermediated by the banks.

Fears over AIG's financial health sent its shares into a tail-spin. The stock fell as much as 70 per cent in morning trading in New York to an intra-day low of $3.50. It ended the day down $7.38, or more than 60 per cent.

AIG and its advisers spent the weekend hammering out plans to raise up to $40bn in capital, which the insurer needs to shore up its balance sheet and prevent crippling ratings downgrades that could lead to a liquidity crisis.

At the same time, the Federal Reserve battled to contain a ferocious storm in the overnight borrowing market as financial institutions scrambled for cash following the bankruptcy of Lehman and the wider upheavals on Wall Street.

Shocked Lehman staff told to 'move on'

Employee reaction

After 158 years of trading, the failed investment bank had a blunt message for its workers, write FT Reporters

The message delivered to shocked Lehman Brothers staff yesterday was simple and direct.

"It's over," announced Christian Meissner to a morning staff gathering just a week after being appointed to run Lehman Brothers in Europe. He told the staff to look for new work and "move on".

Staff had little choice but to follow suit in Lehman's offices around the globe as they came to terms with the reality of the vertiginous collapse of the 158-year-old institution, leaving workplaces with belongings hastily collected and their savings depleted.

The mantra of Lehman Brothers was to pay its staff in stock – some 30 per cent of the bank's equity was held by employees and many bonuses were paid in shares. Now those holdings are all but worthless.

Some staff were told not to expect a paycheque at the end of the month and that they might even be liable for expenses on their corporate credit cards.

In Lehman's London office, the bridgehead for the Wall Street firm's international expansion, many were evidently determined to minimise their status as creditors to the firm.

"Some have more than £100 on their pre-pay canteen cards, [so] they're buying hundreds of bars of chocolate, bags of roasted coffee and anything that's non-perishable," said one employee.

As New York woke up, tourists mingled with the media outside Lehman Brothers' headquarters near Times Square to watch employees exiting the collapsed bank.

Some staff maintained they were soldiering on until their bosses told them to stop. Ahab Eskaros, an Egyptian working in Lehman's prime brokerage division, said: "We're going to stay to do our jobs unless someone tells us otherwise."

Mr Eskaros, who has worked for the bank for eight years, said he had lost $40,000 to $50,000 that he had invested in the firm.

Others were more actively seeking employment. Recruiters were stationed at Canary Wharf coffee shops to collect curriculum vitae.

Some staff said they had been banned from sending e-mails, adding that BlackBerrys and mobile phones no longer worked.

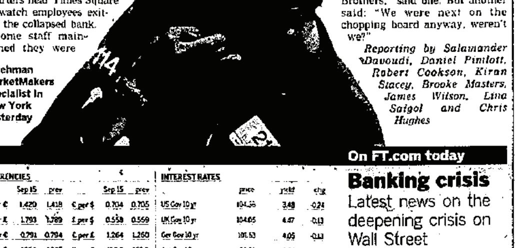
"I've had people calling me from telephone boxes. In the old days you'd just pick up your Rolodex and you'd bugger off. Now everything in your life is with the company," said a former employee.

Some of Lehman's senior bankers are expected to set up independent advisory boutiques in the near future.

Staff outside Merrill Lynch's offices in the City of London voiced relief at the firm's rescue takeover by Bank of America.

"Thank God, just thank God this is not as bad as Lehman Brothers," said one. But another said: "We were next on the chopping board anyway, weren't we?"

Reporting by Salamander Davoudi, Daniel Pimlott, Robert Cookson, Kiran Stacey, Brooke Masters, James Wilson, Lina Saigol and Chris Hughes



A Lehman MarketMakers specialist in New York yesterday

World Markets

STOCK MARKETS

	Sep 15	prev	%chg
Dow Jones Ind	10917.51	11421.99	-4.42
Nasdaq Comp	2179.91	2261.27	-3.60
S&P 500	1192.70	1251.70	-4.71
FTSEurofirst 300	1119.94	1162.15	-3.63
DJ Euro Stoxx 50	3151.17	3278.02	-3.87
FTSE 100	5204.2	5416.7	-3.92
FTSE All-Share UK	2653.58	2757.03	-3.75
CAC40	4168.97	4332.66	-3.78
Xetra Dax	6064.16	6234.89	-2.74
Nikkei	(c)	12214.76	-
Hang Seng	(c)	19352.90	-
FTSE All World $	201.9	209.4	-3.6

CURRENCIES

	Sep 15	prev		Sep 15	prev
$ per €	1.420	1.418	€ per $	0.704	0.705
$ per £	1.793	1.789	£ per $	0.558	0.559
£ per €	0.791	0.794	€ per £	1.264	1.260
¥ per $	106.1	107.5	¥ per €	150.8	152.0
¥ per £	190.6	191.5	£ index	90.3	89.9
$ index	86.4	86.6	€ index	101.3	101.6
SFr per €	1.591	1.605	SFr per £	2.010	2.022

COMMODITIES

	Sep 15	prev	chg
Oil Brent $Oct	92.38	97.58	-5.20
Oil WTI $Oct	95.71	101.18	-5.47
Gold $	776.85	754.90	+21.95

INTEREST RATES

	price	yield	chg
US Gov 10 yr	104.36	3.48	-0.24
UK Gov 10 yr	104.05	4.47	-0.13
Ger Gov 10 yr	101.53	4.05	-0.13
Jap Gov 10 yr	99.65	1.54	-
US Gov 30 yr	105.97	4.45	-0.16
Ger Gov 2 yr	100.52	3.72	-0.23
	Sep 15	prev	chg
Fed Funds Eff	2.10	2	+0.10
US 3m Bills	0.84	1.47	-0.63
Euro Libor 3m	4.97	4.95	+0.01
UK 3m	5.68	5.67	+0.01

Prices are latest for edition

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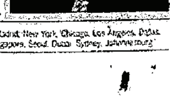

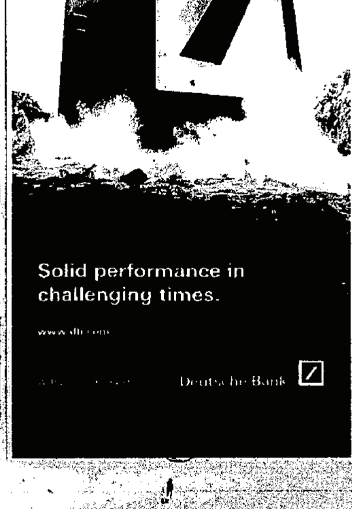

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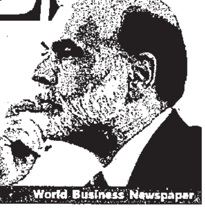
FINANCIAL TIMES



Wednesday September 17 2008 £1.50

Wall Street in crisis

Full coverage of the market turbulence; NEWS **Pages 2-6**; COMMENT **Page 15**; LEX **Page 18**; MARKETS **Pages 38-40**; ONLINE **www.ft.com/crisis**

Newspaper of the year

World Business Newspaper

Fed in $85bn AIG rescue deal

Headache: a broker in Frankfurt yesterday. In the European repo market, some banks were only accepting highest quality collateral – German bunds – in exchange for cash AP

Treasury backs move to prop up insurer

Fear that failure would wreck financial system

By FT Reporters

The US Federal Reserve last night struck a deal to take control of AIG in return for an $85bn loan to stave off a collapse of the giant insurer that plays a crucial role in the global financial system.

Under the plan, the latest dramatic intervention by the US government to combat the global credit crisis, the authorities will receive equity giving them a 79.9 per cent stake in AIG. In return, the insurer would receive a bridge loan of $85bn to keep it afloat until it could dispose of billions of dollars in assets.

The Fed said the loan was expected to be repaid by the proceeds of selling AIG operating companies. A senior Fed staffer said the most likely outcome was an orderly liquidation of AIG, though it was possible that the firm could survive as an ongoing business.

The existing management of the company will be replaced and new executives will be appointed.

The loan is at an interest rate of 850 basis points over three month Libor.

It will be secured on all AIG's assets, including those of its subsidiary companies.

The Fed said it was acting with the full support of the Treasury to prevent a disorderly liquidation of AIG's assets that would have threatened market stability.

President George W. Bush said the rescue was "to promote stability in the financial markets".

The emergency moves came after earlier plans for a private sector bail-out were dashed by a further 21 per cent slump in AIG's shares, reducing the market capitalisation of one of the biggest insurance companies in the world to just over $7.5bn (£4.2bn).

The AIG crisis fuelled another day of turmoil on global markets yesterday sparked by the week end failure of Lehman Brothers and the rushed takeover of Merrill Lynch by Bank of America.

> The emergency moves came after plans for a private sector bail-out were dashed by a further 21 per cent slump in AIG's shares

Analysts at RBC said the demise of AIG could result in more than $180bn of losses for financial institutions, with European banks particularly exposed.

Despite the turbulence, marked by brutal conditions in European money markets, the Federal Reserve kept interest rates unchanged at 2 per cent last night.

During a frantic day of emergency meetings at the New York Fed, the Treasury and the Fed reversed their reluctance to bail out another financial institution.

Equity markets rose on the news. The S&P 500 ended the day up 1.8 per cent after having initially fallen sharply. In London, the FTSE 100 dropped 3.4 per cent to close at its lowest level since June 2005.

In London, the overnight dollar borrowing rate briefly hit 10 per cent amid a desperate scramble for liquidity.

Financial stocks came under severe strain early with a slump in the shares of HBOS, the UK's largest mortgage lender, and a damaging credit rating downgrade for Washington Mutual, the troubled US bank. Central banks around the world fought surging demand for cash as banks hoarded reserves and refused to lend to each other, injecting about $230bn in overnight and two-day liquidity.

"There is still a lot of fear and turmoil in the financial markets," said David Viniar, chief financial officer of Goldman Sachs, after his firm reported the biggest drop in profits since its 1999 listing.

Meanwhile, amidst the chaos, Barclays agreed to buy most of the US broker dealer operations of Lehman, achieving a long-standing ambition to build a major US investment banking business.

By Krishna Guha in Washington, Aline van Duyn and Michael Mackenzie in New York and Francesco Guerrera in London

Options kept open, Page 4
Letters, Page 14

News Briefing

King says economy needs weak spell
The economy needs a period of sustained weakness to squeeze out remaining inflationary pressures, Mervyn King, governor of the Bank of England, said in a letter to the chancellor. **Page 7**

Goldman earnings fall
Goldman Sachs reported a record earnings fall while Morgan Stanley brought forward third quarter results in an attempt to allay investors' fears as both rejected merging with commercial banks, arguing they had the strength to survive as the last two large standalone investment banks. **Page 19**

Cairns urges contest
The revolt against Gordon Brown gathered momentum as David Cairns, a junior minister in the Scotland Office, resigned from his job and called for a leadership contest. **Page 8**

Art buyers defy gloom
A two-day sale of new works by Damien Hirst at Sotheby's in London was set to raise more than £100m. **Page 8**

Cameron meets Merkel
David Cameron held talks on the financial crisis with German chancellor Angela Merkel as he stepped up his drive to develop a centre-right relationship with Germany and France. **Page 8**

Inflation fight fears
The fight against inflation has become even more important as a result of the financial crisis, a senior European Central Bank policymaker said. **Page 10**

EU makes Nigeria offer
The European Union has offered Nigeria financial and political backing for a €15bn (£12bn) pipeline to pump its gas directly to Europe. **Page 11**

Georgia airs recordings
Georgia released mobile phone recordings purporting to show Russian armour crossed into Georgia well before Georgia began its attack. **Page 10; www.ft.com/southossetia**

Bolivia tensions rise
Tension increased further between the US and the allies of Venezuela's President Hugo Chávez when Washington announced that Bolivia had failed to co-operate adequately against the drugs trade and offered to evacuate US citizens from La Paz. **Page 9**

Obama seizes moment
Barack Obama fought to regain the initiative in the US presidential race as the Wall Street financial crisis threatened to stall the recent burst of momentum behind Republican candidate John McCain. **Page 9**

Milk scandal escalates
China's tainted milk powder scandal escalated as 22 Chinese dairy companies were found to have produced infant formula containing a chemical blamed for killing two infants. **Page 12**

Odierno takes charge
General Raymond Odierno assumed command of US forces in Iraq. **Page 12; Editorial Comment, Page 14**

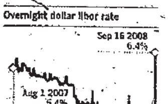
Ukraine faces fresh poll
Ukraine faces the prospect of its third election in as many years after the pro-west coalition collapsed. **Page 10**

Separate section

Digital Business
The key to long-term relationships between IT vendors and clients

The day in summary

Overnight dollar libor rate



Source: Thomson Datastream

Global markets
Volatility continues
FTSE 100 ▼ -3.4%
S&P 500 ▲ +1.8%
US Treasuries ▲ +6bp
Pages 38-40

Barclays swoops
UK bank moves to snap up Lehman assets
Page 4

Good as Goldman
Investment bank defends its model as profits slump
Page 19

Russian rout
Shares suffer biggest one-day fall in more than a decade
Page 19

Analysis
Governments cannot promise to wash their hands of a financial breakdown
Martin Wolf
Page 15

City watchdog moves to reassure investors as HBOS shares plunge amid global crisis

Stock in mortgage lender down 22%

Reliance on wholesale funding fuels concern

By Jane Croft

Shares in HBOS fell as much as 40 per cent yesterday, forcing the City watchdog to reassure investors that the bank would not become the next victim of the turmoil in global markets.

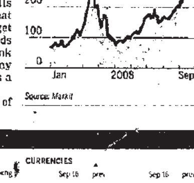
The shares in the UK's largest mortgage lender later rallied but still ended nearly 22 per cent lower at 182p, cutting its market capitalisation to £9.58bn.

The drop followed an 18 per cent decline on Monday in the HBOS share price. The falls sparked market speculation that HBOS could be a takeover target for a larger rival such as Lloyds TSB or HSBC, although the bank is seen to be a big stretch for any potential white knight as it has a £660bn balance sheet.

Analysts said the collapse of Lehman Brothers had made banks wary about lending to each other in the wholesale markets and had made lending rates more expensive.

This concern has hit HBOS because it has a large reliance on wholesale funding even though it has a retail deposit base of £258bn, which accounts for 55 per cent of its funding. The Financial Services Authority, the City regulator, yesterday took the unusual step of saying: "We can confirm that HBOS has stated it has a strong capital base and continues to fund very satisfactorily." HBOS has wholesale funding commitments of £278bn, of which £164.1bn has a duration of less than one year.

HBOS
Five-year CDS spread (basis points)



Source: Markit

Citigroup analysts yesterday estimated that the funding gap of HBOS was £197.8bn. They also estimated that HBOS had £29bn of term funding maturing as of the first half in 2008 and has about £24bn that it needs to refinance each year.

Yesterday Fitch Ratings downgraded HBOS from AA+ to AA and said the outlook for the company "remains negative".

Fitch said the downgrade also related to concerns about HBOS's mortgage and commercial property portfolios as the economy weakens. It added that this was a concern "combined with weaker operational flexibility due to continuing disruption/dysfunction in parts of wholesale funding markets on which HBOS relies quite heavily to finance its customer lending."

Standard & Poor's, the ratings agency, yesterday also lowered its long and short-term counterparty credit ratings on HBOS's holding company from AA- A-1+ to A+ A-1.

The ratings actions caused the cost of insuring against default on bonds issued by HBOS to soar. HBOS's five-year credit default swaps widened by 194 basis points to 506bp.

HBOS has one of the highest loan-to-deposit ratios of any European bank at 177 per cent. This measures the amount of a bank's loans divided by the amount of its deposits.

HBOS can access the Bank of England special liquidity scheme which ends in October – although there has been uncertainity about what scheme might replace this.

Wholesale jitters and Lombard, Page 20; Markets, Page 40

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World Markets

STOCK MARKETS

	Sep 16	prev	%chg
Dow Jones Ind	11059.02	10917.51	+1.30
Nasdaq Comp	2207.90	2179.91	+1.28
S&P 500	1213.60	1192.70	+1.75
FTSEurofirst 300	1091.38	1119.94	2.55
DJ Euro Stoxx 50	3088.43	3151.17	1.99
FTSE 100	5025.6	5204.2	3.43
FTSE All-Share UK	2562.89	2653.58	3.42
CAC40	4087.40	4168.97	1.96
Xetra Dax	5965.17	6064.16	1.63
Nikkei	11609.72	(c)	4.95
Hang Seng	18300.61	(c)	5.44
FTSE All World $	199.6	199.6	–

CURRENCIES

	Sep 16	prev		Sep 16	prev
$ per €	1.415	1.420	€ per $	0.707	0.704
$ per £	1.778	1.793	£ per $	0.563	0.558
£ per €	0.796	0.791	€ per £	1.257	1.264
¥ per $	104.7	106.1	¥ per €	148.1	150.8
¥ per £	186.1	190.6	£ index	89.7	90.3
$ index	86.4	86.4	€ index	101.1	101.3
Sfr per €	1.585	1.591	Sfr per £	1.992	2.010

COMMODITIES

	Sep 16	prev	chg
Oil Brent $Nov	89.22	92.38	5.02
Oil WTI $Oct	91.15	95.71	-4.56
Gold $	772.40	776.85	+0.55

INTEREST RATES

	price	yield	chg
US Gov 10 yr	104.19	3.50	+0.02
UK Gov 10 yr	104.40	4.43	0.04
Ger Gov 10 yr	101.84	4.02	0.03
Jap Gov 10 yr	100.31	1.47	0.07
US Gov 30 yr	107	4.09	0.06
Ger Gov 2 yr	100.53	3.72	-

	Sep 16	prev	chg
Fed Funds Eff	2.64	2.10	+0.54
US 3m Bills	0.85	0.84	+0.01
Euro Libor 3m	4.97	4.97	-
UK 3m	5.75	5.68	+0.07

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Wall St chaos
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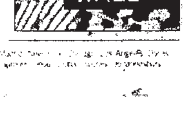

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Newspaper of the year | World Business Newspaper

Global banks in crisis

Full coverage of market turbulence: NEWS **Pages 2-6** COMMENT **Pages 15-17**
LEX **Page 20** MARKETS **Pages 42-44** ONLINE **www.ft.com/crisis**

Panic grips credit markets

HBOS takeover Government brokers £12bn deal for Lloyds TSB to buy lender

Turmoil worsens Volatility sparks biggest flight to safety since second world war

Gloom: traders in Moscow yesterday, where trading on the dollar-denominated RTS index was halted after it lost more than 6 per cent in the first two hours AFP

Lending between banks grinds to halt

US Treasury yields lowest since 1941

By Krishna Guha in Washington, Michael Mackenzie in New York and Gillian Tett in London

Panic in world credit markets reached historic intensity yesterday, prompting a flight to safety of the kind not seen since the second world war.

Barometers of financial stress hit record peaks across the world. Yields on short-term US Treasuries hit their lowest level since the London Blitz, while gold had its biggest one-day gain ever in dollar terms. Lending between banks, in effect, stopped.

The turbulence claimed another British victim in HBOS. The largest mortgage lender is to be taken over by Lloyds TSB in a £12bn deal after the government pressed it into talks having seen its share price halve this week.

The $85bn emergency Federal Reserve loan for AIG, the troubled insurance group, announced on Tuesday night, failed to curb the surge in risk aversion. Instead, markets were hit by a fresh wave of anxiety.

Speculation mounted that the Federal Reserve, which refused to cut rates on Tuesday, could be forced into an embarrassing U-turn – possibly in co-ordination with other central banks. Amid the financial chaos, traders were pricing in at least a quarter percentage point cut by the end of October.

One cause for fear came when shares in a supposedly safe money market mutual fund fell below par value because of losses on Lehman Brothers debt. This raised the risk that retail investors in other such funds could panic and pull out their money.

All thought of profit faded as traders piled in to the safety of short-term Treasuries. The yield on three-month bills fell as low as 0.02 per cent – rates that characterised the "lost decade" in Japan. The last time they were this low was January 1941.

Shares in the two largest independent US investment banks left standing – Morgan Stanley and Goldman Sachs – fell 24 per cent and 13.9 per cent respectively as the cost of insuring their debt soared, threatening their ability to finance themselves in the market.

The falls in financial stocks have prompted a wave of merger talks. People close to the situation said yesterday that Morgan Stanley was holding preliminary merger talks with Wachovia, the troubled regional lender. Washington Mutual, another regional lender, has hired Goldman Sachs to contact potential buyers including JPMorgan Chase, Citigroup and Wells Fargo.

Lending between banks in Europe and the US in effect halted. The so-called Ted spread – the difference between three-month Libor and Treasury bill rates, which measures fear over banks – moved above 3 per cent, higher than the record close after the Black Monday crash of 1987.

US authorities fired back. The Treasury announced it would borrow money to give to the Fed for its emergency lending operations – in essence removing any balance sheet constraint on the size of this assistance.

The Securities and Exchange Commission announced new curbs on short selling and moved to issue subpoenas to hedge funds and other institutional investors who have traded shares in 19 top financial companies.

Traders blamed the Fed for not cutting interest rates amid speculation that the US central bank could be forced into a U-turn. Many analysts also criticised the US authorities for adopting an arbitrary approach to financial rescues – saving AIG but not Lehman – that failed to boost confidence.

The S&P 500 fell 4.7 per cent, led by a 8.9 per cent slump in financials, while the FTSE 100 fell 2.25 per cent to close below 5,000 for the first time since June 2005. Equity volatility was near its highest level since March. Gold benefited, with bullion prices leaping 11.2 per cent to a three-week high of $866.47 a troy ounce.

Andrew Brenner, co-head of structured products and emerging markets at MF Global, said: "It feels like no one wants to take anyone's credit . . . It feels like we are on a precipice."

Lloyds TSB seals £12bn HBOS rescue

By FT Reporters

Lloyds TSB last night agreed a £12bn rescue takeover of HBOS after the government brokered a deal to save the country's largest mortgage lender from a crisis of confidence.

After three days of turmoil in the financial markets triggered fears for HBOS's viability, the government signalled it was willing to waive competition rules to allow the merger that will create Britain's biggest retail bank.

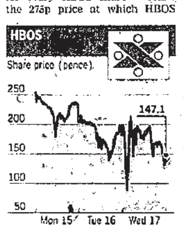
Gordon Brown and other ministers have been active in encouraging a market solution to save HBOS in an effort to avoid a repeat of the run on Northern Rock, the mortgage lender that was nationalised.

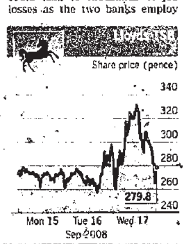
The Financial Services Authority contacted a number of other banks, including HSBC. However, Lloyds was the only lender willing to take on HBOS without a large government guarantee.

The extraordinary move is seen as necessary to shore up confidence in HBOS, the UK's largest savings institution, after the rising cost of wholesale funding and a sharp share price fall raised concerns that the bank would not be able to fund itself.

Executives from Lloyds and HBOS finalised the deal last night. Details of the takeover are set to be announced today, though it is not expected to be closed until the end of the year.

Lloyds is offering an all-share deal that values HBOS at about 232p a share, or 0.8 Lloyds shares for every HBOS share – below the 275p price at which HBOS sold shares as part of its failed £4bn rights issue in July. However, Lloyds has concerns about HBOS's exposure to commercial property loans.





The merged bank will have a combined mortgage loan book of £335.1bn – 28 per cent of the market – and a retail deposit base of about half the savings market.

The deal is expected to lead to about £1bn in costs savings and could lead to thousands of job losses as the two banks employ 139,000 people and have 3,100 branches. The combined bank is expected to be run by Eric Daniels, Lloyds' chief executive. Andy Hornby, HBOS chief executive, is set to leave once the deal is completed.

Yesterday, the Bank of England provided further support to the banking sector by extending its Special Liquidity Scheme, which allows banks to exchange mortgages for government paper, until the end of January.

Last night some investors in HBOS voiced concern at the speed of the deal. Richard Buxton, head of UK equities at Schroders, which has a 2 per cent stake in HBOS, said: "Why does this [deal] need to happen? The Bank of England's Special Liquidity Scheme buys HBOS time. How does the deal benefit shareholders in HBOS and what if the short-sellers turn next on Lloyds and then to other banks?"

Reporting by Jane Croft, Peter Thal Larsen, Kate Burgess and George Parker

Dramatic fall from grace, Page 2
Lombard, Page 22

News Briefing

EDF set to seal £12bn British Energy offer
Electricité de France is preparing to seal a sweetened £12bn offer for nuclear operator British Energy. British Energy's board concluded on Monday that it expected to be able to recommend the EDF offer.
Page 21; Wall Street, Page 44

Cameron financial plea
David Cameron urged centre-right leaders across the world to unite to defend capitalism, warning that the left could use the banking crisis as an excuse to "wreck" the financial services sector. **Page 9**

Jobless claims rise
The number of people claiming unemployment benefit last month rose at the fastest rate for almost 16 years. **Page 8**

Nato talks on Russia
Nato defence ministers are to debate the alliance's stance on Russia tonight for the first time since the Georgia crisis, with some members saying they must boost their commitment to mutual defence. **Page 10; Retreat from Moscow, Page 15; Lex, Page 20; Bourses close, Page 21; www.ft.com/russiafinance**

Livni poised to be PM
Israeli foreign minister Tzipi Livni appeared to have won a governing party vote, putting her in a commanding position to become the country's next prime minister. **Page 13; www.ft.com/mideast**

Irish pay freeze
Dublin secured an 11-month pay freeze from public sector workers. **Page 10; Pay-out cut, Page 25**

Iran curbs move
The US announced measures against companies it accuses of aiding Iran's nuclear programme. **Page 10; www.ft.com/iran**

Sterling boosted fears
Fears that a drop in sterling could lead to prolonged inflation persuaded the Bank of England's monetary policy committee to hold interest rates at its September meeting. **Page 8; Currencies, Page 42**

Air fares halved
UK air fares to North America nearly halved in April to June compared with the first quarter, says American Express. **Page 14**

Bombers kill 16
Islamist militants launched a car bomb attack on the US embassy in Yemen, killing at least 16 people. **Page 13**

Ebay urges probe
Ebay asked the European Union to investigate companies that prevent goods being sold on its website. **Page 10**

Syrian Airbus hopes
Syria expects an Airbus delegation to arrive in Damascus today as they try to agree a deal to enable Syrianair to buy 50 passenger jets. **Page 13**

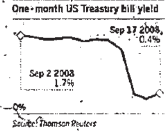
Milk kills third baby
Beijing was fighting to contain the fallout after tainted milk powder killed three babies. **Page 14**

Zimbabwe talks delay
Talks on forming a government in Zimbabwe were delayed to allow Robert Mugabe to meet members of his Zanu-PF party. **Page 13; www.ft.com/zimbabwe**

Separate section
Appointments
Top jobs in business and finance

The day in summary

One-month US Treasury bill yield



Source: Thomson Reuters

Global markets
Three-month Treasury bill yield 0.02%
FTSE 100 ▼ -2.25%
S&P 500 ▼ -4.7%
Pages 42-44

Russia
Its two main stock exchanges were closed to halt a market rout.
Page 21

Morgan Stanley
Shares closed down 24 per cent in New York trading
Page 21

The Short View
Six things we have been asked to believe since markets closed on Tuesday
John Authers
Page 21

World Markets

STOCK MARKETS

	Sep 17	prev	%chg
Dow Jones Ind	10609.66	11059.02	4.06
Nasdaq Comp	2098.85	2207.90	-4.94
S&P 500	1156.39	1213.59	-4.71
FTSEurofirst 300	1070.10	1091.38	1.95
DJ Euro Stoxx 50	3008.77	3088.43	-2.26
FTSE 100	4912.4	5025.6	-2.25
FTSE All-Share UK	2509.43	2562.89	2.09
CAC40	4000.11	4087.40	2.14
Xetra Dax	5860.98	5965.17	-1.75
Nikkei	11749.79	11609.72	+1.21
Hang Seng	17637.19	18300.61	-3.63
FTSE All World $	193.9	193.9	-

CURRENCIES

	Sep 17	prev		Sep 17	prev
$ per €	1.415	1.415	€ per $	0.707	0.707
$ per £	1.791	1.778	£ per $	0.558	0.563
£ per €	0.790	0.796	€ per £	1.265	1.257
¥ per $	104.6	104.7	¥ per €	148.6	148.1
¥ per £	188.1	186.1	£ index	90.4	89.7
$ index	86.2	86.4	€ index	101.1	101.1
SFr per €	1.587	1.585	SFr per £	2.007	1.992

COMMODITIES

	Sep 17	prev	chg
Oil Brent $/Nov	94.84	89.22	+5.62
Oil WTI $Oct	97.16	91.15	+6.01
Gold $	832.10	777.40	+54.70

INTEREST RATES*

	price	yield	chg
US Gov 10 yr	104.91	2.41	0.09
UK Gov 10 yr	104.52	4.41	0.07
Ger Gov 10 yr	102.12	3.98	0.04
Jap Gov 10 yr	100.09	1.49	+0.02
US Gov 30 yr	107.19	4.08	0.01
Ger Gov 2 yr	100.80	3.57	0.15
	Sep 17	**prev**	**chg**
Fed funds eff	1.98	2.64	0.66
US 3m Bills	0.55	0.85	-0.30
Euro Libor 3m	4.97	4.97	+0.01
UK 3m	5.85	5.75	+0.10

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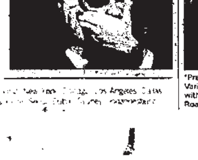

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*Preliminary battery life results based on Dell lab testing on a Dell Latitude E6400 with SSD. Varies by configuration, operating conditions and other a. Maximum battery capacity decreases with time and use. Dell Corporation Limited reg no. 02081369: Dell House, The Boulevard, Cain Road, Bracknell, Berkshire RG12 1LF United Kingdom

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Global financial crisis

NEWS **Pages 2-7**; COMMENT **Page 17**; LEX **Page 20**; MARKETS **Pages 42-44**;
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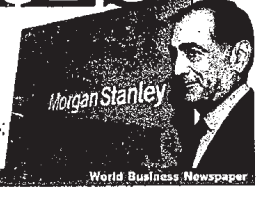


News Briefing

Brown vows action to curb market abuse
Gordon Brown (above) vowed to 'clean up' the City in response to the latest market anguish and is expected to rush forward legislation to give immunity to whistleblowers. **Page 6**

Buy signal strong
The UK stock market this week crossed a technical threshold that is often considered a strong buying signal for the first time in five years. **Page 21**
Co-ordinated action fails. Page 44

HSBC abandons KEB
HSBC last night abandoned its year-long effort to take control of Korea Exchange Bank after failing to renegotiate the terms of the $6.4bn (£3.5bn) deal with Lone Star, the US private equity group that owns 51per cent of KEB. **www.ft.com/banking**

Informa deal collapses
The Providence Equity Partners-led consortium walked away from a deal with publisher Informa after the consortium's lending banks were unable to increase their bid. **Page 21**

Coffers in the red
Lower tax receipts than expected and a sharp rise in government spending edged public finances further into the red last month. **Page 7**

L&G to cap liabilities
Insurance group Legal & General is attempting to cap its final salary pension liabilities by proposing that only the first 2 per cent of an annual pay rise should be taken into account to determine benefits. **Page 8**

Putnam shuts fund
US money manager Putnam Investments closed its $12bn (£6.8bn) prime money market fund due to a sudden spike in redemption requests. **Page 21**

Gulf salaries fears
Dubai has positioned itself as the natural home for frazzled bankers, but the rush to the Gulf could end the region's mega-salaries **Page 9**

US push to quell the turmoil

Policymakers discuss 'bad bank' solution

Proposal expected 'in a matter of hours'

By Krishna Guha in Washington, Michael Mackenzie in New York, Ralph Atkins in Frankfurt and Paul Davies in London

A breakthrough agreement to create a giant US-government-sponsored vehicle to take on toxic assets in the financial system looked possible last night after Treasury secretary Hank Paulson, Federal Reserve chairman Ben Bernanke and top lawmakers met to discuss the financial crisis.

The US Treasury said the meeting discussed a "comprehensive approach to address the illiquid assets on bank balance sheets that are at the underlying source of the current stresses in our financial institutions and financial markets".

The Treasury added that Mr Paulson and Mr Bernanke were "exploring all options, legislative and administrative, and expect to work through the weekend with congressional leaders to finalise a way forward".

Senate Democratic leader Harry Reid said the administration had not yet presented a formal proposal but congressional leaders looked forward to receiving one "in a matter of hours not days". Hope that a deal could be in sight to create a vehicle loosely modelled on the Resolution Trust Corporation used to clean up the mess after the Savings and Loan crisis of the 1980s fuelled a late surge in stocks yesterday, with the S&P 500 index closing up 4.3 per cent, the biggest gain in nearly six years.

That capped a remarkable day that began with a huge effort by the world's central banks to support market liquidity with an extra $180bn for banks desperate for dollars. Meanwhile, regulators mounted fresh assaults on short-sellers dragging down bank shares. The Financial Services Authority took the drastic step of banning the short-selling of financial stocks.

Treasury and Fed officials discussed the idea of creating a government-sponsored vehicle to deal with toxic assets in recent days and sounded out leaders on Wall Street. But Mr Paulson was reluctant to put a plan forward unless he was confident it would pass Congress, for fear that a failed effort would destroy what remains of market confidence.

Until the middle of this week received wisdom was that it would be impossible to agree complex legislation involving large amounts of taxpayers' money with very few legislative days left before the election. Even yesterday, Democratic senator Charles Schumer said that the RTC itself was not the right model for dealing with this crisis.

The discussions are certain to be fraught. Democrats may insist that any rescue involves aid for troubled homeowners as well as the financial sector. This his likely to be resisted by many Republicans in Congress, some of whom are very hostile to putting more taxpayers' money at risk.

However, it appears that the terrifying events of the past week may have changed the political landscape so profoundly as to make RTC-type legislation possible particularly if it came as part of a wider plan to help people threatened by the crisis. Some experts have suggested extending depositor protections.

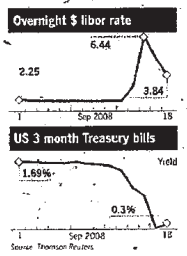
Earlier, the Federal Reserve gave central banks in Japan, the eurozone, the UK, Switzerland and Canada $180bn to lend on to local banks that cannot access its onshore dollar lending facilities.

The central banks said they were taking "co-ordinated measures designed to address the continued elevated pressures in US dollar short-term funding markets". They promised to "continue to work together closely" and to take "appropriate steps to address the ongoing problems".

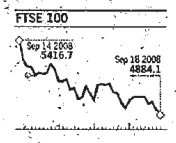
The move had some success in bringing down overnight borrowing rates that had hit extraordinary levels on Wednesday and brought barometers of systemic stress back from historic highs.

Editorial Comment, Page 12

Co-ordinated actions: central bank governors, pictured at a G7 meeting in April, are, from left, Masaaki Shirakawa (Bank of Japan), Ben Bernanke, (US Federal Reserve), Jean-Claude Trichet (European Central Bank), Mario Draghi (Bank of Italy) and Mervyn King (Bank of England) Getty Images



The day in summary



Global markets
Three-month Treasury bill yield 0.07%
FTSE 100 ▼-0.66%
S&P 500 ▲+4.33%
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Morgan Stanley
China Investment Corp is in talks to bring its holding up to 49%
Page 2

McCain demand
Republican nominee calls for resignation of SEC chairman
Page 9

Russia boost
Medvedev pledges $20bn to shore up nation's stock markets
Page 10

Loss of compass
There is widespread confusion about what anything might now be worth
Gillian Tett
Page 3

Tomorrow

Exclusive extract: Warren Buffett, the early years
FT WEEKEND Magazine

Passion for Fashion special edition
How to Spend It Magazine

Kevin Spacey on raising cash for culture
FT WEEKEND Life & Arts

City watchdog bans short-selling of banks

Move is agreed after meeting at No 11

US regulator considers making similar move

By FT reporters

The City watchdog last night took the drastic step of banning the short-selling of financial stocks – a move unprecedented in modern times.

The temporary ban was agreed at a meeting at 11 Downing Street between Alistair Darling, chancellor, Mervyn King, Bank of England governor, Sir Callum McCarthy, outgoing Financial Services Authority chairman, and his successor, Lord Turner.

Gordon Brown weighed in, promising a crackdown on "irresponsible behaviour". "We have got to clean up the financial system. We don't want these problems occurring in the future," the prime minister said.

The ban, which will last initially for four months, will prevent investors from creating or adding to short positions in publicly quoted financial companies. Short-sellers sell stock they do not own in the hope of buying it back at a lower price later.

Short-sellers have been blamed for driving down the share price of HBOS, the banking group that yesterday confirmed that it was being rescued through a takeover by Lloyds TSB.

Hector Sants, FSA chief executive, said that while he regarded short-selling as "a legitimate investment technique in normal market conditions, the current extreme circumstances have given rise to disorderly markets". The FSA was acting to "protect the fundamental integrity and quality of markets".

Traders said that the FSA's move could lead to further volatility as it would coincide with this morning's quarterly expiry of futures and options contracts.

The FSA was due to publish a list of the stocks to be covered by the ban before the markets opened this morning.

The rule change is the FSA's second attempt to restrict short-selling. It moved earlier this year to force disclosure of short positions in stocks undergoing a rights issue.

The US Securities and Exchange Commission was last night also considering banning short-selling after coming under growing pressure to take tougher action from Wall Street executives and politicians. It introduced a series of new restrictions earlier this week.

The SEC came under withering attack yesterday from John McCain, the republican presidential candidate. He called for the sacking of Christopher Cox, SEC chairman, accusing the SEC of having "kept in place trading rules that let speculators and hedge funds turn our markets into a casino".

> 'The current extreme circumstances have given rise to disorderly markets'
>
> **Hector Sants**
> **FSA chief executive**

Yesterday, Andrew Cuomo, New York attorney-general, also announced an immediate investigation into short-selling activity of shares in Lehman Brothers, AIG, Morgan Stanley, Goldman Sachs and other financial firms.

He said: "Short selling is not illegal, but when combined with the spread of wrong information, that is illegal ... We will fully prosecute wrongdoers to the full extent of the law."

In a sign of growing investor concern about the issue, some of the world's biggest institutional investors said they were no longer lending their shares of Goldman Sachs and Morgan Stanley to make it more difficult to short the stocks.

Prime brokers and lenders said several big US, British and other European investors, including Calstrs, the Californian teachers' retirement fund, and APG, manager of Europe's biggest pension fund, had suspended all or part of their stock lending and some were pushing for a wider boycott to help shore up confidence in the banks.

Reporting by Peter Thal Larsen, Jennifer Hughes and James Mackintosh in London and Joanna Chung in New York

Editorial Comment, Page 16

World Markets

STOCK MARKETS

	Sep 18	prev	%chg
Dow Jones Ind	10909.69	10609.66	+3.85
Nasdaq Comp	2199.10	2058.85	+4.78
S&P 500	1206.51	1156.39	+4.33
FTSEurofirst 300	1061.62	1070.10	-0.61
DJ Euro Stoxx 50	3000.83	3018.77	-0.59
FTSE 100	4884.00	4912.4	-0.66
FTSE All-Share UK	2496.53	2509.43	-0.51
CAC40	3992.86	4000.11	-0.06
Xetra Dax	5863.42	5860.58	+0.04
Nikkei	11489.50	11249.79	2.22
Hang Seng	17632.46	17637.19	-0.03
FTSE All World $	197.6	199.9	-1.9

CURRENCIES

	Sep 18	prev		Sep 18	prev
$ per €	1.439	1.435	€ per $	0.695	0.697
$ per £	1.818	1.791	£ per $	0.550	0.558
£ per €	0.790	0.790	€ per £	1.266	1.265
¥ per $	104.8	103.6	$ per €	150.8	148.6
¥ per £	190.8	185.1	£ index	90.9	90.4
$ index	85.6	86.2	€ index	101.6	101.2
SFr per €	1.580	1.587	SFr per £	2.000	2.007

COMMODITIES

	Sep 18	prev	chg
Oil Brent $/bbl	95.19	94.84	+0.35
Oil WTI $/bbl	97.58	97.16	+0.42
Gold $	862.10	832.10	-

INTEREST RATES

	prev	yield	chg
US Gov 10 yr	104.20	3.69	-0.03
UK Gov 10 yr	104.52	4.41	-
Ger Gov 10 yr	101.81	4.02	+0.04
Jap Gov 10 yr	100.09	1.49	-
US Gov 30 yr	106.68	4.18	+0.06
Ger Gov 2 yr	100.73	3.08	+0.04

	Sep 18	prev	chg
Fed Funds Tgt	2.00	1.98	+0.02
US 3m Bills	0.10	0.55	-0.46
Euro Libor 3m	5.00	4.97	+0.02
UK 3m	5.96	5.85	+0.11

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He's the investment guru who predicted the credit crisis. INSIDE: first exclusive extract of the authorised biography

Newspaper of the year

Inside

Kevin Spacey on raising cash for culture
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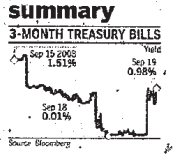
Money

Save £200 on a Gieves & Hawkes suit
Reader offer

Global markets roar in approval

The day in summary



Global markets
Three-month Treasury bill yield 0.98%
FTSE 100 ▲ 8.84%
S&P 500 ▲ 4%
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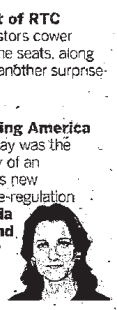
Hedges pruned
Regulators' curb on short sellers will make life hard for hedge funds
Page 4

Repeat of RTC
As investors cower under the seats, along comes another surprise
Page 2

Mourning America
Yesterday was the first day of an ominous new era of re-regulation
Chrystia Freeland
Page 9



News Briefing

Critics of Brown call conference ceasefire

Gordon Brown's most bitter Labour critics are planning a ceasefire during the party conference, starting today after some ministers said that any coup attempt should be delayed until at least next summer. **Page 8; www.ft.com/westminster**

JLP bucks the trend

John Lewis Partnership, seen as a barometer for the high street, said a sales rise in the second week of September was "exceptional in the current economic climate". **Page 18**

Arsenal feeling flat

The property slump has hit Arsenal's hopes of a windfall from redeveloping its old stadium prompting the Premier League club to say any profit from the sale of flats would be recognised as a bonus. **Page 15**

Plus to sue LSE

Plus Markets is taking the LSE to court over a rule it claims prevents trading in Aim securities on other markets
Page 16

EDF eyes Constellation

France's EDF is planning to go on the offensive to protect its foothold in the US with an offer for Constellation Energy, the electricity utility that agreed on Thursday to a $4.7bn (£2.55bn) takeover by Warren Buffett. **Page 21**

Airbus pushes output

Airbus is sticking to plans to raise commercial aircraft production by a third in the four years to 2010 in spite of the deteriorating state of the airline industry. **Page 20**

Lone Star's KEB blow

After three years trying to sell Korea Exchange Bank, Lone Star is hunting for another buyer after HSBC withdrew its $6.3bn (£3.4bn) offer to buy a 51 per cent stake. **Page 20**

Financial Times

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US rescue plan sparks record rises for equities

Paulson says strategy cheaper than failures

By Krishna Guha in Washington, Francesco Guerrera and Michael Mackenzie in New York and Gillian Tett in London

Stock markets around the world roared their approval yesterday, staging huge rallies as the US authorities moved towards agreement on a sweeping programme of government intervention that would put hundreds of billions of dollars of taxpayers' money at risk in an effort to quell the credit crisis.

London saw its biggest daily gain in its 24-year history with the FTSE 100, jumping 8.8 per cent, to 5,311.3, although it was still 18 per cent down this week. In New York the S&P 500 closed up 4 per cent, having jumped 4.3 per cent on Thursday. The rallies in London and the US were partially fuelled by bans on short-selling in financial stocks.

The political negotiations on the rescue plan, which followed a week of unprecedented stress in global financial markets, envisage the most extensive peacetime expansion of the government's role in the financial system since the Great Depression and appeared to many to mark the end of an era of deregulation.

At the core of the plan is the proposal to create a government-sponsored vehicle loosely modelled on the 1989 Resolution Trust Corporation, which would take on the toxic assets in the financial system, allowing banks to stem their losses, recapitalise and return to business.

Hank Paulson, US Treasury secretary, said the programme would initially cost "hundreds of billions of dollars." But he added it was far cheaper than the alternative "a continuing series of financial institution failures and frozen credit markets unable to fund economic expansion".

The Bush administration also announced a blanket guarantee on all money market mutual funds, in an effort to curtail a brewing crisis in the $3,900bn sector. The Federal Reserve announced new plans to support liquidity in the mutual fund sector.

Some private sector analysts estimated that the programme could require up to $1,000bn upfront, though the government might ultimately make a profit on the distressed assets.

The breakthrough came in a crisis meeting between Mr Paulson, Fed chairman Ben Bernanke and legislators on Capitol Hill on Thursday evening. Mr Paulson said that he would work with Congress to pass the required legislation "over the next week".

Aides said that top Democratic legislators were committed to passing legislation. Chris Dodd, chairman of the Senate Banking Committee, said: "We understand the gravity of the moment." But he added, "none of us have any idea what the details are."

Experts warned that reaching agreement on the RTC-type vehicle would not be easy. Tim Ryan, the former head of the RTC and current chairman of the Securities Industry and Financial Markets Association, told the Financial Times: "What they are trying to do is really hard as they get down to the detail it's going to become really political and will need a lot of compromises."

Investors started exiting the safe havens of government bonds and gold. But the money markets were cautious as term money market and commercial paper rates rose further.

Traders said lending between banks remained frozen, with money market funds and other institutions still pulling away from funding banks in the government repurchase, or repo, market as trust between counterparties has evaporated.

Banks' stocks enjoyed particularly striking rises. Royal Bank of Scotland climbed 41.8 per cent, Barclays 29.2 per cent and Lloyds TSB 20.4 per cent.

The rally came as it emerged that they had swapped more than £100bn of mortgage-backed securities for Treasury bonds — more than twice the amount originally expected. Alistair Darling, chancellor, revealed last night. His comments show the extent of the taxpayers' exposure to the mortgage market under the Bank of England's "special liquidity scheme", which opened in April.

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Capitalism in convulsion, Page 11
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Lloyds capital raising, Page 15
Time ripe to swoop, Pages 16-17
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PwC demands that Lehman hands back $8bn to European operation

Funds sent to US before bank's collapse

Legal move could follow administrators' letter

By Chris Hughes and Lina Saigol in London

The administrators to Lehman Brothers' European businesses have demanded the repatriation of more than $8bn (£4.4bn) transferred to the failed investment bank's US holding company before its collapse.

The demand, sent by PwC on Wednesday, is likely to be applauded by Lehman's 4,500 staff in London, many of whom have voiced anger that the bank's European operations had no cash in them when the parent company went into bankruptcy overnight on Sunday.

Tony Lomas, the PwC partner leading the administration, said the fact that $8bn had been transferred to New York in the days running up to Lehman's collapse was not suspicious, although he was "not ruling anything out".

"Clearly the matter requires further inquiry because it is a large sum. But it is simplistic to say $8bn was taken from London and put in New York," he said. "The bank that [Lehman Europe] put its money into was the holding company. Clearly $8bn of value has moved from London to New York. It is normal for us to make a claim."

The written request could be followed up with formal legal action to reclaim the funds, a person with knowledge of the administrators' work said. It was, too early to establish whether funds transferred from London to New York could be claimed back, another person inside Lehman said.

The $8bn was not necessarily sent to the US in a single sum but is more likely to reflect an accumulation of funds over the bank's last few days of solvency, according to one person familiar with the situation.

The move represents a hardening of PwC's stance. On Monday, the administrators said that it was not uncommon for large financial companies to have arrangements whereby the cash

> It was too early to establish whether funds transferred from London to New York could be claimed back

in regional-operating subsidiaries was swept back to head office on a regular basis. That has left Lehman's European staff deeply aggrieved and demanding some of it be returned.

Meanwhile, staff in Lehman's European corporate finance division have fresh hope that their jobs could be saved amid mounting interest in the franchise.

Nomura and Barclays are battling it out to acquire the unit, along with a third bidder, people close to the situation said.

The two banks have also held intensive discussions with administrators in the past few days to take control of the bank's European equity and fixed-income business, in addition to its M&A franchise. A deal could be finalised over the weekend.

Lehman's top bankers could withhold support for a deal unless Nomura and Barclays accommodated all 700 bankers in the European division, or provided a full redundancy package for those not joining the Japanese bank.

PwC said yesterday it was in discussions to sell the asset management and corporate finance divisions in Europe.

Trades in limbo, Page 5
KfW rethink, Page 20

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World Markets

STOCK MARKETS

	Sep 19	prev	% chg
Dow Jones Ind	11398.44	11019.69	+3.35
Nasdaq Comp	2273.90	2239.10	+1.40
S&P 500	1255.03	1206.51	+4.03
FTSEurofirst 300	1150.78	1063.82	+8.19
DJ Euro Stoxx 50	3253.52	3000.83	+8.42
FTSE 100	5311.3	4880.0	+8.84
FTSE All Share UK	2708.98	2496.53	+8.51
CAC40	4324.87	3957.86	+9.27
Xetra Dax	6189.53	5863.42	+5.56
Nikkei	11520.86	11469.30	+0.76
Hang Seng	19327.73	17632.46	+9.61
FTSE All World $	209.7	197.5	+6.1

CURRENCIES

	Sep 19	prev		Sep 19	prev
$ per €	1.441	1.439	€ per $	0.694	0.695
$ per £	1.831	1.818	£ per $	0.546	0.550
£ per €	0.785	0.793	€ per £	1.272	1.266
¥ per $	106.8	104.3	$ per €	153.8	150.3
¥ per £	195.7	190.8	£ index	98.4	96.9
$ index	85.5	85.6	€ index	101.8	101.6
SFr per €	1.596	1.580	SFr per $	1.030	1.000

COMMODITIES

	Sep 19	prev	% chg
Oil Brent $/bbl	99.61	95.19	+4.42
Oil WTI $/bbl	104.55	97.88	+6.87
Gold $	856.30	832.10	+2.90

INTEREST RATES

	prev	yield	chg
US Gov 10 yr	101.94	3.76	+0.77
UK Gov 10 yr	103.87	4.60	+0.19
Ger Gov 10 yr	100.12	4.23	+0.21
Jap Gov 10 yr	100.17	1.46	0.00
US Gov 30 yr	102.25	4.36	+0.22
Ger Gov 2 yr	99.92	4.04	+0.43

	Sep 19	prev	chg
Fed funds eff	2.16	2.00	0.64
US 3m BBA	0.95	0.10	+0.86
Euro Libor 3m	5.00	5.00	+0.01
UK 3m	5.95	5.96	0.01

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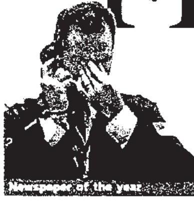


Niall Ferguson, Analysis

Is the worst over?

NEWS **Pages 2-5**; GILLIAN TETT **Page 3**; COMMENT: CLIVE CROOK, NOURIEL ROUBINI **Page 15**; ANALYSIS **Page 19**; LEX **Page 22**; ONLINE **www.ft.com/crisis**

Newspaper of the year — World Business Newspaper

News Briefing

FSA sought possible white knights for B&B
The Financial Services Authority is thought to have sounded out potential white knights for Bradford & Bingley as part of its contingency planning in the event that the UK's biggest buy-to-let lender is buffeted by further market turmoil. **Page 23**

Nasdaq eyes London
Nasdaq OMX plans to set up a listings venue in London in direct competition with the London Stock Exchange for initial public offerings. **Page 23; Nasdaq OMX calls for client benefits, Page 27; www.ft.com/exchanges**

US defers treaty
The ratification of a defence treaty designed to bolster US-British defence co-operation has been deferred until the next US Congress in a blow to UK defence contractors. **Page 10**

Boris accused of ploy
Labour hit out at London mayor Boris Johnson after he floated the idea of a new airport in the Thames estuary, suggesting it could be a device to detract from the Conservative party's divisions over the expansion of Heathrow. **Page 9; UK rail, Page 26**

Business warns ECB
European companies are worried by the European Central Bank's sole focus on inflation and are urging it to take action to stave off the threat of an extended recession. **Page 12**

Russia widens funding
Russia's finance ministry widened the provision of emergency budget funding to its banking system. **Page 12**

Pakistan braced
Pakistan's security officials warned that the weekend suicide bombing at Islamabad's Marriott hotel could be the start of a wave of attacks targeting the country's largest cities. **Page 11; www.ft.com/pakistan**

Russia car sales slow
Russia's febrile car market is cooling in a development that could hurt struggling global carmakers. **Page 23**

Maturing debt struggle
A vast backlog of bonds that need to be refinanced over the next year has built up in the emerging market economies, raising the threat of defaults and company closures. **Page 23**

Milk scandal hits HK
The Chinese government struggled to contain the tainted milk powder crisis as a child in Hong Kong fell ill. **Page 11**

South Africa fears
South Africa's ruling party was scrambling to avert mass resignations of ministers loyal to president Thabo Mbeki after flinging him from office. **Page 10; Editorial Comment, Page 14**

Nigeria rebels in truce
Nigerian militants called a halt to a campaign of attacks against oil facilities. **Page 12**

US clinches Ryder Cup
The US won the Ryder Cup for the first time in nine years at Valhalla Golf Club in Kentucky last night. The US sealed victory against Europe when Jim Furyk beat Spaniard Miguel Angel Jimenez 2&1

Separate sections

FTfm
Fund management update
Plus...
Seychelles
The Business of Fashion

Hank Paulson, US Treasury secretary, during a recording of Meet the Press at the NBC studios yesterday. He said the bail-out was 'better than the alternative' Getty Images

US tensions rise over bail-out

Political demands over $700bn fund vote

Warning over 'blank cheque' to Wall Street

By Krishna Guha, Harvey Morris, Andrew Ward and Daniel Dombey in Washington and Henny Sender in New York

A high-stakes game of political poker was under way in Washington yesterday as Congress prepared to vote this week on a plan to create a $700bn fund to buy toxic assets from banks and thereby ease the credit squeeze.

Democratic legislators pressed for a housing programme to be added to the bill and demanded assurances that President George W. Bush would not veto a subsequent second stimulus bill.

The Bush administration was trying to hold out for a "clean" bill that dealt only with the financial rescue, while Republicans in Congress said they would fight a hasty compromise that included many add-ons.

The political negotiations came as Hank Paulson, US Treasury secretary, called on other nations to follow the US in tackling the problems in the global financial system. "I will be pressing my colleagues around the world to design similar programmes for their banks." The US is not asking other governments to join its proposed fund.

Mr Paulson said the US scheme should be open to all banks with "significant operations" in the US – including foreign banks, even though this may be politically controversial in the US.

"The American people don't care who owns the financial institution. If the financial institution in this country has problems it has the same impact whether it is US or foreign-owned," he told ABC's *This Week*.

The passage of the legislation is considered essential to avoid a renewed tailspin in world financial markets. "I don't like the fact that we have to do this. I hate the fact that we have to do this," Mr Paulson said. "But it is better than the alternative."

Legislators and administration officials stressed their shared determination to get the legislation passed. But beneath the surface of bipartisan statements there was anger in both camps at what each saw as efforts by the other to use financial danger to bounce them into policy decisions. "It's important that everyone understands the seriousness of the situation we're in and that we send a very strong signal to the market that this plan will go forward quickly," said Tony Fratto, White House spokesman.

> 'I don't like the fact we have to do this. I hate the fact that we have to do this'
>
> **Hank Paulson**
> **US Treasury secretary**

Late in the day Nancy Pelosi, the speaker of the House of Representatives, issued a statement that said: "Congress will respond to the financial markets crisis by taking action this week in a bipartisan manner."

But she added that Congress would "not simply hand over a $700bn blank cheque to Wall Street". Democrats would insist on "independent oversight, protections for homeowners and constraints on excessive executive compensation".

Some Republicans favour constraints on executive pay for banks in the scheme. The Treasury fears this could undermine banks' willingness to take part.

Huge bankers' bonuses came under heavy political fire from Gordon Brown yesterday, as the FSA, the City's watchdog, vowed to crack down on pay package deals that fuelled risk-taking.

The prime minister said "irresponsibility", driven partly by the bonus culture, had helped trigger the crisis, and that parts of the bonus system were "unacceptable" and had to be tackled.

The FSA said it planned to force banks to hold more capital if it felt bonus structures were leading to excessive risk-taking.

Christine Lagarde, France's economy minister, also attacked pay structures that led to "greedy and blind behaviour".

Meanwhile, the global crackdown on short selling continued, with the US Securities and Exchange Commission requiring large asset managers to disclose short sales starting today, while Australian regulators extended their ban on naked short-selling to cover all short-selling.

Lehman nears two asset sales in Europe

By Chris Hughes and Lina Saigol

A sale of Lehman Brothers' European equity trading and corporate finance units was inching closer last night, although prospects for a deal to save the bank's fixed-income business in the region were looking poor.

PwC, the administrator to Lehman in Europe, had been locked in talks over the weekend with Barclays, the UK lender, and Nomura, the Japanese bank, according to people familiar with the discussions.

Barclays was primarily interested in the equities arm, while Nomura was focused on the advisory franchise. PwC was seeking a single deal covering both assets.

"The equities team and investment banking team represent several thousand jobs. We hope to create certainty for these staff within the next day," said Dan Schwarzmann, partner at PwC.

"In terms of giving the best future for the staff and getting the best for creditors, it is easiest with one party. But I'm not saying that's where we will end up."

Progress on a sale of Lehman's European asset management business was less advanced, although discussions were likely to start in the coming week, Mr Schwarzmann added.

Barclays planned to assure senior Lehman executives that their staff would "not be disadvantaged relative to US colleagues in any deal, according to a person close to the discussions.

The pledge came after Barclays maintained the $2.5bn (£1.4bn) bonus pool accrued at the US operations of Lehman it acquired last week. Barclays negotiated special deals for some senior directors and 200 key staff at the US businesses, which employ 10,000 people.

The European corporate finance business employs 800. A deal for the equities unit could cover 800-1,500 staff depending on the back-office resource required by PwC for its ongoing work.

That could include the closure of the fixed-income business, a sale of which now appeared to be unlikely, said one Lehman insider.

Brown's tack

Gordon Brown staked his political survival on his ability to convince voters he is on top of the global financial crisis. He said events of the past week had proved he was the right prime minister to cope with "the first crisis of the new global economy". His conference speech tomorrow will be a test of whether he can persuade his party that his command of global economics is enough to save Labour at the next election.

Report, Page 6

Obama targets Wall Street greed to gain poll lead over McCain

Republican suffers for deregulation stance

By Harvey Morris and Andrew Ward in Washington

Barack Obama, casting himself as the defender of Main Street in the face of the folly and greed of Wall Street, is drawing ahead of John McCain in the race for the White House, according to the latest opinion polls.

As the two candidates headed towards their crucial first presidential TV debate on Friday and early voting commenced in some states, a weekend Gallup Poll showed Mr Obama with 50 per cent support to Mr McCain's 44.

At campaign events yesterday, both candidates insisted that ordinary taxpayers should not be forgotten in a $700bn government bail-out plan to prop up US financial institutions.

"As of now, the Bush administration has only offered a concept with a staggering price tag, not a plan," said Mr Obama. "In return for their support, the American people must be assured that the deal reflects the basic principles of transparency, fairness, and reform."

Mr McCain offered similar rhetoric, insisting that the bail-out must be accompanied by "comprehensive reform of the broken institutions that allowed this crisis to become a grave threat to our economy".

Mr Obama charged his opponent with hypocrisy for advocating tougher regulation of Wall Street after spending much of his career championing the deregulation that many critics blame for the crisis.

He told a rally: "There's only one candidate who's called himself 'fundamentally a deregulator' when deregulation is part of the problem."

The candidates' poll showings in recent weeks have proved almost as volatile as the markets. Mr McCain's popularity bounced after a successful Republican convention and his nomination of Sarah Palin as running mate. But by this weekend the "Palin factor" appeared to have largely evaporated as voters refocused on the financial crisis.

An average of recent polls puts Mr Obama ahead by about 2 percentage points, with highly competitive races in several battleground states to come.

Mr McCain spent most of last week trying to overcome his fumbled initial response to the crisis, including his widely mocked claim that the US economic fundamentals were strong.

Early and absentee voting is already underway in a handful of states, including the key battleground of Virginia, six weeks before polling day. About a third of voters are expected to cast ballots before November 4.

Clive Crook, Page 15
www.ft.com/uselection

World Markets

STOCK MARKETS

	Sep 19	Sep 12	Wk's chg
Dow Jones Ind	11388.44	11421.99	0.29
Nasdaq Comp	2273.90	2261.27	+0.56
S&P 500	1255.08	1251.70	+0.27
FTSEurofirst 300	1150.78	1162.15	0.98
DJ Euro Stoxx 50	3253.52	3278.02	0.75
FTSE 100	5311.3	5416.7	1.95
FTSE All-Share UK	2708.98	2757.03	1.74
CAC40	4324.87	4332.66	0.18
Xetra Dax	6189.53	6234.89	-0.73
Nikkei	11920.86	12214.76	2.41
Hang Seng	19327.73	19352.90	0.13
FTSE All World $	209.7	209.4	+0.2

CURRENCIES

	Sep 19	Sep 12		Sep 19	Sep 12
$ per €	1.441	1.418	€ per $	0.694	0.705
$ per £	1.831	1.789	£ per $	0.546	0.559
£ per €	0.786	0.794	€ per £	1.272	1.260
¥ per $	105.8	107.5	¥ per €	153.8	152.0
¥ per £	195.7	191.5	£ index	91.4	89.9
$ index	85.5	86.8	€ index	101.8	101.5
SFr per €	1.596	1.606	SFr per £	2.030	2.022

COMMODITIES

	Sep 19	Sep 12	Wk's chg
Oil Brent $Nov	99.61	97	+3.00
Oil WTI $Oct	104.55	101.05	+3.26
Gold/$	856.30	754.90	+101.40

INTEREST RATES

	Price	Yield	Wk's chg
US Gov 10 yr	101.94	3.76	+0.04
UK Gov 10 yr	103.07	4.60	-
Ger Gov 10 yr	100.12	4.23	+0.05
Jap Gov 10 yr	100.17	1.48	0.06
US Gov 30 yr	102.25	4.36	+0.05
Ger Gov 2 yr	99.92	4.04	+0.09

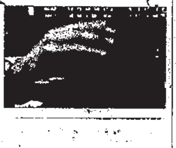
	Sep 19	Sep 12	Wk's chg
Fed Funds Eff	2.16	2	+0.16
US 3m Bills	0.95	1.47	0.52
Euro Libor 3m	5	4.95	+0.05
UK 3m	5.95	5.76	+0.19

Prices as at close Friday

On FT.com today

Markets Q&A
Quiz Graham Neale, the MD of Killik Asset Management

www.ft.com/neale



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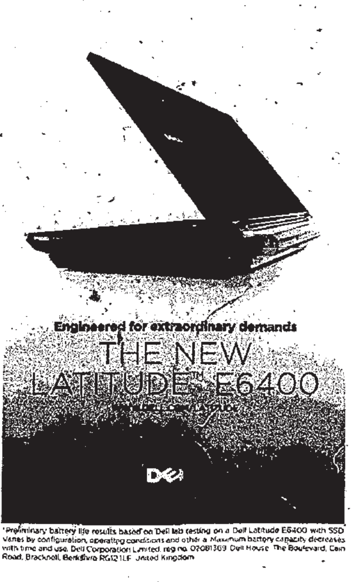

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FINANCIAL TIMES

Tuesday September 23 2008 | £1.50

What next for Wall Street?

GILLIAN TETT: The end of leverage **Page 28**; The bail-out and the dollar **Page 43**; COMMENT: PHILIP AUGAR, DOMINIQUE STRAUSS-KAHN **Page 17**

Newspaper of the year

World Business Newspaper

Fears emerge over US bail-out

Concern at progress on $700bn rescue

Fed relaxes rules to promote capital raising

By Francesco Guerrera, Henny Sender and Michael Mackenzie in New York and Krishna Guha, James Politi and Daniel Dombey in Washington

The dollar buckled, stocks tumbled and the price of oil jumped yesterday as the $700bn (£376bn) US government bail-out plan for the financial sector made slow progress in Washington and once-mighty Wall Street names turned to Japan to safeguard their future.

Meanwhile, the Federal Reserve threw open the doors to investment in the US banking industry by private equity firms, sovereign wealth funds and corporate investors - in the hope that this would direct much-needed capital to US banks.

The US central bank said it would raise the maximum stake a minority investor could take in a bank holding company from 25 per cent to 33 per cent in some instances and lift the ban on board representation for minority investors.

Morgan Stanley said earlier it would sell a stake of 10-20 per cent to the Mitsubishi UFJ Financial Group (MUFG) in a deal worth up to $9bn. The news came just hours after Nomura, Japan's largest broker, confirmed it was buying Lehman Brothers' operations in Asia and was in exclusive talks to secure parts of its business in Europe.

Investors fretted about the pace of negotiations over the plan for a $700bn government fund to buy toxic assets from banks, while also worrying that even if the fund is set up, it may not succeed in turning around the credit crisis.

Until yesterday, the US dollar had held up surprisingly well in the face of the past week's turmoil on Wall Street. But it finally fell back in the face of concern over the cost of the bail-out and the fragile state of the US banking system, sending the price of commodities priced in the US currency soaring.

The dollar lost 2 per cent against a basket of major currencies, with the euro rising 2.6 per cent to above $1.48. Near-term crude oil futures prices jumped more than $25 a barrel during the day - the largest one-day rise in dollars terms ever - as investors were forced to cover positions before the expiry of benchmark contracts.

The S&P 500 dropped 3.8 per cent, giving back nearly all the gains registered on Friday, the first full day of trading after Treasury Secretary Hank Paulson revealed his bail-out idea during a dramatic Capitol Hill meeting. In London, the FTSE 100 fell 1.4 per cent.

President George W. Bush called on Congress to "keep the rescue bill focused on solving the crisis in our financial markets". People close to the talks said they were not moving as quickly towards resolution as some had hoped, but remained on track.

Senior Democrats in the House and Senate circulated proposals involving tighter oversight, various proposals to allow or require the government to take stakes in companies taking part in the scheme, allow bankruptcy judges to write down mortgages and curb executive pay at banks selling assets to the government fund. Mr Paulson is resisting making pay or the transfer of equity to the government a precondition for selling assets to the fund, arguing this would ensure that only banks on the brink of failure take part.

> Until yesterday, the dollar had held up surprisingly well in the face of the past week's turmoil on Wall Street

The Group of Seven industrialised nations said its members "strongly welcome the extraordinary actions taken by the US". However, other nations said they saw no immediate need to create their own funds to buy distressed assets. On Sunday, Morgan Stanley and Goldman Sachs gave up on attempts to remain as the only two standalone investment banks and became "bank holding" companies to gain expanded access to bank deposits and permanent access to Federal Reserve liquidity support.

Analysts said the speed with which Morgan Stanley turned to Asia for a capital lifeline underscored how quickly the world's wealth was moving from the US.

Global crisis, Pages 5-6
Editorial Comment, Page 16
Lex, Page 20
Solid capital, Page 28
Caution returns, Page 44
Markets, Pages 42-44
www.ft.com/dailyview

Flagging reserves: growing concern over the rescue plan saw the dollar slide 2 per cent against a basket of major rivals yesterday Reuters

News Briefing

Crunch day for Brown as he faces critics

Gordon Brown will attempt to silence critics with a "personal" speech to the Labour conference today, setting out his vision for the country and why he should stay in power. His speech will seek to address claims that he has run out of ideas and lost the ability to communicate. **Page 2; Editorial Comment, Page 16**

'Safe haven' concerns

Money market funds in the US suffered an estimated $197bn (£106bn) of net outflows last week as confidence in their safe-haven status fell. **Page 21**

Darling rejects tax rise

Chancellor Alistair Darling said he would not raise taxes now to stem the rise in government borrowing, saying he would restore order to public finances in the medium term. **Page 3**

Strike threat recedes

The threat of pay strikes by public-sector workers this winter receded after unions representing 700,000 local-government workers agreed to go to the arbitration and conciliation service. **Page 4**

Bank deputy's rate hint

The Bank of England deputy governor in charge of financial stability signalled that he may be prepared to support a cut in interest rates later this autumn. **Page 5**

Japan set for new PM

Former foreign minister Taro Aso was poised to become Japan's fourth prime minister in two years. **Page 10**

Fear of Russia grows

Russia's incursion into Georgia means many more western Europeans regard it as a greater threat to stability than states such as Iran, Iraq and North Korea, says a survey. **Page 12**

Berlin climate line jolt

A German decision to back an almost total exemption for industry from rules that would force companies to pay for the carbon dioxide they emit threatens to undermine a key tenet of EU climate policy, campaigners said. **Page 11**

New wine row uncorked

The EU started new proceedings against India at the World Trade Organisation over taxes and restrictions on European wine and spirits imposed by three Indian states. **Page 11**

Beijing official quits

China's chief quality regulator resigned as Beijing sought to contain a crisis over tainted milk that has left 13,000 children in hospital. **Page 13**

Leaders look to Bush

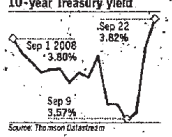
When George W Bush makes his last speech as president to the UN general assembly, world leaders will look for reassurance that the US battle to avert a meltdown of financial markets will not divert it from the need to tackle a range of other pressing issues. **Page 13**

Zuma appeals for calm

Jacob Zuma, leader of South Africa's ruling party, appeared set to install his right-hand man as caretaker president as he appealed for calm after the political coup that ended Thabo Mbeki's nine-year rule. **Page 8**

The day in summary

10-year Treasury yield



Global markets
10-year Treasury bill yield 3.82%
FTSE 100 ▼-1.41%
S&P 500 ▼-3.82%
Pages 42-44

Tug of war
All comers eye a piece of the $700bn Wall Street bail-out
Page 6

Toxic shock
The struggle facing US authorities in defining harmful bank assets
Page 6

Bond losses
Investors in Lehman Brothers bonds face losses of $110bn
Page 27

Lofty ambitions
Life as a major player may prove tough for Japan's Nomura
Page 27

Short order

Companies in the UK and US have appealed to regulators for protection from short selling, after the practice was banned or restricted for banks and other financial stocks in many countries last week. The calls have come in particular from property groups amid concerns that hedge funds looking for an alternative to shorting banks could move on to the heavily indebted sector instead.

Report, Page 21

Darling demands 'urgent review' of banking regulation in the City

FSA chief told to draw lessons from crisis

By George Parker, Jennifer Hughes and Jean Eaglesham in Manchester

Alistair Darling yesterday announced an "urgent review" of banking regulation and a minister admitted the government had failed to impose sufficient controls on the City.

The chancellor told Labour's conference in Manchester that he had asked Lord Turner, new chairman of the Financial Services Authority, to look at the regulatory system and draw lessons from the turmoil that has hit world markets.

His comments came as Ed Balls, one of the architects of the current system and now schools secretary, admitted that there were some areas where regulation should have been tougher.

The former City minister and Gordon Brown's closest ally told a fringe meeting at the Labour conference: "In some areas, we should definitely have been tougher and will need to be tougher in the future. This applied to "standards of corporate governance and regulation".

The Tories accused ministers of seeking to "disown" the prime minister's past approach after Mr Balls appeared to condemn Mr Brown's "light-touch" mantra on red tape.

Mr Darling told the Labour conference: "It's not a question of light-touch regulation against heavy-handed regulation. It's about effective regulation."

He confirmed that banking legislation would be published when the Commons returns on October 6, allowing the Bank of England to intervene in failing banks and increasing saver protection, but the chancellor believes he may have to go further.

"I have asked the new chairman of the FSA to review urgently what we need to do to review the system," he said.

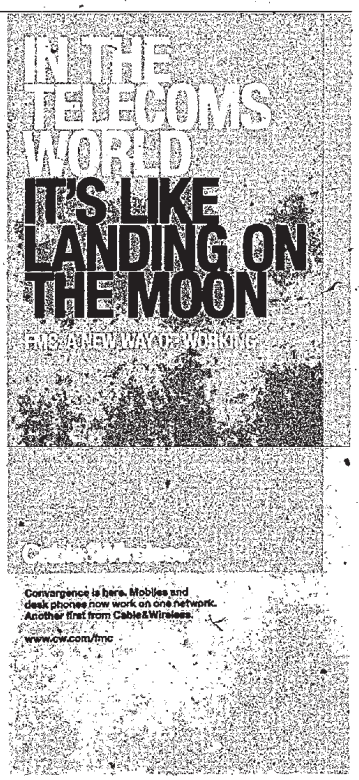
The Treasury says the review will cover all aspects of City regulation - including the operation of the FSA, which was highly critical of itself over its handling of the Northern Rock affair.

The regulator has also begun reviews into aspects of the credit crunch, including liquidity, banks' remuneration schemes, and capital requirements.

A senior FSA official said Lord Turner was "personally interested in taking a look at the overall regulatory framework".

Meanwhile, Yvette Cooper, chief secretary to the Treasury, last night told a Financial Times event at the Labour conference: "It is important that the City has legitimacy in Britain; people are angry right now, people are worried about their own savings and mortgages."

Conference reports, Pages 2-3
Editorial Comment, Page 16



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World Markets

STOCK MARKETS

	Sep 22	prev	%chg
Dow Jones Ind	11015.69	11383.44	-3.27
Nasdaq Comp	2176.98	2273.99	-4.27
S&P 500	1207.09	1255.03	-3.82
FTSE Eurofirst 300	1127.08	1150.78	-2.06
DJ Euro Stoxx 50	3181.77	3253.52	-2.21
FTSE 100	5236.3	5311.1	-1.41
FTSE All-Share UK	2667.11	2708.98	-1.55
CAC40	4223.51	4324.87	-2.34
Xetra Dax	6197.75	6189.53	+0.13
Nikkei	12090.59	11920.86	+1.42
Hang Seng	19632.20	19327.23	+1.58
FTSE All World $	206.7	208.7	-1.0

CURRENCIES

	Sep 22	prev		Sep 22	prev
$ per €	1.475	1.441	€ per $	0.678	0.694
$ per £	1.853	1.831	£ per $	0.540	0.546
£ per €	0.794	0.786	€ per £	1.260	1.272
¥ per $	106.2	106.8	$ per €	156.3	153.8
¥ per £	196.9	195.7	£ index	90.9	91.4
$ index	84.7	85.5	€ index	102.7	101.8
SFr per €	1.594	1.596	SFr per £	2.008	2.030

COMMODITIES

	Sep 22	prev	chg
Oil Brent $Nov	106.04	99.61	+6.43
Oil WTI $Oct	120.97	104.55	+16.37
Gold $	894.70	856.30	+38.40

INTEREST RATES

	Sep 22	prev	chg
US Gov 10 yr	3.81	3.84	+0.08
UK Gov 10 yr	4.82	4.69	+0.09
Ger Gov 10 yr	3.98	4.25	+0.02
Jpn Gov 10 yr	1.50	1.48	-
US Gov 30 yr	4.45	4.41	+0.05
Ger Gov 2 yr	3.99	4	-0.04
	Sep 22	prev	chg
Fed Funds Eff	1.44	2.16	-0.68
US 3m Bills	0.90	0.95	-0.06
Euro Libor 3m	5.03	5	+0.03
UK 3m	5.91	5.95	-0.04

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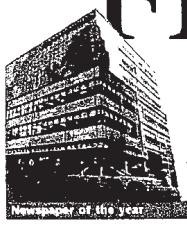

The new reality on Wall Street

JOHN PLENDER: The end of dollar dominance **Page 46** MARTIN WOLF: Why Paulson's bail-out falls short COMMENT **Page 19** FREDERIC MISHKIN: Inflation targets still matter **Page 19**

Newspaper of the year

World Business Newspaper

News Briefing

EDF in £12.4bn deal to acquire British Energy
EDF will today take the leading role in the development of nuclear power in Britain with the £12.4bn agreed takeover of British Energy, the nuclear generator. **Page 23; Somerset awaits, Page 4; European View, Page 33**

Age ruling welcomed
Employers' groups welcomed a ruling from an adviser to the European Court of Justice that the UK's compulsory retirement rules did not breach equality laws. **Page 5; Cartoon, Page 18**

Home gloom forecast
The Council of Mortgage Lenders said no improvement was likely in the housing market until 2010. **Page 4**

Euro recession signs
The eurozone has fallen into recession, with industry particularly badly hit by the fallout from global economic turmoil, survey results indicated. **Page 12; Paris mazed, Page 17; www.ft.com/vfe**

Channel 4 cuts staff
Broadcaster Channel 4 blamed a worsening advertising market for forcing it to sack 15 per cent of its workforce. **Page 4**

Salary pensions fall
Active membership of private sector defined benefit pension schemes, usually called "final salary" schemes, dropped 10 per cent last year, official figures revealed. **Page 4; Regulator rethink, Page 27; Pension risk, Page 46**

Russia exchange plea
Alexei Kudrin, head of Russia's main stock market, said the government's role in the ownership of exchanges should be reassessed if Moscow were to consider consolidating its two bourses. **Page 9; Editorial Comment, Page 18; www.ft.com/russiafinance**

EU telecoms plans
Mobile phone operators clashed with Brussels over plans to cut the cost of web surfing on handsets while abroad. **Page 12**

Funds sue over assets
Hedge funds have begun the first of what is expected to be a series of legal actions against administrators of the main European arm of Lehman Brothers to try to recover $40bn of assets. **Page 23; Lex, Page 22; Bonus pool, Page 29; Arbitrage disruption, Page 32**

Company chief killed
The killing of Lalit Kishore Chaudhury, chief executive of Italian car parts company Graziano Trasmissioni India, in an industrial dispute has sent shockwaves through India's business community. **Page 10**

Rand falls 3%
The South African rand fell more than 3 per cent against the dollar after finance minister Trevor Manuel resigned. **Page 9; Currencies, Page 46**

Corruption attacked
The world's wealthiest countries are failing to honour commitments to fight corruption, the leading international anti-graft watchdog said. **Page 10**

Gates defends attacks
US defence secretary Robert Gates suggested that the US was justified under international law in conducting unilateral military attacks inside Pakistan. **Page 11**

Carbon system starts
The first mandatory US inter-state carbon trading system will open tomorrow. **Page 21; www.ft.com/ftportcast**

Buffett to take $5bn stake in Goldman

Injection to aid bank's transformation

Change of strategy for veteran investor

By Henny Sender and Greg Farrell in New York

Goldman Sachs is to raise $5.5bn (£3bn) from Warren Buffett and other investors in the latest move aimed at ensuring it emerged from the financial crisis with its independence intact.

Goldman said last night that Mr Buffett's Berkshire Hathaway had reached an agreement to buy $5bn of preferred stock in a private placement and to receive warrants enabling it to purchase another $5bn of common stock. Goldman also said it planned to sell $2.5bn in common stock through a public offer.

The deal appeared to represent a change in strategy for Mr Buffett, 78, who has avoided investing in Wall Street firms since helping to rescue Salomon Brothers nearly two decades ago.

The $7.5bn boost in equity came a day after Goldman received an accelerated approval from the Federal Reserve to restructure itself as a bank holding company. The transition from pure investment bank, which could operate outside the regulatory oversight of the Fed, to bank holding company was designed to allay investor concerns about the future of Goldman's business model.

As recently as Monday, senior Goldman staffers had maintained they had no need for new equity unless the new capital helped served a strategic purpose.

Sovereign wealth funds such as the Kuwait Investment Authority have long sought a stake in Goldman. In recent days, there has also been market speculation that Industrial & Commercial Bank of China, in which Goldman has a minority stake, was considering making a reciprocal investment in Goldman.

"We are pleased that, given our longstanding relationship, Warren Buffett, arguably the world's most admired and successful investor, has decided to make such a significant investment in Goldman Sachs," said Lloyd Blankfein, chief executive of Goldman. "This investment will further bolster our strong capitalisation and liquidity position."

Goldman Sachs is an exceptional institution," said Mr Buffett. "It has an unrivalled global franchise, a proven and deep management team and the intellectual and financial capital to continue its track record of outperformance."

The deal seemed to reward Berkshire handsomely. The preferred stock will pay a dividend of 10 per cent. Although it can be bought back by Goldman at any time, the bank would have to pay Berkshire a 10 per cent premium to do so.

The warrants, which can be exercised over a five-year period, have a strike price of $115, well below Goldman's closing price of $125.05 yesterday.

Goldman's shares rose in after-market trading, a reflection of the regard Mr Buffett enjoys in the markets. Insiders said raising money from Mr Buffett represented an endorsement during a period when cash is king on Wall Street.

Second time around, Page 32

Passion play PM hits back

Gordon Brown, with his wife Sarah at Labour's conference. The prime minister's keynote speech won him some political breathing space **Plaudits, Page 3; www.ft.com/labour** Charlie Bibby

Bail-out push faces flak from wary Congress

By Krishna Guha, Daniel Dombey and James Politi in Washington and Michael Mackenzie in New York

The US plan to create a $700bn (£377bn) financial rescue fund encountered widespread discontent in Congress yesterday despite warnings from the administration that the economy could grind to a halt if the plan was rebuffed.

Ben Bernanke, Federal Reserve chairman, told the first congressional hearing on the plan that markets were "under extraordinary stress" and "action by Congress is urgently required to stabilise the situation".

Hank Paulson, Treasury secretary, said the plan would "avoid a series of financial institution failures and frozen credit markets that threaten American families' financial well-being, the viability of businesses both small and large and the very health of our economy".

But, after the hearing, Chris Dodd, chairman of the Senate banking committee, said the proposal was "not acceptable" in its current form.

Mr Bernanke suggested that the government should buy toxic mortgage assets at more than their current distressed prices.

The Fed chief said that if the Treasury bought assets at a price "close to the hold-to-maturity price" rather than current "fire-sale" price there would be "substantial benefits". Banks would be able to mark their portfolios to the new higher prices rather than the current firesale prices.

He said taxpayers would still be reasonably safe as the government would pay less than the cash flow value of the securities. In effect, he argued that there could be a win-win solution for both taxpayers and banks.

But his pitch appeared to fall on deaf ears in the legislature, where disquiet about the $700bn plan spread in spite of the dire warnings from the Fed chairman and Mr Paulson.

Republicans joined Democrats in calling for curbs on executive pay for banks participating in the scheme. "The party is over for this compensation for CEOs who take the golden parachute as they drive their companies into the ground," said Nancy Pelosi, speaker of the House.

> "The party is over for CEOs who take the golden parachute as they drive their companies into the ground"
>
> **Nancy Pelosi**
> **House speaker**

Bipartisan demands for the government to take equity warrants in such banks also swelled, while some senior Democrats and Republicans questioned whether the fund needed to be so big.

In a sign of mounting concerns about a gathering Republican revolt, the White House dispatched Dick Cheney, vice-president, to lobby his party's legislators on Capitol Hill.

The wrangling highlighted the difficulty in backing a rescue package of unprecedented size at a time when the US is deep into an election campaign and suspicion of Wall Street is high.

Financial markets grew nervous about the political negotiations. The S&P 500 ended the day down 1.6 per cent while the FTSE 100 fell 1.91 per cent.

The administration says the rescue will be approved this week because the alternatives are too grim. But both parties are concerned about being seen as too eager to back the plan.

Richard Shelby, the senior Republican on the committee, called for "a comprehensive and workable plan for resolving this crisis before we waste $700bn". He added: "We have been given no credible assurances that this plan will work."

Reports & Analysis, Pages 6-8
Editorial Comment, Page 18
Comment, Page 19
The Short View, Page 23
Financial Crisis, Pages 30-32
Markets, Pages 46-48
www.ft.com/dailyview

Hands 'shake-out'

Guy Hands has attacked private equity's pay structure and predicted its general partners' income will fall by 75 per cent because of the credit crisis. There will be less people working in the industry and they will get paid less, and that is not necessarily a bad thing," the Terra Firma chief said, in the first admission by a leading private equity executive that the industry faces a shake-out.

Report, Page 23

New York hedge fund revealed as biggest short seller of UK banks

Paulson & Co has bet against four big lenders

By James Mackintosh

John Paulson, the New York-based hedge fund manager who made billions of dollars predicting the subprime implosion, emerged yesterday as the biggest short seller of British banks.

Mr Paulson, the founder of Paulson & Co, has bet against four of the five biggest British banks, according to filings made under a new regulatory regime yesterday.

Paulson said the firm "empathises" with the tough position facing financial companies. But the scale of its positions, including a £950m bet against shares in Barclays; £288m against Royal Bank of Scotland; and £260m against Lloyds TSB, is unlikely to mollify critics of short selling.

Among the disclosures of other short positions are British and Irish banks, Barclays Global Investors, part of Barclays, was revealed as a surprise holder of a £4m bet against the shares of St James's Place, the wealth manager majority-owned by HBOS.

Short sellers aim to profit from falling prices, borrowing and selling shares in the hope of buying them back for less. Regulators have imposed restrictions on the practice around the world in an effort to stabilise markets, with the UK ruling that investors may not increase short positions.

The Financial Services Authority also demanded disclosure of shorts of more than 0.25 per cent of a company. In the US, hedge funds have managed to persuade their market regulator to delay a similar disclosure regime and are trying to get it scrapped.

Man Group, the biggest listed hedge fund manager, has asked the FSA to add it to the list of protected stocks, because it fears investors unable to short other companies are pulling out of it according to people familiar with the talks. Paulson said both its long and short positions were "based on extensive research on the company and its fundamentals, rather than short-term market movements". The FSA extended its list of protected stocks to cover Aberdeen Asset Management and F&C Asset Management. The New York Stock Exchange, which with Nasdaq was given authority for maintaining the US lists, added another 44 stocks.

New York-listed broker and asset manager JMP Group became the first company to opt out of the rules. Craig Johnson, president, said an outright ban on short selling financial stocks was "over-reaching".

"If people want to short our stock, that's their decision," Mr Johnson added.

Man in short list plea, Page 26
Ban's liquidity impact, Page 47
www.ft.com/short

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World Markets

STOCK MARKETS

	Sep 23	prev	%chg
Dow Jones Ind	10854.77	11015.69	-1.47
Nasdaq Comp	2153.83	2178.48	-1.13
S&P 500	1188.22	1207.09	-1.56
FTSEurofirst 300	1028.54	1047.08	-1.64
DJ Euro Stoxx 50	3139.83	3184.77	-1.37
FTSE 100	5136.1	5235.3	-1.91
FTSE All-Share UK	2614.14	2664.11	-2.10
CAC40	4139.82	4223.51	-1.98
Xetra Dax	6068.53	6107.75	-0.64
Nikkei	63	12090.59	-
Hang Seng	18872.85	19672.20	-3.87
FTSE All World $	203.8	206.7	-1.4

CURRENCIES

	Sep 23	prev		Sep 23	prev
$ per £	1.472	1.475	€ per $	0.680	0.678
$ per €	1.533	1.553	€ per £	0.940	0.940
£ per €	0.794	0.794	£ per $	1.260	1.260
¥ per $	103.9	106.2	¥ per £	155.7	156.3
¥ per €	156.1	156.9	$ index	91.1	90.9
$ index	84.2	84.7	€ index	102.9	102.7
Sfr per £	1.593	1.594	Sfr per $	2.007	2.008

COMMODITIES

	Sep 23	prev	chg
Oil Brent $/bbl	103.08	106.04	-2.96
Oil WTI $/bbl	106.51	120.92	-14.31
Gold $	901.85	894.70	+6.45

INTEREST RATES

	price	yield	chg
US Gov 10 yr	101.27	3.84	-
UK Gov 10 yr	102.49	4.67	0.02
Ger Gov 10 yr	99.99	4.25	-
Jpn Gov 10 yr	100.17	1.43	-
US Gov 30 yr	101.09	4.43	+0.02
Ger Gov 2 yr	100.26	3.69	0.01
	Sep 23	prev	chg
Fed Funds Eff	1.51	1.48	+0.03
US 3m Bills	0.82	0.90	-0.08
Euro Libor 3m	5.05	5.03	+0.03
UK 3m	5.05	5.91	+0.14

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The U2 frontman blogs from New York on development

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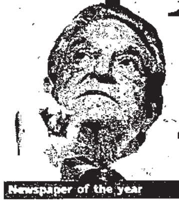


Global banks in crisis

GEORGE SOROS: My better rescue plan; JOHN GAPPER: Goldman's Buffett gambit **Page 29**
LEX **Page 22** MARKETS **Pages 46-48** Instant market insight **ftalphaville.ft.com**

Newspaper of the year — World Business Newspaper

News Briefing

EDF might sell up to four reactor sites
Up to four sites for building new reactors will be put up for sale by French power group EDF following its £12.5bn acquisition of British Energy. **Page 23; Editorial Comment, Page 18; www.ft.com/dailyview**

Sales bounce back
High street sales remained weak in September but bounced back from a dismal August, the CBI employers' organisation said. **Page 4**

London still number one
London is still top among world financial centres but the fallout from the credit crunch has cut into its lead over rival cities, a survey revealed. **Page 6**

Lehman claims eyed
The bankruptcy of Lehman Brothers could spur trading in a new asset class: claims from creditors owed anything from forcibly unwound derivatives transactions to unpaid catering bills. **Page 23**

Migration pact nears
A crackdown on illegal immigrants, coupled with encouragement for qualified foreigners to work in the European Union, are part of an immigration pact set to be adopted today. **Page 12**

N Korea nuclear threat
North Korea has barred international monitors from a key nuclear facility and threatened to restart its nuclear programme. **Page 13; Russian refusal scuppers talks, Page 10; www.ft.com/northkorea**

Shift threatens Merkel
Germany's Christian Social Union risks losing its absolute majority in Bavaria for the first time in 46 years. The shake-up, if it happens, could have implications for chancellor Angela Merkel. **Page 12**

Oil move to worry west
Azerbaijan has responded to the Georgian crisis by reducing its reliance on trans-Caucasus oil pipelines, increasing shipments to Russia and starting to sell crude to Iran, in moves that will raise concerns in the US and the European Union. **Page 13**

WFP shifts to farmers
The World Food Programme announced it will now purchase from the world's poorest farmers as it broadens its role towards development. **Page 10**

Race to space
China and India deny they are engaged in a space race but both are sending up rockets. **Page 7**

Iraq acts on elections
Iraq's parliament passed a provincial elections law but only after postponing debate on one of the thorniest issues, the future of the city of Kirkuk. **Page 13**

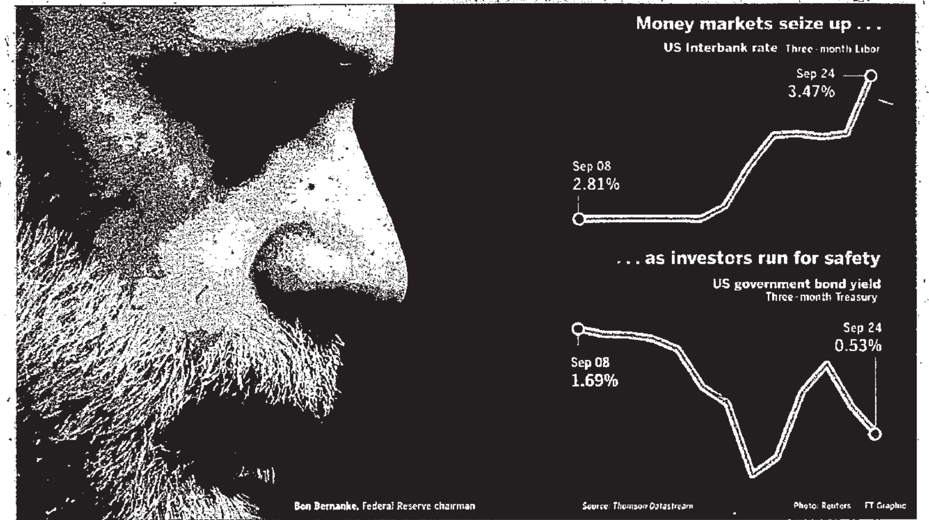
Palin prepares for test
Republican vice-presidential candidate Sarah Palin held meetings at the UN to prepare for the first test of her foreign policy credentials. **Page 8**

FT supports WaterAid
The Financial Times has selected WaterAid, which helps some of the world's poorest people gain access to safe water and sanitation, for its 2008 seasonal charity appeal to readers. **Page 10; Severe attention deficit, Page 14**

Separate section

Appointments
Top jobs in business and finance

Bail-out row hits credit markets



Ben Bernanke, Federal Reserve chairman

Source: Thomson Datastream   Photo: Reuters   FT Graphic

McCain campaign on hold until deal reached

Uncertainty over plan sparks flight to safety

By Daniel Dombey, Demetri Sevastopulo and Andrew Ward in Washington and Michael Mackenzie in New York

The fight over the Bush administration's plans for a $700bn financial rescue package unnerved markets and spilled over into the US presidential race yesterday as John McCain, the Republican nominee, said he would put his campaign on hold until a deal was reached.

Amid uncertainty about the plan's prospects, US money market funds controlling thousands of billions of dollars in assets led a stampede to safety, buying short-term government debt, selling commercial paper and withdrawing funds from the interbank market. As a result, the rates that banks charge each other soared, while yields on Treasury bills plunged.

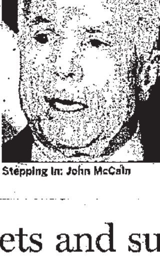
The difficulties facing the White House were highlighted by Mr McCain, who announced he would suspend his campaign today and called on Barack Obama, his Democratic rival, to agree to delay a widely anticipated presidential debate scheduled for tomorrow.

"It's become clear that no consensus has developed to support the administration's proposal," Mr McCain said. "I do not believe that the plan on the table will pass as it currently stands and we are running out of time."

Mr Obama said that he had originally proposed forging a common front on the rescue package to his Republican rival. But he said he wanted to go ahead with the debates.

Republicans and Democrats, including Mr McCain and Mr Obama, have criticised the proposals for lacking provisions for oversight and curbs on executive pay – and have questioned the size of the package.

Last night, Nancy Pelosi, Speaker of the House of Representatives, and John Boehner, her Republican opposite number, said the two parties had made progress in agreeing "key changes" to the proposals. These included "rigorous and independent oversight, strong executive compensation standards and protections for taxpayers", they said.



Stepping in: John McCain

In a further indication that differences with the administration were narrowing, Democratic senator John Kerry said the two sides had reached agreement in principle on the government purchasing equity stakes in groups assisted under the scheme.

As officials struggled to address the mounting political objections, Ben Bernanke, Federal Reserve chairman, told Congress turmoil in the markets could lead to greater economic pain. Peter Orszag, head of the Congressional Budget Office, warned lawmakers of possible "chaos" if Congress did nothing. "You would have a financial market meltdown that would cause very severe dislocations ... maybe on the magnitude of the Great Depression."

The flight to safety drove yields on three-month Treasury bills below 0.5 per cent, down from 1.45 per cent just two days before. The two-year note yield fell below 2 per cent. Brokers expected the benchmark three-month London Interbank Offered Rate would set today at 3.64 per cent after rising 26.5 basis points to 3.476 per cent yesterday.

Demand for government debt and the rise in Libor meant that the two-year swap spread reached 1.66 percentage points above the two-year Treasury yield – its highest in history.

Reports, Pages 9, 29 and 30
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www.ft.com/crisis

Banks put £6bn in the Old Lady

British banks have squirrelled away nearly £6bn with the Bank of England rather than lend it to each other for more than a few days even though it means they earn less interest on their money, **writes Chris Giles.**

The Bank of England announced yesterday that £5.9bn had been put in its safe but low-interest deposit standing facility since Tuesday night in a sign of the fear gripping money markets that has helped drive up long-term bank borrowing costs.

So unusual was the behaviour of money markets in London that the Bank is now taking back most of the additional £25bn of liquidity it pumped into the short-term money markets last week.

Yesterday, the central bank also mopped up another £10bn of surplus overnight cash from the banking system and is likely to lend significantly less in its weekly operation today than it did last week.

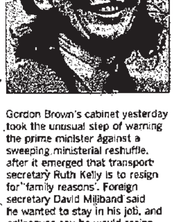
The Bank's standing facility offers a home for financial institutions that find themselves with too much cash overnight and no one to lend it to. The facility offers a rate of only 4 per cent, one percentage point below the remunerations the bank normally offers on reserves held at the bank.

Flooding the system with liquidity last week solved the immediate problem faced by banks with money tied up at Lehman Brothers and enduring a cash shortfall. But the new crisis the central bank faces is that the Lehman bankruptcy has destroyed confidence in counterparties' ability to pay back longer-term loans.

Market participants say the loss of funding relates not just to banks refusing to lend to each other at anything other than the shortest durations, but money market funds and asset managers making similar decisions.

Help ease the pain, Page 4

Cabinet warns PM



Gordon Brown's cabinet yesterday took the unusual step of warning the prime minister against a sweeping ministerial reshuffle, after it emerged that transport secretary Ruth Kelly is to resign for "family reasons". Foreign secretary David Miliband said he wanted to stay in his job, and colleagues say he would resign rather than face a demotion. Health secretary Alan Johnson said: 'I want to stay where I am.'

Report, Page 3

Supermarkets and suppliers face big fines in cartel investigation

Evidence found of price plan sharing

By Michael Peel and Elizabeth Rigby

Leading supermarkets and consumer goods businesses are facing the threat of heavy fines after the competition watchdog confirmed it had found evidence of companies sharing pricing plans.

The Office of Fair Trading has told a number of companies involved in its biggest ever cartel investigation that it had "reasonable grounds to suspect" pricing data were passed between supermarkets via suppliers, people familiar with the matter said.

The disclosure – contained in a letter sent out last week – highlights the potential impact of a probe into the pricing by at least 24 companies of scores of products from toothpaste to tea, say people who have seen it.

This year, the OFT raided Tesco, J Sainsbury, Wm Morrison, Asda and Procter & Gamble, the world's biggest consumer goods maker, and asked for information from other businesses including Unilever, Nestlé, Cadbury, Mars, Coca-Cola Enterprises and GlaxoSmithKline. No company has been accused of any breach of the law.

The OFT's letter says the probe is now focusing on whether the suspected information sharing broke the same laws which led to fines totalling tens of millions of pounds on the sportswear and toy industries. In unrelated investigations, people who have seen the documents said.

The investigation, which is still at an early stage, cuts across product categories ranging from grocery items such as PG Tips to health and beauty products such as Aquafresh toothpaste.

The probe was triggered by Asda, which approached the OFT after uncovering information during a trawl of e-mails last summer ordered by the Competition Commission during a separate investigation into the grocery industry. Asda was at the time locked in a fierce price war with Tesco, which also provided e-mails to the commission.

The OFT said it had written "in the interests of transparency" to update all parties in its "ongoing investigation into potential breaches of competition law by a number of retailers and suppliers". It declined to give further details.

The watchdog can fine companies up to 10 per cent of revenues should it conclude a cartel has been operating, although whistleblowers can receive reductions of up to 100 per cent.

Arla Foods, the UK arm of the Scandinavian farmer-owned dairy processor and Asda's main supplier, gave the OFT evidence of price-fixing in 2002 and 2003, which has so far resulted in fines of £116m on the dairy and supermarket industries.

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World Markets

STOCK MARKETS

	Sep 24	prev	%chg
Dow Jones Ind	10825.17	10854.17	-0.27
Nasdaq Comp	2155.68	2153.33	+0.11
S&P 500	1183.87	1186.22	-0.20
FTSEurofirst 300	1101.60	1108.54	-0.63
DJ Euro Stoxx 50	3119.83	3139.83	-0.64
FTSE 100	5095.6	5136.1	-0.79
FTSE All-Share UK	2591.71	2611.14	-0.74
CAC40	4114.54	4139.82	-0.61
Xetra Dax	6052.87	6068.53	-0.26
Nikkei	12115.03	(c)	+0.20
Hang Seng	18961.99	18872.65	+0.47
FTSE All World $	203.1	203.8	-0.4

CURRENCIES

	Sep 24	prev		Sep 24	prev
$ per €	1.467	1.472	€ per $	0.682	0.680
$ per £	1.852	1.853	£ per $	0.540	0.540
£ per €	0.792	0.794	€ per £	1.263	1.260
¥ per $	106.0	105.9	¥ per €	155.5	155.7
¥ per £	196.4	196.1	£ index	91.3	91.1
$ index	84.4	84.2	€ index	102.7	102.9
SFr per €	1.596	1.593	SFr per £	2.016	2.007

COMMODITIES

	Sep 24	prev	chg
Oil Brent $/Nov	102.45	103.08	-0.63
Oil WTI $/Nov	105.73	106.61	-0.88
Gold $	889	901.15	-12.15

INTEREST RATES

	price	yield	chg
US Gov 10 yr	101.75	3.79	-0.06
UK Gov 10 yr	103.26	4.57	-0.10
Ger Gov 10 yr	100.61	4.17	-0.08
Jpn Gov 10 yr	100.09	1.49	+0.01
US Gov 30 yr	101.66	4.40	-0.03
Ger Gov 2 yr	100.43	3.77	-0.12

	Sep 24	prev	chg
Fed funds Eff	1.46	1.51	-0.05
US 3m Bills	0.46	0.82	-0.37
Euro Libor 3m	5.06	5.05	+0.01
UK 3m	6.15	6.05	+0.10

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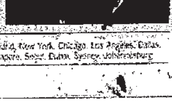

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FINANCIAL TIMES

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Inside the financial crisis

JEFFREY GARTEN: The need for a global monetary authority and WILLIAM LAZONICK: Paying the price of share buy-backs **Page 19** Markets **Pages 44-46** LEX **Page 22** **ftalphaville.ft.com**

Newspaper of the year

World Business Newspaper

News Briefing

Lehman recruits to gain Nomura bonuses

Top Lehman bankers in London have been offered large cash bonuses by Nomura, which bought the European and Asian operations of the bankrupt bank. News of the bonuses, part of a $1bn (£544m) pot Nomura has set aside to keep Lehman staff, comes as compensation in the City is under scrutiny. **Page 23; City bonuses, Page 3; Pension premium, Page 24**

EU hits at China curbs

Economic nationalism is rising in China, Peter Mandelson, the EU trade commissioner, said as he criticised restrictions faced by foreign companies. **Page 14**

Hermes rent revamp

Hermes, one of the largest UK landlords, broke ranks by agreeing to end the requirement to pay rent quarterly in advance for all its 2,000 tenants. **Page 23**

BAA break-up backed

The aviation regulator backed the break up of BAA, the UK airports operator, and urged the sale of two of its London airports and one in Scotland **Page 2**

SA president installed

Kgalema Motlanthe, a former guerrilla and union leader, became South Africa's caretaker president following the ousting of Thabo Mbeki **Page 13**

Carmakers' CO_2 reverse

Carmakers were rebuffed in their efforts to roll back planned restrictions on carbon dioxide emissions after a vote by the European parliament's environmental committee **Page 13**

Oil losses drive up price

Oil production losses caused by hurricanes Ike and Gustav in the Gulf of Mexico were greater than initially predicted, helping to keep prices above $100 in spite of slower economic growth. **Page 12; Commodities, Page 44**

Japan fears recession

Japanese exports to the US fell 22 per cent last month, pushing the trade balance into deficit and bolstering the view that the economy may be in recession. **Page 14; Lex, Page 22**

$3bn malaria pledge

Governments and other donors pledged $3bn (£1.63bn) to help eliminate the 1m annual deaths caused by malaria. **Page 12**

Dissenters hold up US bail-out

Straight talk: George Bush chairs a meeting on Capitol Hill to hammer out a rescue deal with Congressional leaders and presidential hopefuls John McCain and Barack Obama AFP

Emergency meeting ends without a deal

Republicans accused of complicating talks

By Daniel Dombey, Krishna Guha, James Politi in Washington and Andrew Jack and Michael Mackenzie in New York

An unprecedented White House emergency meeting ended last night without full agreement on the Bush administration's financial rescue package after another day of intense stress on the money markets.

A hard core of Republicans on Capitol Hill maintained their resistance to a deal, even as John McCain and Barack Obama, the leading candidates in November's presidential elections, met President George W. Bush and Congressional leaders to hammer out a compromise.

Under a set of principles agreed by the congressional leadership of both parties, the administration would be granted the full $700bn it sought, but with a first tranche of just $250bn and a further $100bn available without further congressional approval. Congress would get a chance to a vote on the remaining $350bn at a later date.

The US Treasury was considering the proposals last night.

The proposed compromise would also modify the administration's original proposals so as to prevent "inappropriate executive compensation for participating companies". It would allow the federal government to take stakes in the companies assisted under the plan and establish a powerful oversight board.

Earlier in the day, Chris Dodd, the Democratic chairman of the Senate banking committee, said the two parties' Congressional leadership had reached "fundamental agreement" on the principles for a deal.

"I now expect we will, indeed, have a plan that can pass the House, pass the Senate, be signed by the president, and bring a sense of certainty to this crisis that – is still roiling in the market," added Bob Bennett, Republican Senator from Utah.

However, emerging from the meeting at the White House, Mr Dodd accused Mr McCain and Republicans in the House of Representatives of complicating the negotiations with last-minute demands. "We haven't gotten

> 'Anyone looking at the money markets would come to the conclusion that we are one minute before a terminal heart attack'
>
> **Hans Jorg Rudloff**
> **Barclays Capital chairman**

agreement," said Senator Richard Shelby, the senior Republican member of the Senate Banking Committee.

"There's still a lot of different opinions. Mine is it's flawed from the beginning."

The S&P 500 finished up nearly 2 per cent and had shrugged off a profits warning from General Electric amid hopes that Congress would pass the plan. The dollar was broadly firmer and Treasury yields had risen.

But conditions in the money market remained deeply distressed, with short-term rates rising further and lending beyond overnight largely paralysed.

Hans Jorg Rudloff, Barclays Capital chairman, said: "Anyone looking at the money markets would come to the conclusion that we are one minute before a terminal heart attack. Therefore the rescue package will pass. There is no choice."

The latest weekly data on commercial paper from the Federal Reserve showed a decline of $61bn in outstanding volume, the largest weekly decline since August of last year.

Three-month dollar Libor rose 29 basis points to 3.77 per cent.

If this key borrowing rate does not soon ease, the Fed may be forced to attack it directly with three-month liquidity operations.

Meanwhile new data revealed the massive increase in Fed liquidity support over the past week, including $79bn in indirect loans to money market funds and a near doubling of its direct lending to investment banks and other primary dealers.

The negotiations followed a high profile announcement the day before by Mr McCain to suspend his presidential campaign until an agreement could be reached.

"I'm an old Navy pilot, and I know when a crisis calls for all hands on deck," he said yesterday. "I cannot carry on a campaign as though this dangerous situation had not occurred."

But the Obama campaign resisted Mr McCain's calls to delay the campaign's first presidential debate, scheduled for today

Additional reporting by Catherine Belton in Moscow

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Pressure grows on Bank to act

Pressure is mounting on the Bank of England to lend billions of pounds to the money markets for terms of at least three months to prevent what traders describe as an unprecedented market collapse, **writes Norma Cohen**.

Traders said bankers were so fearful of extending cash to a possibly insolvent counterparty that lending for anything longer than overnight, even when backed by high quality collateral, had nearly halted.

"In the past two weeks, I have seen two loans for two week terms, a handful for one week and that is it," said one trader, who estimated that loans longer than 24 hours were "down about 95 per cent".

Insecurity is so great that the cost of banks' unsecured borrowing from each other for three months, the sterling Libor rate, rose yesterday to 6.27 per cent compared with 5.70 per cent just before the Lehman Brothers collapse.

"Market conditions look horrible," said Philip Shaw, an economist at Investec Securities. Traders believe the Bank has to reinstate the three-month injections of cash it carried out in January and February but which were allowed to roll off after the creation of the Special Liquidity Scheme in which banks could swap mortgage backed securities for longer-term cash.

Both the Bank and the Treasury declined to comment on plans to provide liquidity.

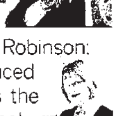
The weight of money looking for a home sent overnight money market rates to below 2 per cent on Wednesday against an official Bank rate of 5 per cent. Banks deposited nearly £6bn in a low interest facility with the Bank of England rather than lend to each other.

The facility has been used rarely since it was created in 2006, and never for more than £1bn. On Monday, £9.472bn was deposited, on Tuesday £5.9bn. On Wednesday, when the Bank drained £10bn of reserves, deposits were £35m.

MPC rate cut hunt, Page 2

Tomorrow

Warren Buffett's first Wall Street meltdown

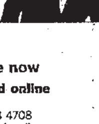


FT Weekend

Jancis Robinson: mid-priced wine is the best deal

FT Weekend
Life & Arts

Tyler Brûlé: what London needs to succeed



FT Weekend
Life & Arts

Church accused of hypocrisy after archbishops' attack on short selling

Hedge funds flag stock lending and debt sales

By James Mackintosh, Kate Burgess and Jimmy Burns in London

The Church of England faced charges of hypocrisy yesterday over its leaders' attack on short selling and debt trading after hedge funds pointed out that it uses some of the same practices when investing its own assets.

Rowan Williams, archbishop of Canterbury and head of the Anglican Church, said it was right to ban short selling, while John Sentamu, archbishop of York, called traders who cashed in on falling prices "bank robbers and asset strippers".

Hedge funds pointed to the willingness of the church commissioners to lend foreign stock from their £5.5bn of investments – an essential support for short selling – and derided the pair for not understanding shorting. "They are trying to shoot the messenger and ... deflecting attention away from the dramatic incompetence of bank executives," said Hugh Hendry, of hedge fund Eclectica Asset Management. "Short selling is the pursuit of truth."

Andreas Whittam-Smith, who as First Church Estates Commissioner oversees the church's assets, said the commissioners referred the practice of stock lending to their ethical advisory group, which had approved it.

Short sellers, particularly hedge funds, aim to profit from falling prices, and have been widely attacked for the fall in shares of banks such as HBOS. Hedge funds counter that the main reason prices fell was panic selling by ordinary investors.

As well as aiding shorting by lending stock, the church commissioners had £13m invested in Man Group, the biggest listed hedge fund manager, at the end of last year. The commissioners also sold a £135m mortgage portfolio last year, says their annual report, despite Dr Williams' criticism of trading debts for profit.

Through the Church of England pensions board, which manages another £847m, the church invested this year in a fund from Auriel Capital, a London hedge fund, which aims to make money from currency trading – including short selling currencies.

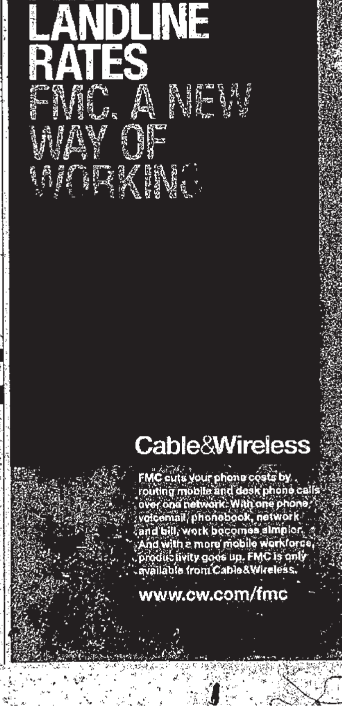
Andrew Brown, secretary to the commissioners, said they did not invest in Man's products, only its shares, and none of their managers used shorting. "We can assure you that the commissioners' stocks have not been used to facilitate the shorting of financially vulnerable institutions in the US and UK, including HBOS," he said. "Nor will this happen."

Short-changed, Page 2
Editorial Comment and Letters, Page 14
Lombard, Page 24
www.ft.com/management

Assets drain away

Morgan Stanley lost a third of assets in its prime brokerage last week – hundreds of billions of dollars – as hedge funds fled to other banks after the collapse of Lehman Brothers. The losses, confirmed by several people familiar with the business, will deal a significant blow to Morgan Stanley as its prime brokerage, the world's biggest, is one of its most profitable and successful businesses.

Report, Page 23



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Selling price in Irish Republic €2.20

World Markets

STOCK MARKETS

	Sep 25	prev	%chg
Dow Jones Ind	11022.06	10825.17	+1.82
Nasdaq Comp	2186.57	2155.68	+1.43
S&P 500	1209.18	1185.87	+1.97
FTSEurofirst 300	1125.43	1101.60	+2.16
DJ Euro Stoxx 50	3207.11	3119.83	+2.80
FTSE 100	5197.0	5095.6	+1.99
FTSE All-Share UK	2636.31	2591.71	+1.72
CAC40	4226.81	4114.54	+2.73
Xetra Dax	6173.03	6052.87	+1.99
Nikkei	12006.53	12115.03	-0.90
Hang Seng	18934.43	18961.99	-0.15
FTSE All World $	205.8	203.1	+1.3

CURRENCIES

	Sep 25	prev		Sep 25	prev
$ per €	1.461	1.467	€ per $	0.685	0.682
$ per £	1.835	1.852	£ per $	0.545	0.540
£ per €	0.794	0.792	€ per £	1.259	1.263
¥ per $	106.6	106.0	¥ per €	156.1	155.5
¥ per £	196.5	196.4	£ index	91.1	91.3
$ index	84.5	84.4	€ index	102.9	102.7
SFr per €	1.593	1.596	SFr per £	2.006	2.016

COMMODITIES

	Sep 25	prev	chg
Oil Brent $ Nov	104.60	102.45	+2.15
Oil WTI $ Nov	108.02	105.73	+2.29
Gold $	872.50	889.00	-16.50

INTEREST RATES

	price	yield	chg
US Gov 10 yr	101.19	3.85	+0.06
UK Gov 10 yr	102.87	4.52	+0.05
Ger Gov 10 yr	100.10	4.23	+0.06
Jpn Gov 10 yr	100.17	1.48	-0.01
US Gov 30 yr	101.41	4.41	+0.01
Ger Gov 2 yr	100.26	3.86	+0.09

	Sep 25	prev	chg
Fed Funds Eff	1.19	1.46	-0.27
US 3m Bills	0.73	0.45	+0.28
Euro Libor 3m	5.11	5.06	+0.05
UK 3m	6.23	6.15	+0.08

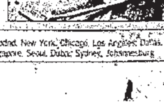
Prices are latest for edition

On FT.com today

FT Money show

Podcast: Where to find safety in the financial storm

www.ft.com/moneyshow



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FINANCIAL TIMES | Saturday September 27 / Sunday September 28 2008 | £2.30

FT WEEKEND

Newspaper of the year

LIFE & ARTS PAGES 4, 12-13

Wine and art

JANCIS ROBINSON picks bargain bottles. JACKIE WULLSCHLAGER on Rothko's late works at the Tate

SERIALISATION PAGES 18 & 19

Warren Buffett

The day he faced a meltdown on Wall St. INSIDE: read our second exclusive extract from the authorised biography

Inside

Merryn Somerset Webb: the buy-to-let backlash

Money
Page 5

Vanessa Friedman at Milan fashion week

Life & Arts
Page

Travel special: best of Barcelona

Life & Arts
Pages

News Briefing

Brown lambasts 'age of irresponsibility'

Gordon Brown urged an end to "the age of irresponsibility" as the prime minister concluded a US tour designed to burnish his credentials as an influential leader in the debate on tighter financial regulation. **Page 2**

JJB shares fall 50%

JJB Sports said it was in dispute with HBOS over its banking covenants, leading auditors to warn it might not continue as a going concern and triggering a 50 per cent fall in the retailer's share price **Report and Lombard, Page 22**

NZ in recession

New Zealand has sunk into its first recession in 10 years following a 0.2 per cent contraction in gross domestic product in the three months that ended in June. It is the first Asia Pacific country, and one of the first developed economies, to suffer recession **Page 11; Lex, Page 32**

Russia pro-UN on Iran

Russia moved to reaffirm the unity of the main powers in confronting Iran over its nuclear programme by backing a new UN resolution that condemns Tehran. **Page 12**

Rivals eye Alitalia slice

Lufthansa and Air France-KLM are considering taking a minority stake in the Italian consortium that is seeking to rescue Alitalia from bankruptcy, representatives of the team said. **Page 25**

Koizumi calls it a day

Former Japanese premier Junichiro Koizumi is to retire from politics. **Page 14**

FT charity choice

The FT has chosen WaterAid, which helps some of the world's poorest people gain access to clean water and sanitation, for our December 2008 seasonal charity appeal to readers. The work of Camfed International, subject of our 2006 and 2007 appeals, is featured today in FT Weekend Magazine.

Bail-out talks regain momentum

Republicans hold out over $700bn rescue

Stocks fall in Asia and Europe but rally in US

By FT reporters

Investors worldwide held their breath as talks on the US government's $700bn financial rescue plan entered the weekend with fresh momentum after stalling in the face of opposition from congressional members of President George W. Bush's own Republican party.

Stocks fell in Asia and Europe but rallied in late US trading as markets, earlier stunned by the collapse of Washington Mutual, the largest US savings and loan group, grew less concerned about the bail-out. Money markets remained under severe stress and the commercial paper market used by many companies to fund their business operations was largely frozen.

By late afternoon, Nancy Pelosi, Speaker of the House of Representatives, said talks were back on track after sharp disagreements a day before, adding she was confident that a deal could be reached by tomorrow.

The strongest opposition to the administration's plans has come from House Republicans, such as Eric Cantor of Virginia, who said: "We don't have to do a $700bn bail-out." Nevertheless, there were signs that a compromise could be reached after House Republican dissenters joined the talks yesterday afternoon. Bankers warned of a catastrophic response if the talks did collapse. "It feels as if we are 15 minutes away from the end of the world," the head of equities at a big UK bank told the Financial Times.

Yesterday morning, Mr Bush sought to reassure markets and the American people that the rescue package for the US financial industry would pass, but admitted that differences still needed to be overcome. "This is hard work," Mr Bush said. "Our proposal is a big proposal and the reason it's big and substantial is because we got a big problem."

Congress had been set to go into recess yesterday for November's elections but leaders from both parties said they would stay in Washington until a deal was done. Meanwhile, John McCain, the Republican presidential candidate, reversed his original position and agreed to take part in a long-awaited first presidential debate last night. The US Treasury is anxious that both Mr McCain and Barack Obama, the Democratic candidate, publicly commit to supporting the plan, something Mr McCain, in particular, has not done. "From day one we knew it would be important to have both presidential candidates on board. This close to an election, members of both parties look to their candidates for guidance," a senior Treasury official told the FT.

Democrats claim Mr McCain's intervention in the talks on Thursday emboldened House Republican opposition and set back the talks; the McCain camp insists he was trying to broker a deal. Some legislators indicated that a deal would involve more oversight, taxpayer protection and curbs on executive pay – and possibly elements of a rival House Republican plan in which banks would buy insurance against defaults on mortgage-based securities.

In a sign of the unease in Europe about the freezing of money markets, the Bank of England announced an expansion of its liquidity support operations, saying it would lend banks £40bn until mid-January against a wider-than-usual range of collateral.

Reporting by Krishna Guha, Daniel Dombey and James Politi in Washington, Michael Mackenzie in New York, and Chris Giles and Kate Burgess in London

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Fears for finance, Page 15
Editorial Comment, Page 16
Man in the News, Page 17
Markets, Pages 30 & 31
Lex, Page 32
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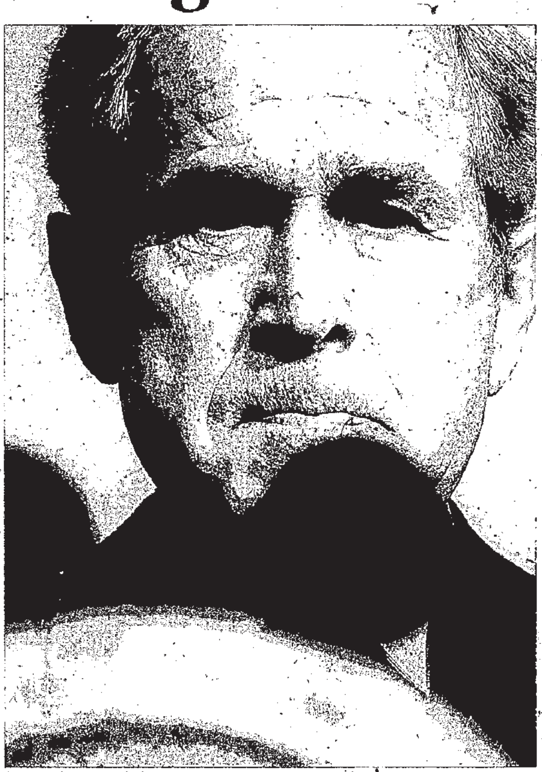


'We got a big problem': George W. Bush speaking outside the Oval Office yesterday AFP

The day in summary

TED spread

3-month Libor rate over 3-month T-bill rate

Sep 1 2008 112 bp; Sep 26 2008 290 bp

Source: Thomson Datastream

Global markets

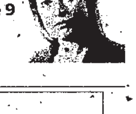
Three-month Treasury bill yield	-0.86%
FTSE 100	▼2.09%
S&P 500	▲0.33%

Pages 30 & 31

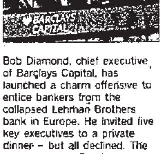
Clive Crook
John McCain stands implicated in the stalling of the financial rescue plan
Page 7

Battle for survival
Once dominant investment banks are a species close to extinction
Page 15

Big Mac rules
The credit markets now think McDonald's looks as safe a bet as Uncle Sam
Gillian Tett
Page 9



Barclays rebuff



Bob Diamond, chief executive of Barclays Capital, has launched a charm offensive to entice bankers from the collapsed Lehman Brothers bank in Europe. He invited five key executives to a private dinner – but all declined. The move came as Barclays interviewed Lehman employees not keen on staying with the firm, in what was dubbed 'Project Destiny'.

Report, Page 21

Wachovia makes approaches to buyers as shares plunge by 27%

Growing fears of more casualties to come

By Francesco Guerrera, Julie MacIntosh and Henny Sender in New York

Wachovia approached potential buyers including Citigroup, Wells Fargo and Spain's Banco Santander yesterday after a 27 per cent plunge in its shares deepened fears over the future of the sixth-largest bank in the US.

The move came after JPMorgan Chase's takeover of most of Washington Mutual, the collapsed lender that became the US's biggest bank failure on Thursday, and did little to soothe investor worries over future casualties of the financial crisis.

People close to the situation said that after seeing its shares slumping throughout the day, Wachovia executives, led by its chief executive Robert Steel, contacted Citi, Wells and Santander – three of the defeated bidders for WaMu. Canada's Toronto Dominion was also interested in WaMu and may take a look at Wachovia,' they added. The banks declined to comment.

In Europe, Belgium's government scrambled to reassure depositors at Fortis that their savings were safe as the Belgo-Dutch banking and insurance group struggled to dispel rising fears in financial markets about its liquidity.

Fortis abruptly announced last night that Filip Dierckx, head of Fortis bank, would succeed Herman Verwilst as the group's chief executive.

In the UK, shares in Bradford & Bingley, the country's biggest buy-to-let lender, fell to an all-time low of 20p amid growing doubts that the company could remain a standalone entity.

Wachovia's portfolio of toxic mortgages was one of the stumbling blocks that killed off talks with Morgan Stanley last week.

People close to some of the potential buyers said it would be difficult for any rival to buy the bank unless the US government helps to clean up a balance sheet saddled with $122bn (£66.3bn) of distressed assets.

Wachovia yesterday tried to allay customers' and investors' fears, saying that its core businesses were performing well.

But as JPMorgan celebrated becoming the biggest US bank after buying WaMu's assets and branches for just $1.9bn, many financial stocks were hit by widespread selling amid concerns that others could soon join the 13 US lenders that have failed this year.

Among Wall Street firms, Morgan Stanley's shares ended the day down 8.7 per cent and the cost of its credit protection rose.

Additional reporting by Aline van Duyn, Nicole Bullock and Joanna Chung in New York

B&B hits fresh low, Page 21
Lex, Page 32

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World Markets

STOCK MARKETS

	Sep 26	prev	%chg
Dow Jones Ind	11143.13	11022.06	+1.10
Nasdaq Comp	2183.34	2186.57	-0.15
S&P 500	1213.27	1209.18	+0.34
FTS Eurofirst 300	1104.79	1125.43	1.83
DJ Euro Stoxx 50	3156.46	3207.11	-1.58
FTSE 100	5088.5	5197.0	-2.09
FTSE All-Share UK	2581.97	2636.31	-2.06
CAC40	4163.38	4226.81	-1.50
Xetra Dax	6063.50	6171.03	-1.77
Nikkei	11893.16	12006.53	-0.94
Hang Seng	18682.09	18934.43	-1.33
FTSE All World $	203.9	205.8	-0.9

CURRENCIES

	Sep 26	prev		Sep 26	prev
$ per €	1.461	1.461	€ per $	0.684	0.685
$ per £	1.839	1.835	£ per $	0.544	0.545
£ per €	0.793	0.794	€ per £	1.262	1.259
¥ per $	106.2	106.6	¥ per €	154.9	156.1
¥ per £	195.4	196.5	£ index	91.1	91.2
$ index	84.6	84.5	€ index	102.6	102.9
SFr per €	1.589	1.590	SFr per £	2.005	2.006

COMMODITIES

	Sep 26	prev	chg
Oil Brent $Nov	103.54	104.60	-1.06
Oil WTI $Nov	106.89	108.02	-1.13
Gold $	889.20	872.50	+16.70

INTEREST RATES

	price	yield	chg
US Gov 10 yr	101.45	3.82	0.03
UK Gov 10 yr	103.37	4.56	0.06
Ger Gov 10 yr	100.71	4.16	0.07
Jpn Gov 10 yr	100.48	1.45	-0.03
US Gov 30 yr	102.44	4.35	0.06
Ger Gov 2 yr	100.61	3.67	-0.19
	Sep 26	prev	chg
Fed Funds Eff	1.23	1.19	+0.04
US 3m Bills	0.87	0.73	+0.14
Euro Libor 3m	5.14	5.11	+0.03
UK 3m	6.20	6.23	-0.03

Prices are latest for edition

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Bono on poverty
The U2 singer blogs from the development summit in New York
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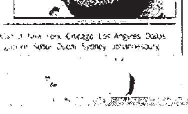

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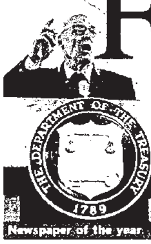

FINANCIAL TIMES

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Newspaper of the year

World Business Newspaper

The bail-out of the banks

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COMMENT from WOLFGANG MÜNCHAU, CLIVE CROOK and LAWRENCE SUMMERS **Page 17**

News Briefing

WPP planning to move tax base to Ireland
Advertising agency WPP plans to move its tax domicile from the UK to Ireland because of the threat of a markedly higher UK corporation tax bill. **Page 21**

Land value falls
The value of residential development land in the UK has fallen a third in a year. **Page 5**

High-tech fund boost
Business leaders, including Lord Sainsbury and Roger Brooke, have donated £5m towards a Royal Society £20m fundraising target for a new venture philanthropy fund. **Page 4**

Bonus curbs backed
Tory leader David Cameron backed curbs on City bonuses as part of a crackdown on financial regulation. **Page 2;**
Donors return, Page 3;
Cameron attacks Labour, Page 22;
www.ft.com/tories

AIG looks at sales
Insurer AIG is considering selling more than 15 businesses, including its aircraft leasing unit, a large US reinsurer and billions of dollars in properties to try to repay a $85bn (£46bn) government loan.
Page 21; Tony Jackson, Page 24; www.ft.com/financial

Gains for far right
Two far-right parties made huge gains in the Austrian general election. **Page 12**

Shoe duties continue
Brussels is to extend emergency duties on imports of shoes from China and Vietnam in spite of most European Union member states urging that they be lifted. **Page 11**

CSU loses majority
Bavarian voters robbed the Christian Social Union, sister party to German chancellor Angela Merkel's Christian Democratic Union, of its ruling majority.
Page 12; www.ft.com/europe

Lawyers face pressure
Officials in Chinese provinces are putting pressure on lawyers to pull out of a legal advice group set up to help the families of thousands of children who were poisoned by contaminated milk, say insiders. **Page 13**

Goldman eyes targets
Goldman Sachs is trying to buy up to $50bn (£27bn) in assets from ailing US banks as part of a push into commercial banking, Goldman executives say. **Page 21**

Nuclear deal backed
The US House of Representatives approved a deal that would pave the way for American companies to sell nuclear equipment and technology to India. **Page 11**

Ike clear-up goes on
Houston has been picking up 100,000 cubic yards of rubbish a day, the amount it usually carts away in a month, since hurricane Ike hit. **Page 11**

Turmoil hits deals
Paralysis in the bank lending market threatens some of the biggest planned takeovers.
Page 21; www.ft.com/m&a

Bomb kills 17
Syrian media blamed outside forces for a car bomb attack that killed 17 in Damascus.
Page 12; www.ft.com/mideast

Separate sections

Business Education
Masters in Management
FTfm
Fund management update

B&B set to be taken into public ownership

Santander to buy bank's £21bn deposit book

Agreement reached after 12 hours of talks

By Jane Croft and Kate Burgess in London and George Parker in Birmingham

The government was last night preparing to nationalise Bradford & Bingley after hammering out a deal with the Spanish bank Santander, which will buy the embattled UK mortgage lender's £21bn deposit book and branch network for about £600m.

The bank is set to be taken into public ownership today after B&B saw retail savers withdraw "tens of millions of pounds" in recent days as uncertainty grew. On Saturday the government invited bids for B&B's £21bn retail deposit base and branches as well as inviting offers for its head office and its mortgage loan book. After 12 hours of talks, Santander last night agreed to buy the network of 197 branches and 140 agency outlets as well as the retail deposits.

Santander will immediately be able to recoup £200m of capital that supports the branch network, and so it is actually paying closer to £400m. A statement is expected before markets open today at 7am. If completed, the deal would see Santander, which already owns Abbey and is taking over Alliance & Leicester, holding 1,200 branches in the UK. It will also be able to add £21bn of retail deposits to its existing £68bn of retail savings.

Today, B&B branches will open as usual and will remain branded as B&B for the foreseeable future. The government is expected to nationalise B&B's £42bn mortgage loan book, which consists of risky buy-to-let and self-certified mortgages with rising arrears.

It will also control the bank's Yorkshire head office which employs 1,400 people, and its mortgage processing operation.

The bank and the regulators had been locked in increasingly desperate talks over the weekend to find a buyer, because uncertainty would have made it almost impossible for the shares to trade this morning. The decision in principle to nationalise B&B was taken on Saturday morning. Gordon Brown, the prime minister who recently arrived back from a two-day trip to the US, was briefed on the situation by Alistair Darling, chancellor, and senior Treasury officials.

The officials worked through the weekend to hammer out the deal. They have tried to find a way to "manage down the risk to the taxpayer" of taking on the bank's loan book. Mr Darling has made clear he will stand behind B&B depositors, but there are other creditors who could be put on risk, rather than leaving taxpayers to shoulder that burden.

One option is to bundle B&B's mortgage business with Northern Rock to create a nationalised super bank, although that is described as "a second order" issue and no decision is expected imminently.

Yesterday, David Cameron, Conservative party leader, attacked the impending nationalisation and said it would leave the taxpayer with the "whole risk", adding: "I'm not signing any blank cheques."

The moves last night triggered concern from Peter Montagnon, director of investment affairs at the Association of British Insurers, representing the bank's biggest investors. He pinpointed concerns that a bank with an apparently strong capital ratio should be on the brink of failing.

Editorial Comment, Page 16
Lex, Page 20
B&B rescue, Pages 22 & 23

Final call: nationalisation appeared to be imminent last night Reuters

Fortis thrown €11bn lifeline by governments

By Peter Thal Larsen in London and Michael Steen in Amsterdam

Fortis was thrown an €11.2bn (£8.8bn) lifeline last night as the Belgian, Dutch and Luxembourg governments combined to inject capital into the embattled banking and insurance group in an effort to shore up confidence among savers.

The partial nationalisation, which is likely to have far-reaching consequences for Europe's financial services industry, was announced in Brussels by Yves Leterme, Belgium's prime minister, after a frantic weekend of talks involving ministers, central bankers and financiers.

Under the terms of the deal, Belgium's government will inject €4.7bn to buy 49 per cent of Fortis's Belgian banking division, while the Netherlands and Luxembourg will put up €4bn and €2.5bn respectively, to buy 49 per cent of the banking subsidiaries in their countries.

Fortis is expected to sell its stake in ABN Amro, the Dutch lender it agreed to buy as part of a break-up bid last year. The bank is also expected to take further writedowns on its portfolio of complex debt securities. Last night Maurice Lippens, Fortis's chairman and architect of its current strategy, resigned.

Fortis is the largest European financial institution to be bailed out as a result of the turmoil in the credit markets. The group, a giant of the Belgian and Dutch financial landscape, had become the latest focus of investor fears about the stability of the industry after ructions on Wall Street.

The decision partially to nationalise Fortis came after attempts to sell all or part of the group to BNP Paribas of France or ING of the Netherlands broke down when the governments balked at their demands for guarantees against possible future losses. Policymakers were desperate to announce a definitive deal before markets opened today in an effort to avert a fully fledged crisis of confidence.

"We are buying shares in the bank and thus get a say in how the bank is managed. That is exactly what savers need at the moment, so they know the bank can withstand a knock at a time of uncertainty on the markets," Wouter Bos, Dutch finance minister, said on Dutch television.

Fortis on Friday announced plans to speed up a €10bn disposal programme and the appointment of Filip Dierckx as chief executive – its second new CEO in three months. However, the extent of the loss of confidence in Fortis meant a more far-reaching solution was needed.

The market turmoil has raised questions about the ability of European governments to co-ordinate the rescue of an institution whose assets are several times the size of Belgium's GDP.

> The Belgian government favoured temporarily taking Fortis into state ownership rather than supporting a foreign takeover

Fortis was to take full ownership of ABN's private banking and Dutch retail banking arms next year but questions about its ability to finance the purchase have contributed to its woes. ING is the front-runner to buy the businesses and could announce a deal in the next few days.

BNP made an offer to buy all of Fortis over the weekend, but also sought guarantees against future losses on the bank's portfolio of mortgage-backed assets. Such a move was controversial, and the Belgian government favoured a partial nationalisation rather than a foreign takeover.

Belgium is desperate to prevent a panic because Fortis is the country's biggest private sector employer and handles the bank accounts of half the population.

Additional reporting by Ralph Atkins in Frankfurt and Chris Hughes in London

Fortis's woes, Page 25
Hypo talks, Page 26
Latest at www.ft.com/crisis

Breakthrough over $700bn US rescue

Government losses could be reimbursed

By James Politi, Krishna Guha, Daniel Dombey and Harvey Morris in Washington

The US financial services sector could be forced to reimburse the government for any losses on its $700bn rescue plan under a breakthrough political agreement that paves the way for congressional approval as early as today.

After a weekend of frenzied negotiations, Hank Paulson, the Treasury secretary, and Nancy Pelosi, the Democratic House speaker, announced early yesterday that a tentative agreement had been reached authorising the government to buy up to $700bn of troubled assets from financial institutions.

Mr Paulson told the Financial Times: "It was a complex negotiation but we managed to satisfy the different concerns in a way that will still be effective in the marketplace. We aim to start buying illiquid assets in the next several weeks."

The deal envisages historic restrictions on executive pay for banks participating in the programme and opens the door for the government to take equity warrants in those institutions.

Republicans and Democrats tried to claim credit for defending the interests of taxpayers and ordinary Americans amid outrage at the prospect of spending $700bn to bail out Wall Street.

With votes from both parties needed to endorse the deal, they met in separate closed-door meetings on Capitol Hill to assess the level of support. The framers of the draft bill published yesterday afternoon wanted to send a strong signal before world markets reopened that it would be adopted by the House and Senate without delay.

House Republicans, the most vocal opponents of the plan, remained wary even after their leaders signed up to it. "It remains the largest corporate bail-out in American history, for ever changes the relationship between government and the financial sector, and passes the cost along to the American people," Mike Pence of Indiana said.

The two presidential candidates gave their qualified support on the basis of the deal outline. John McCain said: "Let's get this deal done, signed by the president, and get moving." He came under fire from Democrats last week who claimed he slowed the outcome by intervening. Barack Obama told a Democratic rally in Detroit: "Thanks to the hard work of Democrats and Republicans, it looks like we have a rescue plan that includes... taxpayer protections. And it looks like we will pass that plan very soon."

Democratic legislators said they had earlier spoken by telephone to Warren Buffett, the billionaire investor, who warned them of "the biggest financial meltdown in American history" if they failed to act.

Democrats dropped demands that shareholders be given a vote on pay. The $700bn will be authorised fully but released in three stages, starting with an initial $250bn. Congress could in principle block the final $350bn.

House Speaker: Nancy Pelosi

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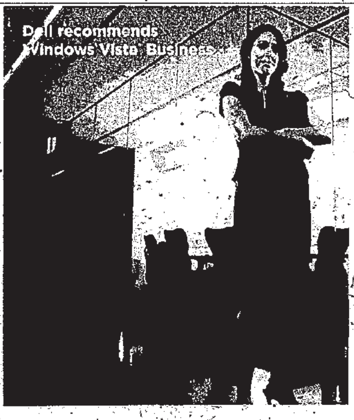
www.ft.com/vtfm



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World Markets

STOCK MARKETS

	Sep 26	Sep 19	Wk's %chg
Dow Jones Ind	11143.13	11388.44	-2.15
Nasdaq Comp	2183.34	2273.90	3.98
S&P 500	1213.27	1255.08	3.33
FTSEurofirst 300	1104.79	1150.78	4.00
DJ Euro Stoxx 50	3156.46	3253.52	-2.98
FTSE 100	5088.5	5311.3	4.19
FTSE All-Share UK	2581.97	2708.98	-4.69
CAC40	4163.38	4324.87	-3.73
Xetra Dax	6063.50	6189.53	2.04
Nikkei	11893.16	11920.86	-0.23
Hang Seng	18682.09	19327.73	-3.34
FTSE All World $	203.9	209.7	-2.8

CURRENCIES

	Sep 26	Sep 19		Sep 26	Sep 19
$ per €	1.461	1.441	€ per $	0.684	0.694
$ per £	1.839	1.831	£ per $	0.544	0.546
£ per €	0.793	0.786	€ per £	1.262	1.272
¥ per $	106.2	106.8	¥ per €	154.9	153.8
¥ per £	195.4	195.7	£ index	91.1	91.4
$ index	84.6	85.5	€ index	102.6	101.9
SFr per €	1.589	1.596	SFr per £	2.005	2.030

COMMODITIES

	Sep 26	Sep 19	Wk's chg
Oil Brent $/Nov	103.54	99.85	+3.74
Oil WTI $/Nov	106.89	103.90	+3.09
Gold/$	889.20	856.30	+32.90

INTEREST RATES

	price	yield	Wk's chg
US Gov 10 yr	101.45	3.82	+0.06
UK Gov 10 yr	103.37	4.56	0.04
Ger Gov 10 yr	100.71	4.16	0.07
Jpn Gov 10 yr	100.48	1.45	0.03
US Gov 30 yr	102.44	4.35	-0.01
Ger Gov 2 yr	100.60	3.67	-0.37

	Sep 26	Sep 19	Wk's chg
Fed Funds Eff	1.23	2.16	-0.93
US 3m Bills	0.89	0.95	-0.09
Euro Libor 3m	5.14	5	+0.14
UK 3m	6.20	5.91	+0.30

Prices as at close Friday

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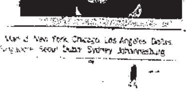

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FINANCIAL TIMES

Tuesday September 30 2008 | **£1.50**

Meltdown Monday

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Newspaper of the year — World Business Newspaper

News Briefing

Hedge fund managers fear client withdrawals
Hedge funds are braced for big withdrawals by wealthy clients as the sector's worst year to date prompts a flight to the safety of cash, according to investors and managers.
Page 23; Shorting call, Page 27; www.ft.com/hedgefunds

Home loans record low
Mortgage lending slowed to a near standstill in August as approvals for new home loans hit a record low, according to the Bank of England. **Page 11**

Corporate unease
Corporate Britain hit out at David Cameron's "daft" decision to try to distance his party from big business, while voicing concern about the direction of Conservative policy on energy and transport. **Page 12**

Austrian right returns
The possible return to an extreme right government is high on Austria's political agenda again after two far right parties made massive gains in the general election. **Page 15**

Moscow extends loans
Russia outlined moves to stave off a liquidity crisis as Vladimir Putin, prime minister, said a state-controlled bank would extend $50bn (£27.7bn) in loans to help companies and banks pay off foreign debt. **Page 15**

Eurozone jobless woes
The unemployment rate has shot up in France and Italy, highlighting the severity of the eurozone's economic slowdown.
Page 15; www.ft.com/europe

President's allies win
Supporters of Alexander Lukashenko, Belarus's president, won every seat in Sunday's parliamentary election. **Page 15**

Taliban stronghold hit
Pakistani troops have destroyed a Taliban stronghold on the Afghan border and unearthed underground bunkers used for planning and training militants, a senior Pakistan security official claimed. **Page 14; Editorial Comment, Page 18**

Chinese 'defaulting'
Indian iron ore exporters warned demand from steel mills in China had fallen sharply over the past month and Chinese buyers were defaulting on contracts with suppliers.
Page 16; Markets, Page 46

Olmert call on territory
Ehud Olmert, Israel's outgoing prime minister, said it should withdraw from "almost all" land it conquered over 40 years ago, and hand back east Jerusalem to the Palestinians and the Golan Heights to Syria. **Page 16; Making voices heard, Page 17**

Gonzales faces probe
The US justice department appointed a prosecutor to probe into former attorney-general Alberto Gonzales and other ex-White House officials. **Page 14**

Ecuador pledges change
Raphael Correa, Ecuador's president, pledged to move quickly to enact changes to the constitution, including a tax on mining companies. **Page 16**

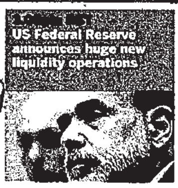
Irish economy fears
Irish banks saw their biggest one-day shares fall for two decades over fears that they could withstand the downturn.
Page 23; www.ft.com/banking

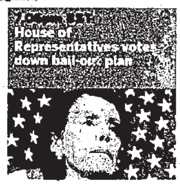
Separate sections

Germany
Looming test of economic strengths

Global crisis House shocks investors . . . S&P 500's worst day since 1987 . . . Banks saved

Stocks dive on bail-out rejection





By Krishna Guha in Washington, Peter Thal Larsen in London and Michael Mackenzie in New York

US stocks suffered their worst one-day fall since the 1987 crash yesterday after the House of Representatives shocked investors by voting to reject the Bush administration's $700bn (£380bn) bail-out plan.

The vote in effect torpedoed efforts by governments around the world to quell the fear in the financial markets that had earlier seen five US and European banks rescued or nationalised and the world's central banks unleashing a gigantic global liquidity operation.

The US Federal Reserve more than doubled the amount of dollars it lends abroad via other central banks to $620bn. It doubled the size of its own-credit auctions to $300bn, while promising another $150bn to tide over institutions until the end of the year.

House Republicans voted roughly two-to-one against the bail-out, while the Democrats split three-to-two in favour. Congressional leaders pledged to try to build support for a fresh vote later this week but aides said Democrats would be unlikely to try again without the promise of more Republican support.

Hank Paulson, US Treasury secretary, warned of the danger of not proceeding with the bill. "We need a plan that works," he said, adding that US banks were under stress.

The S&P 500, already significantly down before the vote, plunged as the tally emerged, closing down 8.8 per cent, its worst day since falling 20.5 per cent on October 19 1987. The Dow Jones Industrial Average suffered its largest intra-day decline, falling 777.68 points, a 7 per cent slide, which nearly matched its 7.3 per cent decline when markets reopened on September 17 2001 after the terrorist attacks on New York and Washington.

Financial stocks plunged, with the heaviest selling hitting two sub-sectors: large securities houses such as Morgan Stanley and Goldman Sachs and smaller regional lenders with large portfolios of troubled mortgages such as National City and Sovereign, which fell 55.5 per cent and 64.7 per cent, respectively.

In Europe, the German government underwrote a €35bn (£28bn) bail-out of Hypo Real Estate, a mortgage lender and financier to local authorities, while Iceland took control of Glitnir, the country's third-largest bank.

In Britain, Bradford & Bingley's £52bn mortgage book was taken into national ownership. The bail-outs followed the €11.2bn (£8.9bn) rescue of Fortis, the Belgo-Dutch group, by three European governments late on Sunday night. The bail-outs triggered sharp falls in bank shares, including Dexia, Commerzbank, ING and Royal Bank of Scotland.

Meanwhile, stress in the credit markets, the epicentre of the financial crisis, intensified as investors fled to the safety of US government securities. The yield on the two-year US Treasury bill fell 38 basis points.

The political parties blamed each other for partisan politics. The rescue plan has angered many taxpayers, who see it as a bail-out for Wall Street.

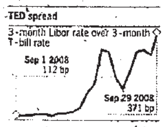
However, Bill Gross, a fund manager at Pimco, said "this must be passed, either in its current form or another form". If not there would be a credit freeze of "significant proportions".

The scale of the tumult in financial markets was underlined earlier in the day in a series of bank rescues on both sides of the Atlantic. In the US, Wachovia, the country's sixth-largest lender, was rescued by Citigroup in a government-sponsored bail-out that will see the US government take a $12bn stake in the country's largest bank.

Bankers said the recent banking collapses in the US had made bondholders realise they could suffer losses, prompting investors to shy away from providing financing to any financial institution that might be at risk.

Additional reporting by Ralph Atkins in Frankfurt and Neil Hume and Javier Blas in London

The day in summary



Global markets
Three-month Treasury bill yield 0.29%
FTSE 100 ▼5.3%
S&P 500 ▼8.8%
Pages 46-48

Bradford & Bingley
Why Britain had to nationalise its second bank in seven months
Pages 2 & 3

Citi buys Wachovia
How Wachovia died and what the deal means for Citigroup
Page 10

Oil slips
Crude falls more than $10 while gold jumps in response to bank failures **Page 46**

Savvy Santander
The Spanish bank looking clever amid the crisis
Gillian Tett
Page 6

Glitnir casualty

A company controlled by Icelandic retail entrepreneur Jón Ásgeir Jóhannesson (above) filed for administration as the impact of the nationalisation of an Icelandic bank threatened to reach the UK high street. Stodir – an investment company formerly known as FL Group – was the biggest shareholder in Glitnir Bank and said it had filed after the Icelandic government's move diluted its shareholding.

Report, Page 23

Banks and building societies face bill for any unexpected B&B losses

Compensation scheme to cover shortfalls

By Jane Croft and Kate Burgess

Britain's biggest banks will be liable for any unexpected losses from yesterday's nationalisation of Bradford & Bingley, after they decided this would be better than taking the risk of bailing out the embattled mortgage lender themselves.

The banks, which ignored pleas from authorities to rescue B&B, will have to contribute to the Financial Services Compensation Scheme to cover any unexpected losses from yesterday's deal, the second nationalisation of a British bank this year.

The move prompted an angry reaction from the UK's 59 building societies, which will also have to contribute in spite of having no connection with B&B's failure. "We are concerned at the use of the Financial Services Compensation Scheme to help rebuild a nationalised bank's balance sheet," said John Goodfellow, chairman of the Building Societies Association. "As deposit taking institutions our members will be badly hit by this."

One big shareholder said bringing in the FSCS was a "cynical ploy" by the government to ensure taxpayers did not foot the bill. David Cumming, head of UK equities at Standard Life Investments, said: "It is disappointing that because of liquidity issues and despite a strong capital position Bradford & Bingley has been forced into public ownership."

The nationalisation came after savers withdrew tens of millions of pounds and B&B found it difficult to fund itself in the wholesale markets, leaving authorities to decide the lender "no longer met its conditions as a deposit taker".

The bank was taken into public ownership after the government hammered out a deal with the Spanish bank Santander, which will buy the embattled UK mortgage lender's £20bn deposit book and 197-branch network for £612m.

Santander, which already owns Abbey and is taking over Alliance & Leicester, will have 1,286 branches in the UK.

The Treasury has structured the nationalisation so potential losses to taxpayers are minimised even if B&B's mortgage loan book suffers rising arrears.

As B&B's loan book is wound down over time, the government and the FSCS will receive payments that will be used to repay the government loan, and banks will also have to pay interest on the government loan.

However, if B&B's loan book suffers worse-than-expected arrears, the FSCS will then impose a levy on the banking industry to cover any shortfall.

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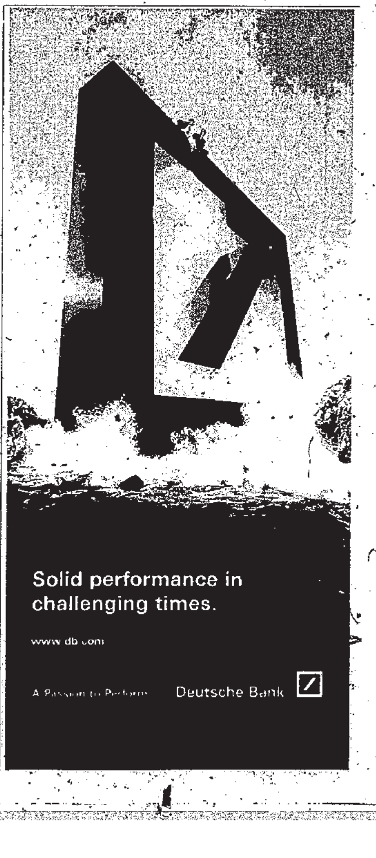
www.ft.com/bradford-bingley



World Markets

STOCK MARKETS

	Sep 29	prev	%chg
Dow Jones Ind	10365.45	11143.13	-6.98
Nasdaq Comp	1983.73	2183.34	-9.14
S&P 500	1106.42	1213.01	-8.79
FTS Eurofirst 300	1047.04	1104.79	-5.23
DJ Euro Stoxx 50	3008.19	3156.46	-4.70
FTSE 100	4818.8	5088.5	-5.30
FTSE All-Share UK	2444.58	2581.97	-5.32
CAC 40	3953.48	4163.38	-5.04
Xetra Dax	5807.08	6063.50	-4.23
Nikkei	11743.61	11893.16	-1.26
Hang Seng	17880.68	18682.09	-4.29
FTSE All World	190.2	203.9	-6.7

CURRENCIES

	Sep 29	prev		Sep 29	prev
$ per €	1.446	1.467	€ per $	0.692	0.684
$ per £	1.810	1.839	£ per $	0.552	0.544
£ per €	0.798	0.793	€ per £	1.254	1.262
¥ per $	104.2	106.2	¥ per €	151.4	154.9
¥ per £	189.7	195.4	£ index	90.1	91.1
$ index	84.8	84.6	€ index	102.1	102.6
SFr per €	1.578	1.589	SFr per £	1.978	2.005

COMMODITIES

	Sep 29	prev	chg
Oil Brent $Nov	93.98	103.54	-9.56
Oil WTI $Nov	96.37	106.89	-10.52
Gold $	898.30	889.20	+9.10

INTEREST RATES

	price	yield	chg
US Gov 10 yr	102.98	3.64	0.02
UK Gov 10 yr	104.70	4.39	+0.01
Ger Gov 10 yr	102.09	3.98	+0.01
Jpn Gov 10 yr	100.09	1.49	-
US Gov 30 yr	105.78	4.16	-0.01
Ger Gov 2 yr	100.93	3.46	+0.03
	Sep 29	**prev**	**chg**
Fed Funds Eff	1.08	1.23	-0.15
US 3m Bills	0.49	0.87	-0.38
Euro Libor 3m	5.22	5.14	+0.08
UK 3m	6.23	6.20	+0.03

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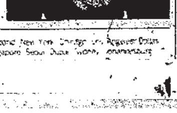

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'We are watching the disintegration of the financial system' **Martin Wolf Comment Page 17**

GEORGE SOROS
How the US bail-out plan can be saved
www.ft.com/soros

Newspaper of the year

World Business Newspaper

News Briefing

BSkyB hit by football and films ruling
Ofcom, the media watchdog, has proposed that the satellite television operator British Sky Broadcasting sell its live football and blockbuster movies to rivals at regulated wholesale prices. **Page 21; Lombard, Page 22; Escaping a drubbing, Page 23**

Olivant's Lehman woes
Luqman Arnold's investment company Olivant has been hit by the collapse of Lehman Brothers after it emerged that its shareholding in UBS was held in accounts managed by the failed US bank. **Page 21**

No leeway for Darling
Revisions to the national accounts provided chancellor Alistair Darling with little additional breathing space as he grappled with government deficits. **Page 4**

Jail threat
Keith Packer, a former British Airways executive, faces jail in the US after agreeing to plead guilty to his role in the conspiracy to fix prices for air cargo shipments. **Page 10**

Russia shuts market
Russia's government appears to have found a not-so-subtle way of dealing with a plunging stock market: shut it. **Page 11; www.ft.com/europe**

Japan's output falls
Japan's industrial production fell sharply in August, unemployment rose and household spending softened. **Page 10; www.ft.com/asiapacific**

Overture to Taliban
Afghanistan president Hamid Karzai revealed he had asked the Saudis to help broker peace talks with the Taliban leadership. **Page 10; www.ft.com/afghanistan**

Iraq seeks arms
The Iraqi government has begun talks with European allies about arms purchases. **Page 13**

Stampede kills 147
A stampede at a Hindu temple in the Indian state of Rajasthan has killed 147 pilgrims at the beginning of the nine-day Navaratri festival. **Page 10**

Pirates in shoot-out
The pirates who seized a ship carrying military hardware including 33 Russian-made T-72 tanks off the Somalian coast turned on each other as three were shot dead in a dispute over the cargo. **Page 13**

Biden's gaffe in view
Joe Biden's gaffe on prime-time TV last week produced a reminder that it is not only Republicans who have reason to feel nervous about tomorrow's US vice-presidential debate. **Page 12; www.ft.com/uselection**

Georgia mission begins
European Union monitors were due to start a delicate mission in Georgia today aimed at helping to restore the country's stability, with arguments about the scope of the deployment unresolved. **Page 11**

Syria-Lebanon tensions
Tensions between Lebanon and Syria rose sharply in the wake of bomb attacks in both countries. **www.ft.com/mideast**

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Corporate Finance
Inflation prompts a walk on the blind side
Doing Business in Liverpool
Year in limelight adds to the buzz
Investing in Russia
Risks rise as route ahead is unclear

Pressure mounts to guarantee savings

Dublin's pledge may force Brown's hand

Government faces calls to act swiftly

By John Murray Brown in Dublin, Nikki Tait in Brussels, George Parker in Birmingham and Peter Thal Larsen in London

Gordon Brown was last night facing growing pressure to extend the guarantees on UK savers' bank deposits after appearing to reject matching an Irish pledge to underwrite the debts and savings accounts of its largest lenders.

Dublin's emergency move was agreed by ministers and bank executives at a late-night meeting amid concerns about a run on Anglo Irish Bank and upped the stakes in the state intervention sweeping Europe's ailing banking sector.

"Let's remember that the Irish are dealing with taxpayers' money here. We have got to get what is right and also what is reasonable," Mr Brown told the BBC when asked whether he would follow the Irish promise.

While the government is reluctant to offer Irish-style guarantees to British banks, Mervyn King, Bank of England governor, would also resist such a move, arguing that any guarantees would represent an unacceptable level of moral hazard.

The Irish decision enraged British and European officials and may fall foul of the European Commission's rules on state aid by offering competitive advantages to some Irish banks.

The guarantees for Ireland's six largest lenders make them more attractive to savers and investors.

The European Commission said it was only contacted overnight about the scheme but was looking to see whether state aid was involved.

Last night, Mr Brown made it clear he was ready to increase the level at which savers' deposits were guaranteed from £35,000 to £50,000 but indicated he did not want to act until the markets had calmed. The change could come in the next few weeks.

However, the government was facing calls for swift action, and last night Jim Stride, managing director of Axa Investment Managers UK, said it should "consider the introduction of a full guarantee for UK deposits with duly authorised deposit-taking companies along the lines announced by the Irish authorities".

In the US, both presidential candidates called for an increase in the guarantees to savers, raising the amount covered from $100,000 (£56,100) to $250,000.

Last night, Alistair Darling, the chancellor, was scheduled to hold a conference call with the chief executives of the UK's largest banks to discuss possible responses to the crisis.

Ireland's decision is the latest intervention by a European government to prop up banks at risk of failing as a result of the turmoil in the credit markets.

Yesterday, the governments of Belgium, France and Luxembourg joined a €6.4bn (£5.1bn) capital injection into Dexia, the ailing lender to local governments.

Global financial crisis, Pages 6, 8, 9, 25, 27 and 28
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www.ft.com/bailouts

Mervyn King leaves Downing St yesterday. He feels guarantees would increase moral hazard — Reuters

Brown confident HBOS deal will proceed

By Jane Croft, Kate Burgess and George Parker

The prime minister defied growing stock market scepticism of Lloyds TSB's planned rescue takeover of HBOS yesterday, saying he still expected the deal to go ahead in spite of the mortgage lender's plummeting share price.

Lloyds is offering 0.83 of a share for every HBOS share, which yesterday would have valued the bank at 188p. HBOS closed at 122.5p last night, a discount of more than 30 per cent to the offer price, triggering speculation the deal could be renegotiated.

Gordon Brown said in an interview with Sky News the deal would go ahead and Lloyds stressed that it was committed to the all-share deal.

If there are investor concerns about the deal, the discount to the offer price will make it hard for Lloyds shareholders to vote it through and Lloyds and HBOS might have to change the terms.

Treasury officials are in contact with Lloyds TSB to seek reassurance that the deal is still on course. "They will do absolutely whatever it takes to get this deal," said one person working on the takeover. "But at the moment Lloyds has not asked for any help from the government to make sure it happens."

Ian Gordon, a banks analyst at BNP Exane, said price movements "suggest the deal will be renegotiated or not go through".

Eric Daniels, chief executive of Lloyds TSB, said: "The acquisition of HBOS remains a fantastic opportunity to create the UK's leading financial services group."

Some of Lloyds TSB's biggest investors said they were not pushing or expecting the bank to renegotiate. Many are also investors in HBOS and so have no interest in scuppering the deal.

"I can't see the transaction being allowed to slip away," one investor said. "Gazundering is very dangerous."

Lex, Page 20
Storms predicted, Page 25

Vaulting demand

Demand for bullion bars and gold coins is at 'unprecedented' levels as investors move their assets to their own vaults. Industry executives said gold refineries and government mints were working at full throttle to keep up with 'physical' demand. Fears have grown over losses in money funds and other investment vehicles that were considered almost risk-free.

Report, Page 42
Lex, Page 20

Wall St rally fails to hide crisis as Congress toils to salvage bail-out

Plan to raise deposit guarantee to $250,000

By Krishna Guha, Harvey Morris and James Politi in Washington and Paul J Davies in London

Wall Street rebounded yesterday in spite of a worsening crisis of confidence in the global banking system, as leaders of the US Congress moved to try to salvage the Bush administration's $700bn (£385bn) bail-out plan.

A proposal to increase the ceiling for government insurance on bank deposits to $250,000 emerged as the best hope of swaying reluctant Republicans and Democrats who voted against the bill on Monday.

Meanwhile, the Securities and Exchange Commission issued guidance emphasising the flexibility companies have to depart from mark-to-market accounting in situations when markets are illiquid. The SEC move does not suspend mark-to-market rules, but goes some of the way to address criticism of the accounting regime that critics – including many conservative Republicans – say has fuelled a downward spiral in credit markets.

Democratic presidential candidate Barack Obama issued his strongest call yet for the rescue plan, while Republican John McCain also urged Congress to act. Both advocated increasing the deposit insurance ceiling.

Leaders of both parties in Congress promised legislation this week, and hoped a revised bill could be brought before the Senate as early as tonight.

Hopes for an agreement helped the S&P 500 rise 5.3 per cent, recovering more than half its stunning 8.8 per cent decline suffered after Monday's vote. The Dow Jones Industrial Average was up 4.7 per cent after a slide of 7 per cent on Monday.

Yet overnight interbank lending rates reached painfully high levels in the main currencies, with overnight dollar Libor leaping 4.3 percentage points to a seven-year high of 6.88 per cent.

Experts said an increase in the bank deposit insurance ceiling would reduce the risk of a destabilising run on uninsured bank deposits at weak banks.

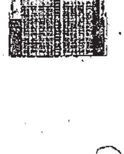
It would also boost the Federal Deposit Insurance Corporation's ability to broker rescue deals in which an acquiring bank takes on the deposits of a failed bank – ensuring that savers with deposits above $250,000 remain whole.

Separately, it emerged that the FDIC exercised a systemic risk exemption, that allowed it to bypass its normal rules for the first time in its history to support the rescue takeover of Wachovia by Citigroup on Monday.

Additional reporting by Michael Mackenzie in New York

Senators promise, Page 8
Derivative drama, Page 15
www.ft.com/soros

(intel)



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World Markets

STOCK MARKETS

	Sep 30	prev	%chg
Dow Jones Ind	10850.66	10365.45	+4.68
Nasdaq Comp	2082.33	1983.73	+4.97
S&P 500	1164.74	1106.39	+5.27
FTSE Eurofirst 300	1063.65	1047.04	+1.59
DJ Euro Stoxx 50	3038.20	3008.19	+1.00
FTSE 100	4902.5	4818.8	+1.74
FTSE All-Share UK	2483.67	2444.58	+1.60
CAC 40	4032.10	3953.48	+1.99
Xetra Dax	5831.02	5807.08	+0.41
Nikkei	11259.86	11743.61	-4.12
Hang Seng	18016.21	17880.68	+0.76
FTSE All World $	193.0	190.2	+1.4

CURRENCIES

	Sep 30	prev		Sep 30	prev
$ per €	1.410	1.446	€ per $	0.710	0.692
$ per £	1.781	1.810	£ per $	0.562	0.552
£ per €	0.788	0.798	€ per £	1.269	1.254
¥ per $	106.2	104.2	¥ per €	149.1	151.4
¥ per £	189.8	189.7	£ index	90.4	90.1
$ index	86.6	84.8	€ index	100.8	102.1
SFr per €	1.575	1.578	SFr per £	1.999	1.978

COMMODITIES

	Sep 30	prev	%chg
Oil Brent $/Nov	98.17	93.98	+4.19
Oil WTI $/Nov	100.64	96.37	+4.27
Gold $	877.60	838.30	20.70

INTEREST RATES

	price	yield	chg
US Gov 10 yr	101.27	3.84	+0.20
UK Gov 10 yr	104.14	4.46	-0.07
Ger Gov 10 yr	101.65	4.04	+0.06
Jpn Gov 10 yr	100.17	1.48	-0.01
US Gov 30 yr	103.06	4.32	+0.16
Ger Gov 2 yr	100.94	3.49	+0.03
	Sep 30	prev	chg
Fed Funds Eff	1.56	1.04	+0.48
US 3m Bills	0.92	0.49	+0.43
Euro Libor 3m	5.33	5.27	+0.06
UK 3m	6.30	6.23	+0.07

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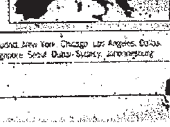

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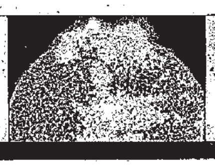
FINANCIAL TIMES

Thursday October 2 2008 | £1.50

'It is hard to imagine Wall Street getting back to business as usual this time'

John Gapper Comment Page 15

Newspaper of the year



Solar silence
Now even the flaming sun is playing up
Page 12

World Business Newspaper

News Briefing

UBS sheds 10% of jobs in fresh wave of cuts

UBS is to shed a further 10 per cent, up to 2,000, of its investment banking workforce in a fresh wave of cuts that will penetrate deeper and range more widely than the Swiss bank's previous initiatives. **Page 19; Account headache, Page 25**

Patients' slow choice

Patients have been slower to take up their right to choose which hospital treats them than the government had hoped, say private hospital groups. **Page 4**

Carmakers cut output

British motor manufacturers are cutting output as the credit crunch hits vehicle sales. **Page 5; Paris Motor Show, Page 28**

Eurostar back on track

Eurostar, the cross-Channel train operator, said that it was restoring services almost to the levels they were before last month's fire. **Page 4**

Berlusconi defensive

Italian prime minister Silvio Berlusconi defended his government's decision to deploy soldiers in the Naples area in what one minister called a "civil war" with the Mafia. **Page 8**

Strike hits Bollywood

Bollywood film production was halted as one of the main staff federations took up to 150,000 members out on strike. **Page 9**

Brussels stiffens rules

Banks will face tougher requirements on what capital they must hold to support their operations under new rules announced in Brussels. **Page 8**

Sigma collapse

Sigma Finance, the last of the complex debt funds at the heart of the credit crisis, has collapsed and is to appoint receivers, ending a 25-year project to create a "shadow banking" industry. **Page 19; Markets, Page 41**

US-India deal

The US Senate approved a landmark US-India nuclear deal that marked a big foreign policy victory for President George W Bush. **Page 9**

EU urged on defence

France said it had seen a "very constructive attitude" from EU member states to demands that governments should pool their scarce defence resources in order to enhance their common military capability. **Page 8**

Polish shipyard fears

Poland battled to save its shipyards as fears rose that the European Commission was preparing to issue a negative ruling on a rescue package because it would require too much government aid. **Page 8**

Block on withdrawals

Guy Wyser-Pratte has blocked withdrawals from his hedge fund after the New York arbitrageur warned "calamitous" market conditions were the worst since he started trading in the 1960s. **Page 19; Lex, Page 18; News analysis, Page 26**

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Cameron's cure 'I'm the man with a plan,' claims Conservative leader

Tory leader David Cameron at the Conservative conference in Birmingham yesterday where he warned the party it would inherit an 'economic mess' should it win the next election. In a sombre speech, he sought to counter Gordon Brown's comments that it was no time for a novice to be leading the country, insisting he had the 'character and judgment' to take tough decisions and was 'a man with a plan, not a miracle cure' for the economy. **Report, Page 2; Editorial Comment, Page 14** Charlie Bibby

Senate revives US bail-out

European policymakers clash on bank fund

Pressure on House to switch votes

By Krishna Guha in Washington, Tony Barber and Nikki Tait in Brussels, and Ben Hall in Paris

The US Senate last night approved by a large margin the Bush administration's $700bn (£395bn) plan to rescue the financial system, while European policymakers clashed over how to protect their own banks.

The Senate vote, by 74 to 25, puts further pressure on recalcitrant Democrats and Republicans in the US House of Representatives, who threw out the Paulson plan on Monday, and came under intense pressure from their leaderships yesterday to switch their votes. Ahead of a new House vote expected tomorrow, leaders from both parties expressed hopes that additions to the bill, including a large increase in the deposit guarantee ceiling, would sway dissenters.

Earlier, Christine Lagarde, France's finance minister, raised the possibility of a European fund "to support the financial sector".

However, the idea of a fund which some officials said could have been as large as €300bn (£237bn) was immediately rejected by Germany and, by last night, France was rowing back.

Britain is also sceptical about the idea of a pan-European fund, preferring to tackle crises on an ad hoc basis, although officials in both the Bank of England and the Treasury are working on a range of plans in case a more co-ordinated approach arises.

These include extended liquidity operations, government guarantees for mortgages, emergency guarantees of all bank funding, the creation of a "bad" bank for troubled assets of failed banks, a UK version of the US $700bn bail-out plan and capital injections into banks.

As the reaction over the EU-wide plan grew, French officials said they were not promoting a specific plan, but the idea of a common pool would be discussed among other ideas at a meeting of EU leaders on Saturday.

The idea is to help bail out banks, not mop up toxic assets, as in the US Paulson plan. It comes as governments on both sides of the Atlantic scramble to find ways to contain unprecedented global financial system stress.

The US legislation, intended to shore up confidence in banks, would give the US's Federal Deposit Insurance Corporation the unlimited ability to borrow from the Treasury for a temporary period. Robert Zoellick, president of the World Bank and a prominent Republican, told the Financial Times it was essential Congress passed the legislation. "The implications are important not only for the US but for the global financial system including the developing world," he said.

Stocks, meanwhile, fell as a key US manufacturing survey hit "recession" territory. By the close in New York, the S&P 500 was down 0.45 per cent.

The end of the quarter brought an expected big drop in overnight lending rates. But longer-dated lending continued to rise, led by dollar Libor, indicating no thaw in the money markets.

In Europe, José Manuel Barroso, European Commission president, said the crisis made it imperative to strengthen banking supervision and develop "a truly European response".

A separate dispute flared up over the Irish government's surprise decision on Tuesday to guarantee the debts and deposits of Ireland's six largest lenders – a step that instantly attracted funds from the UK, where bank customers suspected guarantees would be less comprehensive.

Yesterday, Brian Lenihan, Ireland's finance minister, said he was "sympathetic" to Royal Bank of Scotland's application to have its Irish subsidiary included in the guarantee system.

Last night Dublin said it would consider applications to join the scheme from foreign banks with a significant retail presence in Ireland.

Global crisis, Pages 6-8, 21, 25 & 26
Editorial Comment, Page 14
Lex, Page 18
Markets, Pages 40-42
www.ft.com/bailout

Buffett to join $15bn GE capital raising

By Justin Baer, Nicole Bullock and Francesco Guerrera in New York

General Electric unveiled plans to raise at least $15bn (£8.5bn) in capital from stock sales to the public and Warren Buffett's Berkshire Hathaway yesterday, in its latest bid to restore confidence in its financial strength.

The announcement came after a sharp rise in the cost of insuring debt for GE's finance arm forced the group to reassure investors for the third time in a month that it would not face a funding squeeze. But recent bank failures and the US Congress's rejection of financial bail-out legislation put pressure on GE to seek capital in case credit markets began to choke access to short-term loans and imperil its pristine debt ratings.

The agreement with Berkshire marks the second time in a week Mr Buffett has invested billions of dollars in a US bellwether whose aura of financial acumen has faded with the deepening crisis. The billionaire investor bought $5bn in preferred shares in Goldman Sachs a week ago.

GE plans to issue at least $12bn in common shares to investors. It will sell $3bn in preferred shares to Berkshire, which will also receive warrants to buy another $3bn in common stock at $22.25 within five years.

"GE is the symbol of American business to the world," Mr Buffett said. "They have strong global brands and businesses with which I am quite familiar."

The statement echoed Mr Buffett's praise for Goldman, which, like GE, has attracted scepticism over whether it can endure the credit crunch unscathed.

GE Capital's credit default swaps rose to 740 basis points in early trading, meaning it would cost $740,000 a year to insure $10m of debt for five years, said Phoenix Partners. However, after GE announced its plans, the CDS closed at 540bp. GE shares closed at $24.50, down 3.9 per cent.

Lex, Page 18
All roads lead to Sage, Page 28

Obama poll boost

The troubled financial system and the public's response to last week's presidential debate propelled Barack Obama into his broadest opinion poll lead over John McCain since the Democratic convention in late August. Polls released yesterday showed Mr Obama had taken a national lead of 49 to 42 per cent over Mr McCain and a lead in the important states of Ohio and Florida.

Report, Page 6

Economists expect rate cut after output survey falls to record low

Manufacturing at its worst point in 17 years

By Chris Giles, Economics Editor

Economists yesterday began predicting the Bank of England would cut interest rates next week, after an extremely weak survey of manufacturers fell to its lowest level on record.

The Chartered Institute of Purchasing and Supply Markit purchasing managers' index plunged to a record low of 41 in September, falling from 45.3 in August as it recorded the lowest rates of new orders, output and employment since the survey began in the early 1990s.

Roy Ayliffe, director of professional practice at the CIPS, said: "Given the unprecedented chaos in global economies, there was little respite for UK manufacturers in September as the sector suffered the worst operating conditions, so far recorded in the survey's 17-year history."

The weakness in the UK was matched by dismal business surveys from across the world's advanced economies, providing clear evidence the real economy has been unable to escape the woes of the financial sector.

Manufacturing output appeared to be falling in Japan, the eurozone and the US as well as in the UK. Only a Chinese survey recorded a rebound in reported manufacturing output.

Many economists now think the outlook is so bad that companies that have refrained from cutting staff as they wait to see how the economy fares will soon start making large redundancies – pushing the economy into a deeper recession than appeared likely only a few weeks ago.

Not even the 15 per cent depreciation of sterling over the past year is lightening the mood. Ben Broadbent of Goldman Sachs said: "It appears that the manufacturing sector is getting little relief from the sharp decline in sterling."

Prominent City economists, many of whom attended a closed-door conference at the Bank on Tuesday, predicted simultaneously an interest rate cut next Thursday. The mood at the conference had been grim, they said on condition of anonymity.

Malcolm Barr of JPMorgan, Michael Saunders of Citi, Simon Hayes of Barclays Capital and George Buckley of Deutsche Bank changed their forecasts to join money market investors in predicting lower rates next Thursday.

Mr Hayes said: "We think the market turmoil, and associated general feeling of gloom ... will make it relatively easy for the monetary policy committee to sell a rate cut as being consistent with hitting the inflation target in the medium-term, even as inflation hits 5 per cent."

Weak factory data, Page 8

World Markets

STOCK MARKETS

	Oct 1	prev	%chg
Dow Jones Ind	10831.07	10850.66	-0.18
Nasdaq Comp	2069.40	2082.33	-0.62
S&P 500	1161.06	1166.36	-0.45
FTSEurofirst 300	1072.84	1061.66	+0.85
DJ Euro Stoxx 50	3067.35	3038.20	+0.98
FTSE 100	4959.6	4902.5	+1.16
FTSE All-Share UK	2510.28	2481.67	+1.07
CAC 40	4054.54	4032.10	+0.56
Xetra Dax	5806.33	5831.02	-0.42
Nikkei	11368.26	11259.86	+0.96
Hang Seng	(c)	18016.21	–
FTSE All World $	193.4	193.0	+0.2

CURRENCIES

	Oct 1	prev		Oct 1	prev
$ per €	1.401	1.410	€ per $	0.714	0.710
$ per £	1.771	1.781	£ per $	0.565	0.562
£ per €	0.791	0.788	€ per £	1.265	1.269
¥ per $	105.8	106.2	¥ per €	147.8	149.1
¥ per £	186.9	189.2	£ index	90.0	90.4
$ index	86.6	86.6	€ index	100.6	100.8
SFr per €	1.570	1.575	SFr per £	1.985	1.999

COMMODITIES

	Oct 1	prev	chg
Oil Brent $/Nov	95.33	98.17	-2.84
Oil WTI $/Nov	98.53	100.64	-2.11
Gold $	878.10	877.60	+0.50

INTEREST RATES

	price	yield	chg
US Gov 10 yr	101.94	3.76	-0.08
UK Gov 10 yr	104.08	4.47	+0.01
Ger Gov 10 yr	101.73	4.03	-0.01
Jpn Gov 10 yr	99.78	1.53	+0.05
US Gov 30 yr	104.36	4.24	+0.08
Ger Gov 2 yr	100.94	3.49	–
	Oct 1	prev	chg
Fed Funds Eff	2.03	1.56	+0.47
US 3m Bills	0.82	0.92	-0.10
Euro Libor 3m	5.29	5.27	+0.01
UK 3m	6.24	6.30	-0.07

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FINANCIAL TIMES

Friday October 3 2008 | £1.50

Newspaper of the year

Aftershock

The earthquake on Wall Street has shaken global politics **Philip Stephens Comment Page 17**

In recovery

One man's struggle to retrieve his lost computer data

Page 14

World Business Newspaper

News Briefing

Unilever shareholders to push for change
Unilever investors are set to push the consumer group to reinvent the way it operates, once incoming chief executive Paul Polman joins the organisation next week. **Page 21; Break with history; Page 15**

MUFG's Aberdeen stake
Mitsubishi UFJ Group/has bought a 9.9 per cent stake in Aberdeen Asset Management, the Scottish fund manager, as part of an alliance with Japan's largest financial group. **Page 21; Lombard, Page 22; Japan alliance, Page 23; www.ft.com/worldview**

Regal attracts interest
Shell is among a number of groups believed to have made approaches to Regal Petroleum, the exploration and production company active in Ukraine, about possible takeovers or asset deals. **Page 22**

Brown plans reshuffle
Gordon Brown is to reshuffle his cabinet today, seeking to capitalise on an improved showing in the opinion polls. **Page 2**

Boost to gas supplies
Winter gas supplies will be stronger than they have been for many years, creating the potential for a fall in prices, a leading consultancy says. **Page 6**

Savers join gold rush
Bullion dealers are busier than at any time since 1980 as retail investors, concerned with the safety of bank deposits, rush to buy gold coins and bars. **Page 2**

Eon-Gazprom strike deal
Russia and Germany improved bilateral relations following tensions caused by the Georgia conflict by endorsing a major gas exploration deal between Gazprom and Eon. **Page 7**

India hails lifting of ban
New Delhi hailed US approval of a landmark nuclear co-operation agreement that lifts a ban on selling nuclear technology as a vindication for India. **Page 12**

Ground Zero delays
Plans to build a skyscraper next to New York City's "Ground Zero" and a train and subway station underneath will be delayed and run about $1bn over budget, according to a US agency report. **Page 13**

Blair quits Met police chief reluctantly steps down

A forlorn-looking Sir Ian Blair reluctantly announces his resignation as Metropolitan police commissioner at a press conference in New Scotland Yard, London, yesterday. According to senior police insiders, his resignation was aimed at avoiding a damaging political split between himself and Boris Johnson, the mayor of London, which might have threatened the operational efficiency of the UK's biggest police force in fighting crime and terrorism **Report and analysis, Page 3**

Brown hits at Irish banks

PM fears customers in UK will be poached

Dublin minister says he will co-operate

By George Parker and Peter Thal Larsen

Gordon Brown yesterday piled pressure on Ireland to stop banks using a new €400bn (£313bn) government guarantee to poach business from British rivals amid signs that it could trigger a flight of funds across the Irish Sea.

Mr Brown wants Dublin to stamp out at once aggressive marketing campaigns by Irish banks and take measures to cap the market share of institutions now among the safest in Europe.

Ireland's decision to prop up its six biggest lenders by guaranteeing all their debts and deposits was passed into law yesterday in the face of anger across Europe about the impact that it would have on the EU's single market.

British bankers yesterday said there were already signs that some Irish lenders were approaching corporate and private banking customers in the United Kingdom and encouraging them to move their money.

Companies and wealthy individuals are seen as prime targets because they are more likely to have cash balances in excess of the £35,000 at which the UK government guarantees deposits.

Mr Brown raised his concerns with Brian Cowen, Irish prime minister. Downing Street wants to avoid a public row but officials say Mr Brown is determined "to restrict the inflows into these Irish institutions".

British officials pointed Dublin to the example set when the government nationalised Northern Rock last February: the bank promised it would not use its taxpayer guarantee to boost its market share of retail deposits above 1.5 per cent. Mr Brown has asked Ireland to extend its guarantee to British banks with units in Ireland, including Ulster Bank, part of Royal Bank of Scotland, and HBOS. Ireland has indicated it may do so.

The Irish decision will be discussed by Mr Brown and other European leaders at a Paris summit tomorrow on the financial crisis, convened by Nicolas Sarkozy, French president.

Brian Lenihan, Irish finance minister, promised that there would be "no predatory pricing" and told the Financial Times that he was willing to work on a bilateral basis with Britain.

He was referring to the Irish regulator the actions of Irish Nationwide, the building society, which was yesterday approaching City workers touting government guarantees and attractive interest rates on bonds.

"We now represent the safest place to deposit money in Europe with a AAA guarantee from a country with the lowest national debt to GDP ratio of any AAA country," wrote Michael Fingleton, Jr, an Irish Nationwide executive, in an e-mail to employees of a large investment bank.

An Irish Nationwide employee confirmed that it was offering UK customers 6.75 per cent interest for a six-month bond with a minimum investment of £20,000.

Tens of thousands of savers yesterday continued to transfer money from the UK to accounts run by Irish banks – including Post Office accounts run by Bank of Ireland. Moneysupermarket.com, the price comparison website, said it had experienced three times the normal level of account opening and inquiries, with Irish banks accounting for 25 per cent of savings traffic.

There were signs also of a broader flight to safety by British savers. Northern Rock said it had withdrawn several savings offers after a rush of customers.

Additional reporting by Matthew Vincent

> Tens of thousands of savers yesterday continued to transfer money from the UK to accounts run by Irish banks – including Post Office accounts run by Bank of Ireland

Credit climate, Page 4
Global crisis, Pages 8, 9, 26, 27
Editorial Comment, Page 16
Philip Stephens, Page 17
Lex, Page 20
Markets, Pages 42-44
www.ft.com/bailout

US House leaders scramble to shore up rescue bill

By James Politi in Washington

US House leaders were yesterday engaged in a flurry of meetings to shore up backing for the $700bn (£397bn) US financial bail-out and end the political uncertainty hanging over the rescue bill as early as today.

But following a wide-margin 74-25 vote in the Senate on Wednesday night to approve a revised version of the legislation, the prospects for its passage in the House remained in the balance last night.

In an afternoon press conference, Nancy Pelosi, House speaker, said that she was "optimistic" that a bill would be taken to the floor.

A series of revisions, including tax breaks for individuals and businesses and a lifting of the limit on insured bank deposits, were mainly designed to woo the group of conservative House Republicans who blocked passage of the bill on Monday, stunning financial markets.

Although House Republican leaders also expressed confidence that the revised bail-out would be approved, a hearing in the rules committee last night exposed lingering unease within their ranks.

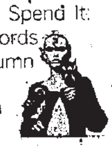
Spencer Bachus, the top Republican on the House financial services committee, made an appeal for an amendment to be added to the bill limiting the Treasury authorisation to $250bn, and striking out some of the additions to the Senate bill he labelled as "pork".

He claimed that 90 per cent of his caucus supported the change, raising the possibility that political wrangling could once again delay passage of the bail-out. He also said the Treasury had made clear it expected to spend about $50bn per month, so this would fund the programme for the next four months.

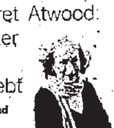
Prayer for unity, Page 9
www.ft.com/crisis

Tomorrow

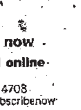
How to survive the global financial crisis
FT Weekend



How to Spend It: Wise words on autumn style
FT Weekend Magazine



Margaret Atwood: a matter of life and debt
FT Weekend Life & Arts



ECB signals possible rate cut as global slowdown fears hit shares

First policy softening in five years possible

By Aline van Duyn and John Authers in New York and Ralph Atkins in Frankfurt

Rising fears of a global economic slowdown sent stock prices sliding yesterday as the European Central Bank signalled that it could soon cut interest rates for the first time in five years.

Jean-Claude Trichet, ECB president, opened the door for a possible cut in official borrowing costs for the 15-member eurozone in November – or earlier if the financial market crisis escalates – by saying that although eurozone inflation risks had not disappeared, they had fallen.

The newly dovish tone at the ECB contributed to a sharp slide in the euro, which fell to $1.38 – a one-year low against the dollar – and Y145, its lowest for more than two years.

Meanwhile, the dollar yesterday gained 1.2 per cent against a trade-weighted basket of currencies, taking it up 12.9 per cent since April. Oil tumbled 4.6 per cent to $93.97 per barrel. A batch of weak US economic data, combined with further evidence that the capital markets remain frozen for even the best companies, also drove sharp falls in commodity prices and emerging markets.

The S&P 500 index closed down 4 per cent to 1,114.28, only just above the low it hit on Monday after the shock votes in the US Congress against the $700bn financial bail-out plans.

"There has been a shift in sentiment in the equity markets. The focus now is on the economy, and even if the bail-out is approved, what matters now is the impact of the bail-out on the economy, and that will take time to be felt," said Todd Steinberg, head of equities and derivatives for Americas at BNP Paribas.

The MSCI Emerging Markets index fell 8.8 per cent, and is now 43.3 per cent from its peak last year. Canada's benchmark stock index fell 7 per cent to hit its lowest since November 2005. Brazil's Bovespa index fell 11.7 per cent in US dollar terms. In London, the FTSE 100 closed 1.8 per cent down at 4,870.3.

Investors remained reluctant to lend money to even the strongest companies. Credit markets remained largely frozen, and the commercial paper sector shrank by a further $95bn in the last week. Bank funding stresses reached a high for the year, with three-month Libor set at 4.21 per cent, up 6 basis points.

US government bond yields fell as traders bet that the Federal Reserve might cut US rates, perhaps even before its October 29 policy-setting meeting. Fed funds futures fell amid expectations that "a deeper and more prolonged economic downturn is likely", according to analysts at Brown Brothers Harriman.

Eagle heads south

The US is to abandon Mayfair's Grosvenor Square and move its embassy to Vauxhall, a grittier area of London, south of the river Thames. Robert Tuttle, US ambassador to the UK, said he had signed a conditional agreement to acquire the new site, closer to Westminster than the old location, but unlikely to please some diplomats reluctant to leave well-to-do Mayfair and nearby Oxford Street.

Report, Page 3

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World Markets

STOCK MARKETS

	Oct 2	prev	%chg
Dow Jones Ind	10482.85	10831.07	-3.22
Nasdaq Comp	1976.72	2069.40	-4.48
S&P 500	1114.28	1161.06	-4.03
FTSEurofirst 300	1057.51	1072.64	-1.41
DJ Euro Stoxx 50	3007.51	3067.35	-1.95
FTSE 100	4870.3	4959.6	-1.80
FTSE All-Share UK	2473.24	2510.28	-1.48
CAC 40	3963.28	4054.54	-2.25
Xetra Dax	5660.63	5806.33	-2.51
Nikkei	11154.76	11368.26	-1.88
Hang Seng	18211.11	(c)	+1.06
FTSE All World $	186.8	193.4	-3.4

CURRENCIES

	Oct 2	prev		Oct 2	prev
$ per €	1.380	1.401	€ per $	0.725	0.714
$ per £	1.762	1.771	£ per $	0.568	0.565
£ per €	0.783	0.791	€ per £	1.274	1.265
¥ per $	105.2	105.8	¥ per €	145.3	147.8
¥ per £	185.1	186.9	£ index	90.3	90.0
$ index	87.1	86.5	€ index	99.8	100.5
SFr per €	1.570	1.570	SFr per £	2.000	1.985

COMMODITIES

	Oct 2	prev	chg
Oil Brent $/Nov	90.56	95.31	-4.77
Oil WTI $/Nov	93.97	98.53	-4.56
Gold $	840.50	878.10	-37.60

INTEREST RATES

	price	yield	chg
US Gov 10 yr	103.02	3.63	-0.13
UK Gov 10 yr	104.77	4.38	-0.09
Ger Gov 10 yr	102.53	3.98	-0.11
Jpn Gov 10 yr	99.83	1.52	-0.01
US Gov 30 yr	106.91	4.15	-0.09
Ger Gov 2 yr	101.37	3.29	-0.20
	Oct 2	prev	chg
Fed Funds Eff	1.15	2.03	-0.88
US 3m Bills	0.59	0.82	-0.33
Euro Libor 3m	5.32	5.29	+0.03
UK 3m	6.28	6.24	+0.05

Prices are latest for edition

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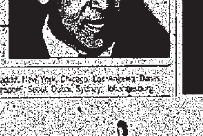

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FT WEEKEND

MAGAZINE

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Inside

Margaret Atwood: a matter of life and debt

Life & Arts Cover Story

Ferragamo: reinventing the luxury holiday

Life & Arts Page 9

St Petersburg: win a luxury 5-night stay

Reader Offer Life & Arts, Page 12

News Briefing

Europe's carmakers ask for US-style loan
European carmakers said they would lobby the EU for a €40bn (£31bn) loan to develop greener products following a US move to aid its domestic industry. **Page 23**

AIG plans assets sale
AIG, the troubled international insurance group, plans a huge assets sale, which if successful would cut its revenues by more than half. **Page 22**

Regal denies approach
Regal Petroleum has denied it received a takeover approach from Royal Dutch Shell, rejecting reports it was sent a possible bid proposal valuing it at $1.2bn (£679m). **Page 18**

Premiere setback
News Corp says losses on its stake in Premiere after the German pay-TV operator's shock profit warning. **Page 23**

Carlsberg forecast cut
Carlsberg's shares slid 6 per cent after the Danish brewer drastically cut its growth forecast for Russia, its biggest single market. **Page 23**

Taylor Wimpey talks
The global crisis is pushing Taylor Wimpey into further talks with lenders as it fights the housing slump. **Page 20**

Menzies shares hit
Shares in John Menzies fell 15 per cent after the newspaper distributor and airport services group warned that turbulence in the aviation market would hit results. **Page 18**

US plans Taiwan sales
The US plans to sell more than $6bn (£3.3bn) worth of weapons to Taiwan as part of a package aimed at boosting the island's ability to defend itself, US officials said. **Page 12**

Google-Yahoo delay
Google and Yahoo announced a delay to their search advertising partnership to allow more time for consideration of the deal. **www.ft.com/media**

Banks braced for insurance crackdown

Regulator targets profits in £5.5bn market

Spotlight on policies sold with loans

By Michael Peel, Legal Correspondent

Britain's banks are braced for another setback next week when the competition watchdog is due to announce a sweeping crackdown on the huge profits it claims the lenders make on their insurance products, the Financial Times has learnt.

The Competition Commission plans to impose severe limits on the £5.5bn market for sickness and unemployment insurance that banks sell to people taking out personal loans, according to people familiar with the case.

The move could eat into the £1.4bn of excess profits the watchdog claims the banks earn through the sales, and lead to a knock-on rise in the already soaring price of personal credit.

The commission will recommend banks are banned from selling insurance at the same time as loans, instead forcing them to hold back for a number of days to give customers a chance to shop around.

The watchdog – which is likely to publish its report at the end of next week – will also propose a halt of banks' much-criticised practice of charging customers a lump up-front sum for their policies, on which interest is then levied. Instead, they will be asked to stagger the payments as is done with most other insurance premiums.

Banks, already under pressure from the global financial turmoil, are expected to fight the plan and argue it could stop people buying loan insurance at precisely the time they need it most.

The British Bankers' Association, the main industry body, said: "It would strike us that now is not the time to be discouraging people from looking at how they meet their financial commitments if the worst happens."

Advocates of the commission's tough approach say there is no need to go easier on the banks because of the financial crisis, as institutions' problems are related to money supply rather than profitability.

The recommendations are the latest stage in a 20-month-old probe by the commission into the banks' sales to what it sees as a captive market.

The Office of Fair Trading last year alleged that banks were harming customer interests by loading cheap loans with expensive insurance policies.

The Competition Commission declined to comment.

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Global crisis, Page 22
Lex, Page 30
www.ft.com/crisis

Peter Mandelson outside 10 Downing Street yesterday PA

Brown turns to former foe over economic crisis

By George Parker and Jim Pickard

Peter Mandelson yesterday made a startling return to Westminster as he came back from Brussels to join Gordon Brown's government in an unexpectedly dramatic cabinet reshuffle that saw the prime minister reshape his team to battle the economic downturn.

Mr Brown's decision to bring his old enemy the Blairite European Union trade commissioner into the cabinet as business secretary is designed in part to head off the threat of a future rebellion against his leadership.

The return of Mr Mandelson, whose relations with Mr Brown soured after he backed Tony Blair to lead the Labour party in 1994, was welcomed by business, but Tories and some Labour MPs claimed it was a bizarre appointment and a return to a discredited era of "spin".

The reshuffle went much further than expected as Mr Brown strengthened his team in important business areas and announced the creation of a "National Economic Council" to tackle the economic crisis.

Ed Miliband, a rising cabinet star, heads a new department for energy and climate change while Paul Myners, the high-profile businessman, becomes City minister and a team of "business ambassadors" will fly the flag for Britain abroad.

But Mr Mandelson's appointment was the biggest surprise as Mr Brown brought into the heart of his government a minister with whom he refused to speak for years and who remains a highly controversial figure.

After four years in Brussels, Mr Mandelson has been brought into the cabinet for the third time. His previous stints as trade secretary and Northern Ireland secretary ended in resignation.

Mr Mandelson seemed as surprised as anyone to be in Downing Street. "Third time lucky," he quipped to journalists, noting that Mr Brown was doing an "exceedingly good job". He added pointedly: "Originally we worked very closely together."

He will head a business department which has been stripped of its responsibilities for energy, heightening speculation that he will play a wide-ranging role in government including developing Labour's election strategy. He will also be raised to the peerage.

Mr Brown said the decision to appoint Mr Mandelson was taken in "the national interest", praising the EU trade chief's expertise

Decision to bring back Mandelson is sign of PM's determination to draw a line under months of infighting

and his record in Brussels. Baroness Ashton, Labour's leader in the Lords, will replace him as Britain's EU commissioner for the remainder of his five-year term, which expires in 2009.

The reshuffle also saw John Hutton, business secretary, move to defence to replace Des Browne and Geoff Hoon, chief whip, replacing Ruth Kelly as transport secretary. Margaret Beckett, a cabinet veteran, returns as housing minister. Stephen Carter leaves his post as the prime minister's strategy adviser to go to the House of Lords as communications minister.

National interest recall, Page 2
Welcome from business, Page 3
The commissioner, Page 12
Editorial Comment, Page 14
www.ft.com/dailyview

Bail-out approval fails to calm markets

US bill passed after tense week of talks

ECB takes emergency liquidity measures

By Daniel Dombey, James Politi, Krishna Guha and Harvey Morris in Washington and Michael MacKenzie in New York and Chris Giles in London

The US Congress passed the Bush administration's $700bn financial rescue package yesterday after a tense week on Capitol Hill, but stocks fell sharply afterwards amid continuing turmoil in the credit markets.

The 263-171 vote in the House of Representatives, which rejected an earlier proposal only four days before, came after $149bn in tax breaks was added to the bill to help sway reluctant legislators to back the plan.

President George W. Bush immediately signed the bail-out legislation. He said: "We have shown the world that the United States of America will stabilise our financial markets and maintain a leading role in the global economy."

But Wall Street turned increasingly negative after the vote. The S&P 500 – which rose as much as 3.6 per cent before the decision – fell 1.4 per cent, closing below its level on Monday after the House voted against the bill. The move came as Europe's central banks took unprecedented emergency measures to keep money flowing in their banking systems.

Mervyn King, Bank of England governor, blamed "extraordinary market conditions" for its announcement of a second £40bn injection of three-month money into British banks on Monday, with the bank accepting much weaker collateral in exchange and promising to keep pumping in the money on a weekly basis until November at the earliest.

The Bank said it would "take all actions necessary to ensure that the banking system has access to sufficient liquidity" and shows that it is now no longer the lender of last resort, but the lender of only resort for banks.

Faced with the same crisis of confidence in Frankfurt, the European Central Bank said it would widen its quick tenders of cash from the normal 130 banks to all of the 1,700 banks it deals with.

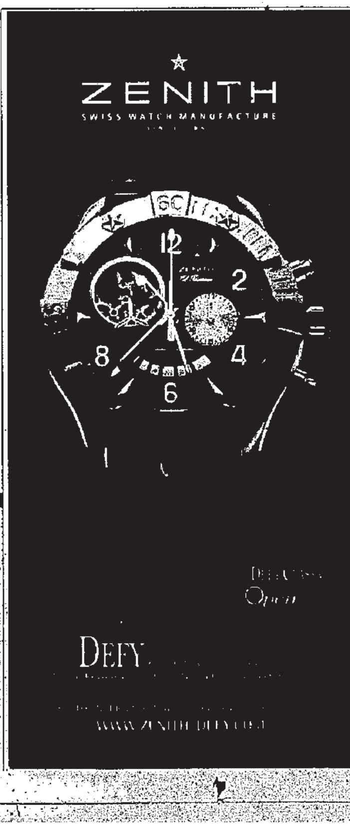
The UK Financial Services Authority said the level of savings in British bank accounts guaranteed by the government will next week be formally raised from £35,000 to £50,000 and reserved the right to raise the limit further if necessary.

US stocks had their worst week since markets reopened after the September 11 2001 terrorist attacks and new data showed a big fall in US jobs in September, adding to fears of a deterioration in the world economy. The Bureau of Labor Statistics said non-farm payrolls fell 159,000 last month, the biggest monthly fall since March 2003, although the unemployment rate held at 6.1 per cent.

Reports, Pages 8 and 9
Editorial Comment, Page 14
Jurek Martin, Page 15
Markets, Pages 28 and 29
Lex, Page 30

Wells' $15bn Wachovia swoop stuns Citi

Wells Fargo sparked a regulatory and legal dispute with a surprise $15.1bn all-share offer for Wachovia, trumping Citigroup's $2.2bn government-aided deal to buy most of the sixth-biggest US lender. Stunned Citigroup officials threatened to seek an injunction to stop the transaction or demand substantial damages. People close to Citi said the government bail-out plan approved by Congress yesterday contained a provision that might invalidate the Wells deal. **Page 22**



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World Markets

STOCK MARKETS	Oct 3	prev	%chg
Dow Jones Ind	10325.38	10482.85	-1.50
Nasdaq Comp	1947.39	1976.72	-1.48
S&P 500	1099.23	1114.28	-1.35
FTSEurofirst 300	1089.38	1057.51	+3.01
DJ Euro Stoxx 50	3113.82	3007.51	+3.53
FTSE 100	4980.3	4870.3	+2.26
FTSE All-Share UK	2522.12	2473.24	+1.98
CAC40	4080.25	3963.28	+2.96
Xetra Dax	5797.03	5660.63	+2.41
Nikkei	10938.14	11154.76	-1.94
Hang Seng	17682.40	18211.11	-2.90
FTSE All World $	185.9	185.9	-

CURRENCIES	Oct 3	prev		Oct 3	prev
$ per €	1.379	1.380	€ per $	0.725	0.725
$ per £	1.773	1.762	£ per $	0.564	0.568
£ per €	0.778	0.785	€ per £	1.286	1.274
¥ per $	105.4	105.2	¥ per €	146.1	145.3
¥ per £	187.9	185.1	£ index	91.1	90.3
$ index	87.4	87.3	€ index	99.5	99.6
SFr per €	1.564	1.570	SFr per £	2.010	2.000

COMMODITIES	Oct 3	prev	chg
Oil Brent $/Nov	90.25	90.56	-0.31
Oil WTI $/Nov	93.88	93.97	-0.09
Gold $	840.50	840.50	-

INTEREST RATES	price	yield	chg
US Gov 10 yr	102.97	3.64	+0.01
UK Gov 10 yr	104.54	4.41	+0.03
Ger Gov 10 yr	102.42	3.54	+0.02
Jpn Gov 10 yr	100.43	1.45	-0.07
US Gov 30 yr	108.45	4.12	-0.03
Ger Gov 2 yr	101.25	3.22	+0.03
	Oct 3	prev	chg
Fed Funds Eff	0.67	1.16	-0.48
US 3m Bills	0.50	0.69	-0.20
Euro Libor 3m	5.33	5.32	+0.01
UK 3m	6.25	6.28	-0.03

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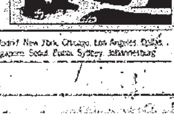

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Hot tickets, cool clothes: London Fashion Week

Models from the Topshop show on the first day of London Fashion Week. The retailer unveiled its new Unique designer collection A to Z guide, times2

Labour turmoil grows as more MPs join rebellion

Philip Webster, Sam Coates

A chaotic Labour Party was stumbling last night towards its showpiece conference after more MPs joined the mutiny against Gordon Brown's leadership and urged the Cabinet to find the courage to drop him.

Senior ministers despaired as the number publicly calling for a leadership contest went into double figures.

Cabinet members took to the airwaves to back the Prime Minister, but were told by Downing Street to show "respect" to the rebels and not criticise them personally — underlining the fragility of Mr Brown's position.

The dissidents have little chance of reaching the 71 names needed to force a contest, but ministers such as John Hutton, David Miliband and Geoff Hoon nevertheless stopped short of condemning the uprising against Mr Brown.

Fiona Mactaggart, the former Home Office minister, Barry Gardiner and Gordon Prentice yesterday joined those calling publicly for someone else to be given a chance to take over.

The rebels have acted now because of frustration that Cabinet ministers failed to move against Mr Brown. They had hoped through the summer for a high-profile resignation that would have forced the party to make a choice between him and other candidates. One said: "At some point the Cabinet will have to decide."

In a BBC interview Ms Mactaggart called on senior ministers to show "courage", suggesting that some of them supported the rebels privately.

Before the emergence at the weekend of the list of MPs calling for their leadership nomination papers, the general view in the parliamentary party, including the Cabinet, had been that Mr Brown should be given his chance to reassert his authority at next week's Manchester conference.

The Cabinet interventions yesterday seemed certain to allow that to happen. But ministers said privately that, although the rebels had got their timing wrong, their action could leave Mr Brown facing a further crisis in the autumn. "Gordon will get his conference, but this madness cannot be allowed to go on for ever. Sooner or later it has to be faced up to," a senior party figure said.

Mr Hutton, the Business Secretary, and Mr Miliband, the Foreign Secretary, showed understanding with the rebel cause as they rejected any contest. "I'm not going to criticise any of my colleagues who want Labour to do better, and neither am I going to criticise those who say that we do need to set out a stronger vision of what we are doing," Mr Hutton told the BBC. Mr Miliband said: "I think there's a recognition from the top of the party down ... that these are very, very challenging times for the Labour Party."

Mr Hoon showed the sort of tolerance towards rebels not usually seen in a chief whip. "It's important that people who have something to say in a democracy come out and say it," he said.

Why the dissidents decided to break cover
News, pages 6, 7

IN THE NEWS

US bank teeters on the verge of collapse

The future of the US investment bank Lehman Brothers was in peril last night as potential rescue buyers walked away. At the same time Merrill Lynch, one of Wall Street's most powerful banks, opened $40 billion bid talks with a US mortgage bank, Bank of America, to secure its own future. News, page 3; Business, page 38

Record death toll

The number of teenage murders in London is at a record level this year as police struggle to cope with the surge in youth and gang violence. News, page 5

Holiday firm folds

Thousands more people had their holiday plans thrown into confusion as another tour operator went bust and Alitalia's future hung in the balance. News, page 15

Clegg goes on attack

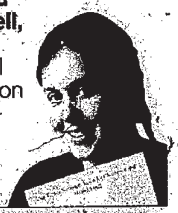
Nick Clegg used his debut on stage at the Liberal Democrats' annual conference to attack David Cameron, the Tory leader, as infantile. News, pages 18, 19

Obama cash bonanza

Barack Obama pulled in funding of $66 million last month, amid signs Sarah Palin has mobilised many grassroots Democrats against her. World news, page 31

Inside today

How to succeed at su doku
Nina Pell, Times national champion 2008



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Lehman collapse sends shockwave round world

Shares and oil prices plunge, thousands lose jobs

Gary [redacted]ncan Economics Editor

Fears of a global financial meltdown grew yesterday as the world's biggest bankruptcy plunged markets into turmoil.

Investors were left reeling as the abrupt demise of the Lehman Brothers investment bank sparked the biggest shake-up on Wall Street in decades.

Another of US capitalism's biggest institutions, Merrill Lynch, is to be swallowed by Bank of America in a $50 billion takeover to save it from collapse.

Shares fell as fear spread through the financial system. Central banks unveiled urgent measures amid concerns that the world economy was entering a dangerous new phase. The Bank of England injected £5 billion of emergency lending into money markets.

The 5,000 Lehman staff in Britain were clearing their desks yesterday in the country's biggest single loss of jobs since the collapse of Rover in 2005. The majority of the bank's 26,000 staff around the world are expected to lose their jobs.

Leading shares on both sides of the Atlantic took a battering. More than £50 billion was wiped off London's bluechip shares as the FTSE 100 index tumbled by 212.5 points, or more than 4 per cent. It was the darkest day for the stock market since January 21, when it fell 5.5 per cent.

Investors were fretting over the financial health of banks that had lent Lehman money — and the fear that more big institutions would be wiped out. "It's clear that we are one step away from a financial meltdown," Nouriel Roubini, a leading international economist, said.

London's losses were stemmed as Bank of America's rescue bid for Merrill Lynch helped to limit yesterday morning's sell-off on Wall Street. When London closed, the benchmark 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, announcing a $70 billion pool of funds, with any one of them able to tap a third of that should they hit difficulty.

The collapse of Lehman came after the US Treasury refused to bail out the embattled 158-year-old bank, a crucial shift after its support in March for a Wall Street rescue of the failing Bear Stearns.

Lehman was felled by the weight of about $60 billion in toxic bad debts. It went under holding assets of $639 billion against debts of $613 billion, making it the biggest corporate bankruptcy since WorldCom collapsed in 2002.

President Bush, seeking to assuage fears yesterday, conceded that "in the short run adjustments in the financial markets can be painful". However, he added: "In the long run, I'm confident that our capital markets are flexible and resilient, and can deal with these adjustments."

Henry Paulson, the US Treasury Secretary, insisted last night that the American banking system remained "safe and sound". Washington was committed, he said, to minimising the impact of what he admitted were the "painful" economic shifts of the present crisis.

'We are now unquestionably in the worst financial crisis since the Great Depression'

Anatole Kaletsky, page 24

Leading article page 2
Gerard Baker page 5
David Wighton pages 6, 41
Patrick Hosking page 7

KIRSTY WIGGLESWORTH / AP

Workers outside the offices of Lehman Brothers in Canary Wharf. Most of the bank's 26,000 staff around the world are expected to lose their jobs

IN THE NEWS

Zimbabwe demands cash for white farmers

Zimbabwe's new unity Government clashed with Britain within hours of the signing of a power-sharing agreement. It demanded that the country's former colonial master compensate the 4,000 white farmers whose land the Mugabe regime seized for its own supporters. World news, page 31

Deadly dam operation

The latest British soldier to die in Afghanistan was taking part in a daring operation to install a new turbine at a hydroelectric dam that will bring power to millions of people. News, page 9

Clegg image problem

Vince Cable admitted that Nick Clegg was struggling to make an impact with voters, saying the Lib Dem leader came across better in private than in public and would improve. News, pages 20, 21

RSPCA quits Crufts

The RSPCA cut its links with Crufts as a leading charity called on the dog show's organisers to act to prevent the breeding of "deformed and disabled" animals. News, pages 16, 17

Tennis mega-deal

The Lawn Tennis Association will announce a deal for British tennis worth £30 million after finding a European financial institution willing to invest heavily in the sport's future. Sport, page 80

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Crisis hits home to threaten the Halifax

Patrick Hosking, Siobhan Kennedy

The crisis engulfing the world's financial markets moved closer to home yesterday when Britain's biggest savings group was hit by a selling stampede.

Regulators and HBOS itself, which owns Halifax and Bank of Scotland, rushed out statements to reassure its 15 million savers and stave off the unthinkable — a flood of customers trying to withdraw their money.

HBOS shares fell by 41 per cent at one point, after a top ratings agency questioned its financial strength, and closed at 182p, down 22 per cent on the day. The price had already fallen by 18 per cent on Monday.

In the US, the insurance giant AIG, which sponsors Manchester United, was teetering on the brink. David Paterson, the New York Governor, who is co-ordinating the rescue effort, gave warning that AIG had just a day left to resolve its financial problems. The Federal Reserve was reported to be considering an $85 billion rescue in return for an 80 per cent stake. Ben Bernanke, its chairman, and the Treasury Secretary Henry Paulson were briefing members of Congress on the deal. A collapse of AIG would plunge the credit crisis to new depths, since every leading bank has exposure to it.

Shares around the globe slumped for the second day amid fears that more financial institutions could be allowed to fail. The FTSE 100 index of British blue-chip companies slid below 5,000 for the first time in five years. Central banks worldwide pumped $160 billion into money markets after a $36 billion injection on Monday.

One banker in London said: "Today is the day of fear and capitulation. It could be the bottom [of the crisis], but only if AIG gets saved. If not, then there's going to be anarchy."

George Soros, the hedge fund supremo, said: "I'm afraid we're not through the worst of it at all — in some ways we're heading into the storm, rather than coming out of it." He said that the question of whether Lehman Brothers should have been rescued depended on whether the financial system survived. If the system survives then the decision was right. It would turn out to be the wrong decision "if there is a meltdown."

The Treasury, Bank of England and Financial Services Authority called an emergency meeting to consider measures to cope with the unfolding crisis, which was triggered by the collapse at the weekend of the investment bank Lehman Brothers, owing $613 billion.

It is understood that Alistair Darling, the Chancellor, is ready to issue a depositor guarantee for any leading UK financial institution should this prove necessary. He said that governments and regulators could not guarantee to "stop the huge economic forces and changes that are taking place at the moment", he added.

Financial advisers said that depositors should not worry because it was unthinkable that the Government would allow ordinary savers to be left out of pocket.

Investor sentiment was soured by a report from Standard & Poor's, the agency responsible for assessing balance-sheet strength, which said that HBOS was "less well positioned to manage the deteriorating operating environment" than its peers. Some analysts are worried about toxic investments on HBOS's balance sheet, including £6.6 billion of securities whose value depends on US borrowers with impaired credit histories. The bank also has a relatively high dependence on funding from wholesale markets.

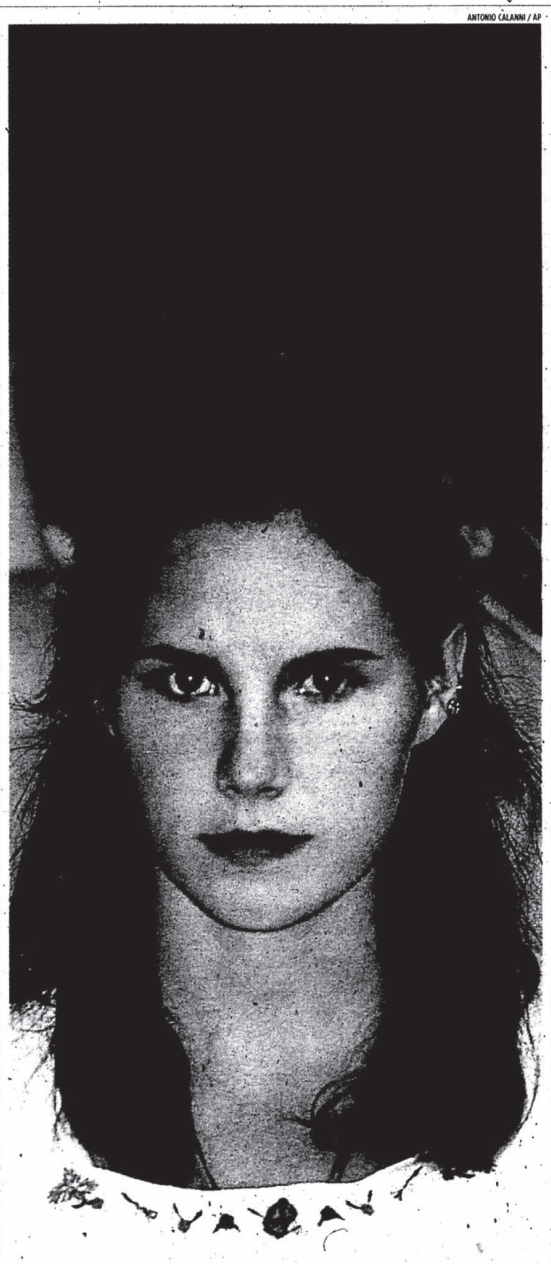
HBOS has argued that it is strong and that it has been able to fund itself easily. It has grown its deposit base by 12 per cent this year and boasts £258 billion of savings. It says that its core Tier 1 capital ratio, the most common measure of bank strength, is the highest among UK domestic banks.

Leading article, page 2
Reports and analysis, pages 6-9
King predicts 5% inflation, page 47

Despite the turmoil, savers can sleep easy

David Wighton, page 6

ANTONIO CALANNI / AP



Amanda Knox came face to face with the parents of Meredith Kercher, the British student she is accused of killing, at an Italian court News, page 11

Knox's court date with murder victim's family

IN THE NEWS

Another minister quits in leadership rebellion

As a second member of the Government quit in the continuing attempt to force a leadership contest, the Cabinet approved a conference document saying: "We came into office determined to serve the country and its needs. We remain determined to serve our country now." **News, page 3**

Creationism row

The Royal Society director of education who caused uproar among scientists by appearing to suggest that creationism be taught in schools has agreed to step down. **News, page 5**

Barclays' Lehman deal

Barclays is set to buy Lehman Brothers' North-American Investment Banking business for about $2 billion. **Business, page 44**

Hirst makes a killing

Damien Hirst walked away with £95 million for two years' worth of pickled animals, butterfly collages and spot paintings. **News, page 23**

Israeli ex-spy for PM

A former Mossad secret agent is on course to become Israel's first woman prime minister since Golda Meir. **World news, page 35**

French rout pirates

French special forces rescued a couple who had been held captive on their yacht by pirates for two weeks. **News, pages 18, 19**

Inside today

'Millions of people feel a horrified delight at the fate of City bankers'

Alice Miles, page 28

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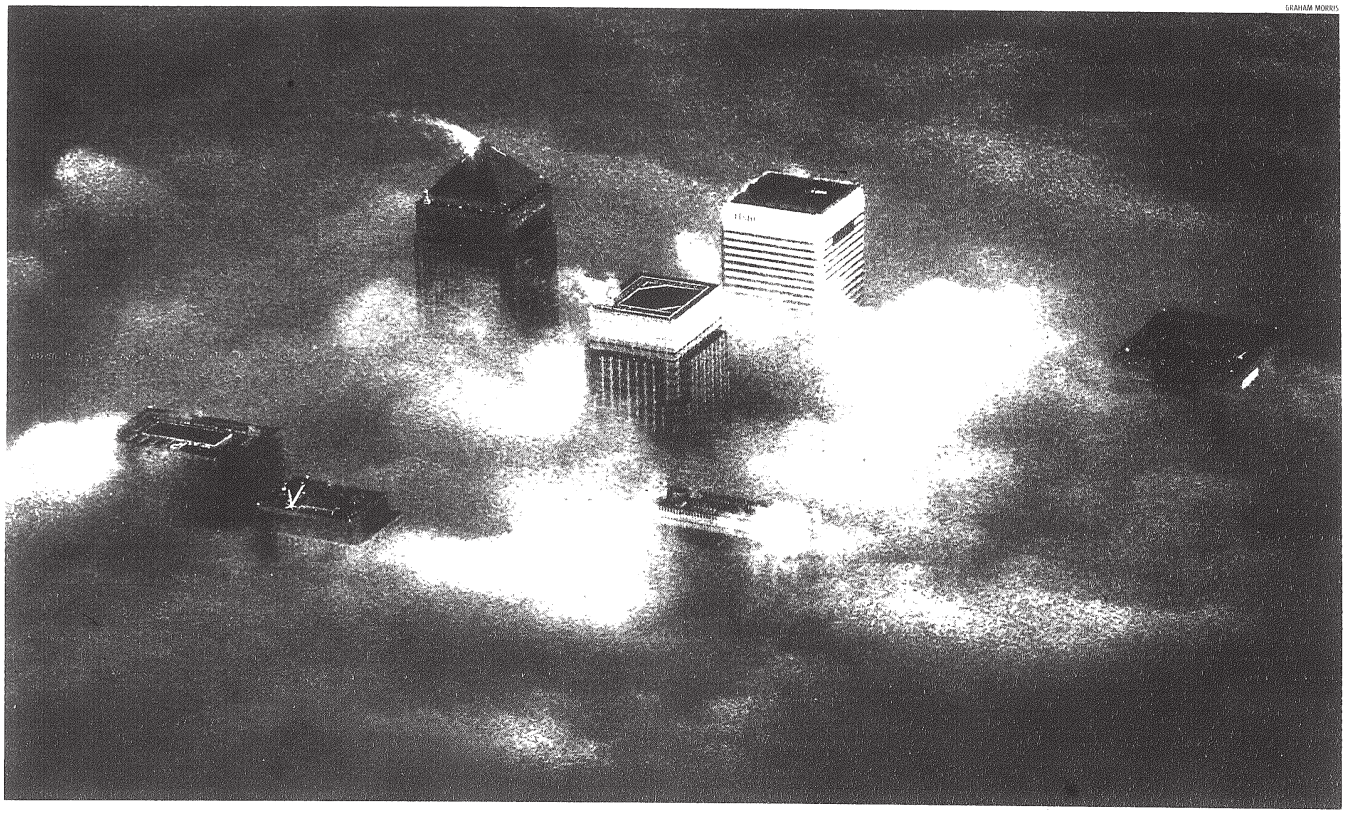

Fear stalks the banks

Halifax to be rescued by Lloyds TSB ● Up to 40,000 jobs could be lost ● Will Morgan Stanley be next?

Patrick Hosking, Siobhan Kennedy

Britain's biggest savings bank will be rescued from the brink of collapse this morning in a deal intended to stave off financial catastrophe but likely to put tens of thousands out of work.

As Halifax Bank of Scotland finalised an emergency takeover by Lloyds TSB, two of Wall Street's most powerful investment banks were scrambling to survive. Shares in Morgan Stanley and Goldman Sachs, once the stormtroopers of global capitalism, tumbled, prompting fears for their future.

One shell-shocked senior banker in London said that there was no future left for the traditional investment bank. "The world is on the brink. The market is puking all over us. There's no capital left in the world," he said.

On a day of undisguised market panic, the US Government was forced to nationalise AIG, America's largest insurer; the price of gold soared as panicked investors rushed to find safe havens; others sought shelter by buying US government bonds at levels not seen since Pearl Harbor in 1941; and Gordon Brown personally intervened to enable the fire sale of HBOS to Lloyds to create Britain's biggest bank. The deal could cost as many as 40,000 jobs across Lloyds and HBOS branches, call centres and head offices, according to one estimate. The new bank will be called Lloyds Halifax, raising concerns north of the Border that it will lose its Scottish identity.

In a measure of how close policymakers believe Britain may have come to financial anarchy, ministers were preparing to invoke the national interest to allow them to waive normal competition rules and push the deal through quickly.

Lloyds agreed to pay 232p a share to HBOS shareholders in new Lloyds shares. The deal values HBOS at £12 billion, less than a quarter of its value 18 months ago. Shares in HBOS, which owns Halifax, Bank of Scotland and Birmingham Midshires, had crashed by more than half to 88p in early trading before reports of the rescue deal sent them soaring again. They ended at 147p, down 19 per cent on the day. According to sources close to the deal, no public money will be injected into the new bank.

Official figures yesterday revealed the biggest monthly leap in unemployment since 1992, with 1.7 million Britons now out of work.

The banking crisis

Leading article, page 2
News, pages 3-7
Business, pages 44-45, 50-57

What does financial black hole mean?

Valentine Low, page 7
Anatole Kaletsky, page 28

US nationalises AIG

AIG

The US Government deems the insurance giant too big to fail and takes it over with $85 billion of public money. It is the first nationalisation of a private financial services business in the US since 1930s. Page 52

Bank extends funds

Mervyn King, the Governor of the Bank of England, extends the Special Liquidity Scheme to help to fund British banks. He had said last week that the scheme would close on October 21 as planned. Page 44

Stocks in free fall

FTSE 100

The FTSE sinks 113.2 points to end at 4912.4, the lowest since mid-2005. The Dow Jones industrial average falls 449.40 points. Trading is halted on Russian markets awaiting a government bailout plan. Page 55

Goldman slides

Goldman Sachs

The share prices of Morgan Stanley and Goldman Sachs, the last two big independent banks of Wall Street, suffer massive falls, fuelling expectations that they could be forced to sell up. Page 44

Dollar dips, gold up

The dollar is beaten down against other currencies on concerns that US banks are in peril. Saudi Arabia, Kuwait, Bahrain, Oman, Qatar and the UAE agree in principle to a common currency. Gold rises 10 per cent to $857.40. Page 55

Jobless on the rise

job centre

The number of people receiving jobless benefits rose by 32,500 last month, the sharpest increase since the end of the recession in December 1992, fuelling fears that the unemployment figures are set to soar. Page 49

The solace of quantum physics

The epiphany that transformed Jonny Wilkinson's life Interview, times2

THE TIMES

Max 19C, min 6C

Friday September 19 2008 timesonline.co.uk No 69433

80p

The jolly green banking giant nips out for a takeover

NICK RAY

Sir Victor Blank, chairman of Lloyds TSB, agreed the HBOS deal after Gordon Brown assured him that competition rules would be cast aside News, page 5

Ban on speculators who could break the banks

Clampdown on short-selling to beat cash crisis

Siobhan Kennedy, Philip Webster

Speculators and hedge funds have been banned from betting on British banks going bust, in a dramatic move by the City's regulator.

The Financial Services Authority hopes that the crackdown will prevent the downward spirals of bank shares and reduce the likelihood of another Northern Rock-style run.

It came as Gordon Brown pledged to clean up the financial system after the rescue of Britain's biggest mortgage lender, HBOS, by Lloyds TSB.

The Prime Minister called for action through the regulators to require banks and other institutions to declare their off-balance-sheet liabilities, which could run into $1 trillion worldwide. It follows suggestions that some bank chairmen do not know their off-balance-sheet exposure.

In a concerted effort to calm the frenzy gripping financial markets yesterday, regulators in America also launched an investigation into possible illegal short-selling of shares in Goldman Sachs and Morgan Stanley. Both investment banks were still struggling for survival. Regulators said that they would also investigate the collapse of Lehman Brothers this week.

Central banks, led by the US Federal Reserve, also made an unprecedented joint effort to pump $180 billion into worldwide financial markets to prop up cash-starved banks. The injection was designed to give the markets some breathing space after a week of dramatic events kick-started by the collapse of Lehman.

Short-selling is where traders can profit from betting that a share price will fall. The practice is not illegal, but it is a criminal offence to profit by short-selling and spreading false rumours to drive down a company's shares deliberately. Regulators on both sides of the Atlantic are concerned that malicious short-selling could topple a weakened bank into a catastrophic failure.

The US authorities said that opportunistic traders must disclose how many shares they held in companies,

Continued on page 4

Birth of a superbank
News, pages 4-7
Business, pages 58-61

The roulette wheel is spinning far too fast
Camilla Cavendish, page 33

Women would never have let this happen
Sarah Vine, times2

IN THE NEWS

Terror inquiry treated as a nice little earner

Britain's biggest anti-terrorist investigation was a £5 million overtime bonanza for the police. Internal e-mails told officers that night shifts, believed to be paid at £300 each, would give them time to "read a good book, take up botany or ornithology, study for your sergeant's exam [or] work out the compound interest on a rest day's pay". News, page 3

Russia-Iran arms deal

Russia's state arms exporter announced that it was planning to sell military hardware to America's arch-rivals Iran and Venezuela. World news, page 39

Baby painkiller risk

Giving paracetamol-based medicines such as Calpol to babies can increase their chances of developing asthma in later life, a study suggests. News, page 11

Call for more troops

Britain is coming under increasing pressure to send more troops to Afghanistan as part of a US-led "quiet surge" to counter the growing insurgency. News, page 9

Dow up 410 points

US shares staged their strongest rally for six years as hopes grew for a comprehensive, state-backed solution to the crisis on Wall Street. Business, page 52

Inside today

Souvenir frenzy at the Ryder Cup
Lynne Truss, page 100
Full coverage, pages 95-103

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See page 50

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Where-to-eat guide inside Two courses and a glass of Bordeaux in more than 500 restaurants Token collect, see page 68

Stock markets around the world rebounded yesterday after a week of heavy falls. The FTSE 100 in London was among the biggest risers, closing 8.8 per cent up at 5,311, its biggest one-day gain

'To hell and back'

FTSE takes record one-day £112 billion jump ● US Government promises bailout for all the banks ● Worldwide recovery

Patrick Hosking
Banking and Finance Editor

Relief and jubilation swept through the City yesterday as shares bounced back with a record gain at the end of a week that had spread fear and panic across the global economy.

The value of British shares rose by £112 billion as America rushed out a string of measures to restore confidence in the banking system. The move by Hank Paulson, the US Treasury Secretary, will cost the American taxpayer billions of dollars, but he said that it would have cost them much more had he not acted. "We've been to hell and back in just a week," the head of trading at one City bank said.

Mr Paulson's decision to buy US banks' "toxic assets" will be one of the biggest bailouts in memory. It came as people began to doubt the safety of $3.35 trillion in money market funds — accounts used like large deposit accounts by millions of Americans.

"That was the piggy bank cracking," Justin Urquhart Stewart, of Seven Investment Management, said. "If they hadn't acted, you'd have seen a panic in America that would have made Northern Rock look like an ice-cream queue."

Markets around the world responded with record jumps. In Britain, the FTSE 100 index rose 471 points to 5,311, its biggest one-day gain. The Dow Jones in New York closed up nearly 370 points, or 3.35 per cent.

Analysts said that the bailout would help to stabilise financial institutions, limit company failures and save jobs — Britain employs well over half a million people in the finance industry. And while they cautioned that it would not prevent a sharp economic downturn in much of the West, including Britain, they said the move would help to stop it spiralling into something much nastier and more prolonged.

Ultimately the measures should make it easier for people to find mortgages and bring down interest costs, but there was no sign of improvement yesterday in the key markets that determine mortgage availability and costs. Indeed, financial advisers expect home loan rates to rise next week.

Mr Paulson's measures involved taking over banks' hard-to-trade assets, a $50 billion boost for the money market funds and a ban on speculators betting that bank share prices will fall — a move taken by authorities in Britain on Thursday. The total cost is likely to be at least on the scale of the

Continued on page 8, col 4

After breathless week, I'm optimistic again
Anatole Kaletsky, page 22

A sickening slump gives way to euphoria
News, pages 4-9

THE GAME
How to impress the new boss
Boys from Brazil dazzle Man City owner, plus rest of the weekend's action

THE TIMES

Max 18C, min 4C | Monday September 22 2008 timesonline.co.uk No 69435 | 2GM | 80p

Faldo's dreams end in twilight of Valhalla

MORRY GASH/AP

Paul Azinger is congratulated by rival Ryder Cup captain Nick Faldo after the US defeated Europe in Kentucky, their first win since 1999 Sport, pages 66-72

Spot checks to curb 'greedy' City bonuses

Philip Webster, Miles Costello

A crackdown on greed and excess in the City is being promised by the Government to clean up the financial system after the banking turmoil of the past week.

The financial watchdog is to take stringent action to curb "irresponsible" bonuses that could encourage people to take excessive risks; it has already started making spot checks on firms. Banks thought to be flouting risk management guidelines may be forced to revise their reward systems.

Gordon Brown, who is staking his own survival on guiding Britain through the economic crisis, is backing the action by the Financial Services Authority (FSA) and is also seeking international agreement that will allow regulators in different countries to swap information so that poor practices are highlighted earlier.

In an interview with *The Times* today Yvette Cooper, Chief Secretary to the Treasury, said that greed has to be tackled. And the FSA's new chairman, Lord Turner of Ecchinswell — the former CBI chief Adair Turner — said that "very important questions" needed to be asked about the bank world's bonus system.

Lord Turner told *Sky News* that while regulators should not get directly involved in what people were paid, they had a right to ask whether banks were paying too much for "unreal" profits and trading practices that stored up problems for the future.

He was commenting after reports that Barclays was set to honour a $2.5 billion (£1.4bn) bonus pot for Lehman Brothers, the US investment bank that collapsed a week ago, sparking days of global turmoil. Barclays immediately bought up the bank's US core investment banking operations, which employ around 10,000 staff.

Most of the 350,000 workers in London's financial services industry get some kind of annual bonus, with thousands getting more than £1 million and a handful said to be awarded as much as £10 million. Bonuses played a key part in driving the housing market bubble, pushing up prices for properties in the £1 million to £5 million bracket. Savills estimates that £5.5 billion was invested in property last year by City bonus buyers alone.

In his speech to the Labour conference in Manchester today, Alistair Darling will promise to take whatever

Continued on page 8, col 1

Advice for Brown on his big speech

Labour conference, pages 6, 7

2GM 2GM

IN THE NEWS

Mbeki resignation splits South Africa

South Africa is facing its biggest political crisis since the end of apartheid after President Mbeki resigned as head of state, admitting defeat in the bitter power struggle within the ruling African National Congress. Mbeki supporters may now break away from the ANC and set up another party. News, page 3

Pakistan bomb kills 53

Rescuers picked their way through the ruins of the Marriott hotel in Islamabad, looking for more bodies after a huge bomb killed at least 53 people, with 266 wounded. World news, page 29

Guilty doctor returns

A paediatrician found guilty of serious professional misconduct after accusing a father of murdering his two baby sons has been allowed to return to child protection work. News, page 13

Too much homework

A top-ranking state school has slashed the amount of homework set, saying too much puts children off learning. Instead pupils will follow an independent learning programme. News, page 17

'Free insulation' blow

Millions of families facing fuel poverty this winter will not qualify for free insulation under a £1 billion energy efficiency scheme announced by the Government last week. News, page 14

Inside today

Frank Skinner on the highs and lows of his live comedy comeback
times2

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How to scrimp, save and still have a good time

times2

THE TIMES

Max 18C, min 4C | Tuesday September 23 2008 timesonline.co.uk No 69436 | 2GM SL | 80p

It's grin up north as Miliband calls for optimism

ANTHONY DEVLIN/PA

David Miliband praised Gordon Brown in his conference speech, but was later overheard saying he toned it down to avoid sounding disloyal News, pages 6, 7

Top-up fees for drugs herald two-tier NHS

Francis Elliott, David Rose

Ministers are preparing to allow public patients to pay for some top-up drugs in a decision that opponents claim will spell the end of the National Health Service.

Alan Johnson, the Health Secretary, is poised to relax the ban on patients paying privately for life-extending treatments while receiving NHS care. Such a change could result in wealthier patients living longer because they have been able to buy expensive drugs not approved by the NHS. It will force cancer sufferers to consider whether paying more than £30,000 a year for a drug is worth the extra months or years they could gain.

Mr Johnson is aware that such reforms to the ethos of the NHS would be controversial, but believes that the current rules are unsustainable.

Ministers hope that an independent review next month will help to make the case for change. "Whatever is recommended won't satisfy everyone. There is no magic bullet that resolves this very difficult issue," one senior figure told *The Times*.

Professor Mike Richards, the national cancer director, is conducting a review into "co-payment". These are likely to cap the amount that patients are allowed to spend on top-up drugs. Patients may also have to pay for any associated costs incurred by the NHS, such as treatment for side effects.

Professor Richards is expected to legitimise practices that circumvent the current guidelines. Some hospital doctors turn a blind eye to the rules and allow NHS patients to receive privately funded drugs. Any changes would be accompanied by measures to speed up the approval process for new drugs and make them cheaper, aides say.

Reforms are planned to the system under which local NHS committees decide which patients are exceptional cases and can receive drugs not yet approved by the value-for-money watchdog.

Doctors, healthcare unions and some Labour MPs argue that allowing

Continued on page 9, col 4

Global storm shelters Brown – for now

Rachel Sylvester, page 25

IN THE NEWS

Fresh wave of fears as US stock market falls

Political squabbling over the terms of a US Treasury bailout of the banking system prompted a startling late plunge in the US stock market. A surge in oil prices also unsettled the markets. News, page 3; Business, page 40

Heathrow go-ahead

Ministers are pressing ahead with plans for a third runway at Heathrow and intend to rubberstamp the expansion before Christmas. News, page 8

Cambridge entrance

Cambridge is planning to offer one-year foundation courses for pupils who fail to win places because their A-level grades are not good enough. News, page 13

Tourists kidnapped

Masked bandits kidnapped 19 people, including 11 tourists on safari in a desert border area of Egypt and took them into Sudan, officials said. World news, page 31

Russians in Caribbean

Russia flexed its muscles in America's backyard as it sent one of its largest warships to join military exercises in the Caribbean. World news, page 36

Rough play on fairway

Ian Poulter has accused a member of the victorious US Ryder Cup team of trying to unsettle him by barging into him on the course. Sport, page 80

Inside today

'There comes an age when you can't do it any more'

Dawn French and Jennifer Saunders

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'My attitude to theatre is very lowbrow'
Tom Stoppard talks to Clive James page 4 and timesonline

THE TIMES

Max 18C, min 5C

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Brown digs in with attack on the novices in waiting

But troubles mount with minister on brink of quitting

Philip Webster Political Editor

Gordon Brown told his party that it was "no time for a novice" as he demanded the right to lead Britain through the economic crisis to the next election.

The Prime Minister bought himself time with a warmly acclaimed speech to the Labour conference yesterday. In a remark aimed at David Cameron, and swiftly taken to apply also to David Miliband and other pretenders to his job, he said: "Everyone knows that I am in favour of apprenticeships but this is no time for a novice."

He added: "I want to give the people of this country an unconditional assurance — no ifs, no buts, no small print. My unwavering focus is on taking this country through the challenging economic circumstances we face and building the fair society of the future."

Mr Brown's fightback was in immediate danger last night amid signals that Ruth Kelly, the Transport Secretary, was about to quit. Miss Kelly, a Roman Catholic, was known to be unhappy about the Embryology Bill but it appeared to be a wider dissatisfaction that was prompting the move. Her constituency, Bolton West, is one of Labour's most marginal seats.

Earlier, Sarah Brown had taken the stage to introduce her husband. In his 53-minute address, the Prime Minister announced plans to scrap prescription charges for cancer patients and to help elderly people to stay in their homes rather than go into care. Highlighting his role in rescuing Northern Rock, tackling City speculation and helping families hit by the downturn, he said that Britain needed a Labour government now even more than in 1997 and that the Conservatives could not be trusted to run the economy. He was cheered as he told rebels: "The people of Britain would never forget if we failed to put them first."

It was a personal and at times emotional performance. Mr Brown said that he did not enter politics to be a celebrity and promised to own up to mistakes, such as the 10p tax debacle.

Several Labour MPs told *The Times* that the speech and its reception should ease his path with the parliamentary party when they returned to the Commons. But none was prepared to look far beyond that. If the opinion polls do not improve he could soon find himself under pressure again. Privately, prominent Blairites seemed less impressed than other MPs.

Following advice to show more of himself, Mr Brown spoke in a faltering voice as he told how the health service saved his sight with care that his parents could never have afforded. "I'm not going to try to be something I'm not. And if people say I'm too serious, quite honestly there's a lot to be serious about — I'm serious about doing a serious job for all the people of this country."

He positioned Labour as "the party of fairness". While the Tories would offer no protection from unbridled market forces, Labour would be "the rock of stability and fairness upon which people stand" during times of economic turmoil, he said.

His administration remained "pro-enterprise, pro-competition", but market turbulence meant that a "new settlement" was needed where people were rewarded for "what really matters: hard work, effort and enterprise".

The speech pleased the Left. Mr Miliband said that it was excellent, adding: "I think Gordon found his true voice." George Osborne, the Shadow Chancellor, said: "This was the same old Brown: no apology for the mess he's got the country into, no new ideas that show us how he's going to get out of it. A divided government and a weak prime minister cannot lead the country out of a crisis."

'Gordon's message is a Labour of love'
Reports and analysis, pages 6-9
Leading article, page 2
Daniel Finkelstein, page 24
Alice Miles, page 25

PAUL ROGERS

The biggest surprise of the Prime Minister's keynote speech was its introduction — by his wife, Sarah Brown

IN THE NEWS

FBI to investigate AIG and Lehman collapse

The FBI is understood to have begun an investigation into alleged fraudulent activity at Lehman Brothers, AIG, Fannie Mae and Freddie Mac. It brings to 26 the number of US financial institutions under investigation.

Henry Paulson, the US Treasury Secretary, and Ben Bernanke, the Chairman of the Federal Reserve, battled to convince congressional leaders to approve President Bush's $700 billion Wall Street bailout, despite the huge cost. The stakes were raised as John McCain, the Republican presidential candidate, was urged to take the "nuclear option" of opposing the bailout.
Business, page 40

Gunman on YouTube

A student who shot dead ten people had been interviewed by police the day before about videos on YouTube in which he declared his intentions. News, page 3

CERN project on hold

The Large Hadron Collider, which scientists hoped would unlock the secrets of the Universe, was shut down after suffering the wrong sort of big bang. News, page 5

West Ham court plan

West Ham plan to up the ante in their multimillion-pound dispute with Sheffield United by going to the Court of Arbitration for Sport in Lausanne. Sport, page 80

Inside today

'Don't worry if you don't "get" Rothko. Just go to the Tate show and stand in awe'
Rachel Campbell-Johnston, times2

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To infinity and beyond… with a stopover in Dover

AFP / GETTY IMAGES

Yves Rossy is used to jet-powered flight. He is, after all, an airline pilot. But today he aims to cross the Channel unencumbered by an aircraft News, page 4

Kelly's messy exit rattles Brown – and the plotters

Labour in turmoil as resignation leak upsets all sides

Philip Webster Political Editor

Labour's troubles deepened yesterday when the chaotic announcement that Ruth Kelly plans to quit the Cabinet left both Gordon Brown and the leadership plotters reeling.

The news, confirmed at 3am in a hotel bar, took the gloss off Mr Brown's keynote speech, after which ministers had rallied to shore up his fragile position. But it also dealt a blow to the rebels determined to oust him.

It emerged that a number of Ms Kelly's ministerial friends, including at least one Cabinet minister, had considered destabilising the Prime Minister by resigning as a group when he carried out his reshuffle. Her premature departure has denied them that opportunity and, with Ms Kelly paying tribute to Mr Brown, the political significance of her decision was lost. A leading rebel told *The Times*: "We could have used Ruth's resignation as a trigger, but it's another chance missed."

Ms Kelly told Mr Brown last May that she intended to step down as Transport Secretary to devote more time to her family. The news leaked out at late-night parties in Manchester. Although the timing was neither of Downing Street's nor Ms Kelly's choosing, they had no choice but to confirm it as true.

Allies of Mr Brown accused rebels of leaking the news deliberately to undermine him and "rain on his parade". Ministerial sources told *The Times* there had been discussion of a group resignation but suggested that this was now unlikely to happen. Even so, Ms Kelly's decision put Mr Brown on the back foot. Although she professed loyalty, friends said that she had been unhappy with Mr Brown's leadership.

Ruth Kelly and husband Derek Gadd

Ms Kelly, whose four children are aged between 5 and 11, was forced to rewrite her conference speech after the leak. She told delegates that it was time to step back from politics and put her family first. She had been strongly tipped as a likely casualty in any reshuffle and was felt to have jumped before she was pushed. There were suggestions that she had considered resigning on several occasions in recent weeks.

Mr Brown must now decide whether to carry out a reshuffle as early as next week. He insisted that Ms Kelly's decision was a personal one and "nothing to do with politics".

Leading article, page 2
Reports and analysis, pages 6, 7
Melanie Reid, page 25

2GM 2GM

IN THE NEWS

McCain takes initiative with Wall Street offer

John McCain seized back the initiative in the presidential race by asking Barack Obama to postpone a debate and join him for talks with President Bush on the economy. But Mr Obama said that the debate should go ahead.

Global markets were racked by fresh convulsions as Mr Bush's $700 billion bailout plan ran into resistance in the US Congress.

World news, pages 32, 33
Business, page 40

Bishops attack traders

Leaders of the Church of England attacked world markets, described traders as bank robbers and asset strippers and called for a judicial review into the nation's financial services. **News, page 3**

EDF seals nuclear deal

The French Government took control of Britain's nuclear industry in a £12.5 billion deal by EDF that promises to transform the way electricity is produced in this country. **News, pages 18, 19**

Russia ends Iran talks

Russia pulled out of talks on sanctions against Iran despite warnings that Tehran was racing towards producing a nuclear bomb, leaving the West without a strategy. **World news, page 35**

School bans vaccine

The Department of Health has condemned as irresponsible a Roman Catholic school that is refusing to allow girls to be immunised against cervical cancer on its premises. **News, page 5**

Venables job offer

Newcastle United have contacted Terry Venables about becoming their manager. The team were beaten 2-1 by Tottenham Hotspur at St James' Park in the Carling Cup last night. **Sport, pages 78-80**

Inside today

'The battle is in small-town America, a place where Obama cannot fit in'

Ben Macintyre, page 26

Law Pages 56-58

Your love stories
A collection of tales by readers of The Times

THE TIMES

Max 20C, min 4C | Friday September 26 2008 timesonline.co.uk No 69439 | 2GM | 80p

Here, there and everywhere: McCartney defies threats

BERNAT ARMANGUE / AP

The Beatles were banned by Israel in 1965; last night Sir Paul insisted on performing despite threats from Jewish and Palestinian militants News, page 11

Hopes rise as Americans agree to rescue the banks

Deal would cost each US taxpayer $5,300

Suzy Jagger New York
Tom Baldwin Washington

A deal that would cost each American taxpayer $5,300 to rescue the banking system and save the world economy from catastrophe was agreed in outline last night.

Stock markets breathed a sigh of relief as congressional leaders heralded what would be the biggest bailout in history hours before a weekend deadline set by President Bush.

However, partisan politics and November's presidential election were threatening to complicate the $700 billion plan. Free-market Republicans on Capitol Hill insisted that they had yet to agree to the details. This prompted fears in Barack Obama's camp that such opposition was being choreographed so that John McCain could be seen to deliver an eleventh-hour solution today. Mr McCain has been criticised for suspending his campaign and jeopardising tonight's presidential debate to involve himself in the issue.

After a meeting at the White House yesterday, attended by President Bush, Mr Obama and Mr McCain, it swiftly became clear that many Republicans remained bitterly opposed to the bailout.

Neither side wants to be seen to torpedo a deal that, it is hoped, will draw to a close the most turbulent period for the American stock market since the 1929 Wall Street crash. In the past ten days one investment bank has gone bust, the world's biggest insurer has been nationalised and stock markets across the world gyrated wildly.

The plan would allow banks to dump toxic assets into a federal fund controlled by the US Treasury. British banks that have significant operations in the US would be able to take part.

Mr Bush and his Treasury Secretary, Hank Paulson, have been forced to back down on some key demands. Congress refused to hand over the $700 billion in one lump sum, which Mr Paulson had insisted was vital. Mr Paulson, a former chief executive of Goldman Sachs, was also forced to concede to caps on executive pay. In addition, it is thought that the Treasury will have the right to seize stakes in banks that benefit from the bailout in order to protect taxpayers' interests.

President Bush warned Americans that the country was facing a serious economic crisis unless a deal was agreed quickly. Gordon Brown will be in Washington today for a hastily arranged meeting to discuss the issue.

Reports and analysis, pages 6-9
Gerard Baker, page 34
Business, pages 62-65

Five UK banks could qualify for £95bn aid

Business, page 54

IN THE NEWS

Foreigners will get ID cards within weeks

Britain's first identity cards since the Second World War will be issued in November as part of a controversial £4.7 billion scheme, that should result in every resident carrying one within a decade. The pink-and-blue plastic card carries the royal crest and four flowers representing the nations of the UK: the rose, the thistle, the daffodil and the shamrock. News, page 3

Interest rate hopes

A key member of the Monetary Policy Committee said the credit crunch was more serious than expected, raising hopes for a cut in interest rates. Business, page 62

Mugabe digs in

Zimbabwe's power-sharing deal is close to collapse after just 12 days because Robert Mugabe is determined to thwart it, diplomats said. World news, page 41

Church 'short-selling'

Hours after its leaders attacked bankers, the Church of England was accused of using short-selling tactics to maximise profit on a £5 billion investment. News, page 8

£450m for town halls

Town halls are to get emergency funding of £450 million to meet the cost of equal pay settlements for tens of thousands of low-paid female workers. News, page 13

Venables says no

Newcastle United's tortuous search for a manager was back in limbo after Terry Venables turned down the opportunity to succeed Kevin Keegan. Sport, page 108

Inside today

Joan Bakewell joins The Times 'The crackpot law that bans weddings from a church'
times2

Bricks&Mortar
Celebrities came here to buy country-house style: now you can too

THE TIMES

Max 20C, min 5C Saturday September 27 2008 timesonline.co.uk No 69440 3GM SL £1.50

Giles Coren goes foraging

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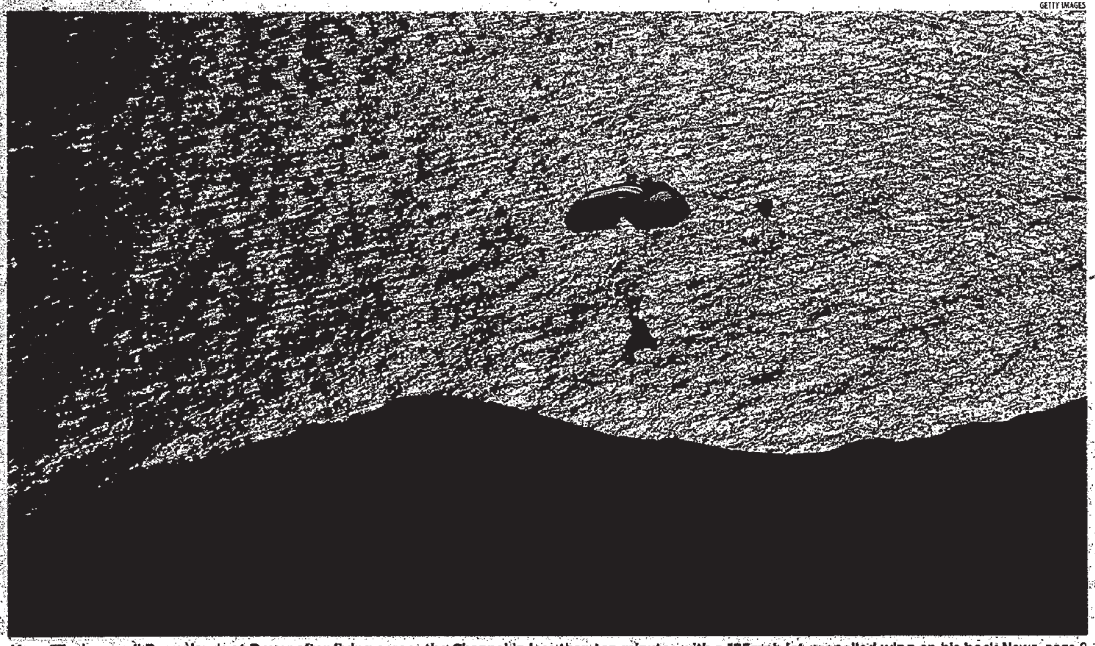
Rocket man falls to earth after flight into history

GETTY IMAGES



Yves "Fusionman" Rossy lands at Dover after flying across the Channel in less than ten minutes with a 125mph jet-propelled wing on his back News, page 9

McCain falters as bailout overwhelms US election

Politicians fear voter backlash over rescue plan

Tom Baldwin Washington
Suzy Jagger New York

The Wall Street bailout threatened to swamp the US election last night as John McCain abruptly left Washington to face Barack Obama in his first presidential debate, with a planned $700 billion rescue deal teetering on a knife-edge.

The Republican nominee appeared to blink first in a game of the highest stakes as he raced down to Mississippi for the debate. He had previously pledged to remain in the capital until a deal to save the banks was agreed.

The presidential campaign was overwhelmed by the turmoil raging in financial markets as America's political leadership was stalked by the fear of failing to agree a deal — and of a voter backlash if they did agree one.

President Bush admitted yesterday that "we got a big problem" as the bailout's prospects see-sawed.

He told Congress and rebel Republicans that they must move quickly to avert an economic catastrophe. "There are disagreements over aspects of the rescue plan but there is no disagreement that something substantial must be done," he said.

Mr Bush later held crisis talks with Gordon Brown, who assured him of Britain's support for the bailout plan, "whatever the details". Mr McCain's retreat from Washington came as Democrats claimed that his intervention in negotiations on Thursday had wrecked an outline deal, with a White House meeting between congressional leaders, presidential candidates and Mr Bush descending into a shouting match.

Hank Paulson, the US Treasury Secretary, was later reported to have resorted to getting down on his knees as he pleaded with Nancy Pelosi, the Democratic House of Representatives Speaker, to help him to save the deal.

But the mood on Capitol Hill may have shifted with the overnight collapse of the Washington Mutual Bank concentrating minds.

Republicans, who have pushed an alternative insurance-based scheme, insisted they were not being obstructive and Democrats talked of a deal being done before markets reopen on Monday.

Bradford & Bingley on brink of nationalisation
News, page 3

Inside story of the White House row
Gerard Baker, pages 6, 7

Giving up work Should you do a Ruth Kelly?
Body&Soul

Margaret Atwood On debt: you are what you owe
Books

Gordon Ramsay Takes us around his new hotel
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See page 50

The Times launches a national school championship times2

THE TIMES

Max 17C, min 5C | Monday September 29 2008 timesonline.co.uk No 69441 | 2GMSL | 80p

Taxpayer must risk billions for Bradford & Bingley

Philip Webster, Patrick Hosking, Tim Reid

A frantic Sunday of negotiations in Britain, Europe and America resulted in two bank bailouts and a tentative agreement to prop up the world's financial institutions.

The Spanish banking giant that owns the Abbey is taking over Bradford & Bingley's savings business. The bank's £50 billion mortgages and loans business is to be taken into public ownership. Santander said that £21 billion of deposits and 2.7 billion Bradford & Bingley customer accounts were being transferred to Abbey. It was also taking over about 200 branches. It said that the acquisition price was around £400 million.

Alistair Darling is expected to confirm the takeover and nationalisation at 7am today before the stock markets open, barring any last-minute hitches.

In the US, congressional leaders reached an outline agreement on a $700 billion bank bailout after days of often bitter negotiations. Even as the deal edged closer, another major US bank teetered on the brink. Wachovia Corp, the country's sixth largest, risks collapse unless it can find a buyer.

Meanwhile Fortis, which employs 85,000 people across Europe, was at the centre of a three-country partial nationalisation after BNP Paribas pulled out of rescue talks. The Belgian, Dutch and Luxemburg governments invested €11.2 billion in the banking and insurance group last night.

B&B spent yesterday in talks with the Treasury, Financial Services Authority and Bank of England — and a series of bidders. *The Times* understands that at one point serious consideration was given to an offer from HBOS, which is being taken over by Lloyds TSB.

Gordon Brown met Mr Darling in No 10 on Saturday morning to approve the B&B nationalisation. Treasury officials worked all weekend on the deal. The Bank of England has apparently been gathering information on B&B for several weeks and had planned a firesale of the assets.

The nationalisation was criticised by Conservatives, whose party conference began in Birmingham last night, but they will not stand in the way when it comes before the Commons.

The US rescue plan could be signed into law by President Bush this week. After marathon negotiations between Hank Paulson, the Treasury Secretary, and leading Republicans and Democrats, a tentative deal was struck. The details were posted online and will be voted on by the House of Representatives as early as today and by the Senate later this week. Both John McCain and Barack Obama said that they would almost certainly back the deal, despite its unpopularity with voters, because the risks of inaction were too great.

The deal would give Mr Paulson $350 billion to start buying toxic mortgage-related assets immediately, with the remaining $350 billion to be approved by Congress. There would be curbs on executive pay and severance packages, a taxpayer stake in the plan, the ability for the government to renegotiate loans for struggling homeowners and strict oversight.

Warren Buffett, the respected investor, had warned many of those involved that without a rescue package the entire US economy could collapse.

The banking crisis
Reports and analysis, pages 6-9
Business, pages 36, 37, 40
Monday manifesto, pages 44, 45

Lissy Newman, wearing her father's cap, said that fans could pay tribute by being kind, giving to charity or voting News, pages 14, 15; Obituary, page 51

Paul Newman: film star, philanthropist – and father

IN THE NEWS

Far Right triumphs in Austrian elections

The far Right has made a grand return in Austria, emerging from yesterday's elections as the second biggest parliamentary bloc, according to preliminary results.

The two parties that campaigned on an anti-immigrant and anti-European Union ticket have captured about 29 per cent of the vote, pushing the country's traditional conservative party into third place. World news, page 29

Plugging into the Grid

A network of 100,000 computers has been created to cope with information pouring from the Large Hadron Collider. The Grid, the latest evolution of the world wide web, will also vastly improve downloading speeds for ordinary internet users. News, page 3

Army's £500m boost

Britain will spend £500 million on 600 heavily armoured vehicles to protect troops in Afghanistan. The vehicles can withstand landmines and roadside bombs. News, page 5

Islamists seize arms

Islamist extremists were preparing to unload rocket-propelled grenades and anti-aircraft guns from a Ukrainian freighter seized by pirates. World news, page 34

Financial job losses

Thousands of jobs will be lost in the British financial sector, the CBI said, with profitability and confidence falling at their fastest in two decades. Business, page 40

F1 goes into the night

Fernando Alonso won the inaugural Singapore Grand Prix for Renault. Millions tuned in to watch Formula One's first night race. Sport, page 72

Inside today

'Is the BBC a snarling competitor or a precious resource?'
Libby Purves, page 22

THE GAME
Every twist and turn of the weekend's action

THE TIMES

Max 16C, min 5C | Tuesday September 30 2008 timesonline.co.uk No 69442 | 2GM SL | 80p

The eye of the storm

World faces a new phase in the financial crisis after US Congress rejects $700 billion plan to rescue the banks

J. SCOTT APPLEWHITE / AP

Suzy Jagger New York
Patrick Hosking

The financial system lurched closer to a catastrophic breakdown last night after the US Congress dramatically rejected a bailout plan designed to restore confidence to paralysed banks.

Wall Street suffered one of its worst days in history. In 24 hours five banks across the West, including Britain's Bradford & Bingley, had to be rescued to avoid insolvency.

With plans for the biggest rescue of Wall Street since the Great Depression in tatters, the Dow Jones industrial average of shares dived almost 800 points, losing 7 per cent of its value. It was the worst one-day points fall and the worst percentage fall since Black Monday in 1987.

The surprise rejection of the bailout triggered fears of a new wave of banking collapses. Other economies had looked to America to lead the way out of the crisis.

Share prices in Sydney fell 5.4 per cent minutes after the stock market opened this morning. Japanese stocks fell 5 per cent within 15 minutes of the opening bell, bringing the Nikkei to its lowest point this year as traders struggled to process a deluge of overnight sell orders and fears grew of a possible market suspension.

Hours before the Congress vote, central banks had injected billions of extra dollars into the markets, taking available funds to $480 billion.

Wall Street derived little comfort from rebel Republicans who said that they were keen to devise another plan.

Henry Paulson, the US Treasury Secretary, said: "This is much too important to simply let fail." Nancy Pelosi, the Speaker of the House of Representatives, said that the result would not be allowed to stand. There will not be another vote until Thursday at the earliest.

Steny Hoyer, the House Majority Leader, had warned of the consequences of failing to pass the bailout bill: "A meltdown would begin on a few square miles of Manhattan, but before it was over no city or town in America would be untouched."

American taxpayers, who will elect a new president in five weeks' time, have hated the bailout from the beginning. Already struggling with rising unemployment, collapsing property prices and the rising cost of living, many resented having to bail out Wall Street bankers. The plan would have cost each taxpayer more than $5,000.

The rescue scheme was designed by Mr Paulson. The $700 billion bailout fund would have been used to buy toxic assets on the books of the world's biggest banks. He hoped that once the banks dumped those assets they would begin lending to one another again and America's banking system would return to normal. His request triggered almost a fortnight of round-the-clock meetings as he sought support to pass the legislation required.

Leading articles, page 2
News, pages 3-8
Business, pages 38-39, 43-47

The banking crisis

Gerard Baker, page 4
Anatole Kaletsky, page 5
David Wighton, pages 6, 39
Suzy Jagger, page 24

Sterling collapses

Sterling comes close to suffering its sharpest one-day percentage fall since 1993, sinking by 2.5 per cent to $1.7962 before recovering some ground after the US bailout vote to close at $1.8094. The pound also falls against the euro, with £1 buying as little as €1.2465.

2GM 2GM SL SL

Fed injects billions

The Federal Reserve, America's central bank, offers to make $480 billion on an ongoing basis available to the global financial system in an attempt to ease the cash shortage that threatens the worst crisis since the Great Depression of the 1930s.

Business, page 38

Banks nationalised

The Government takes control of Bradford & Bingley's $50 billion mortgage and loans business. The Dutch, Belgian and Luxembourg governments inject €11.2 billion into Fortis for a 40 per cent stake. Iceland's Government takes control of Glitnir.

News, pages 6-8; Business, 45

Citi saves Wachovia

Citigroup, the biggest bank in the world, rescues Wachovia, once America's fourth-largest, in a $2.2 billion deal backed by the US Government, which takes a stake in Citigroup in return for guaranteeing the distressed Wachovia assets linked to housing.

Business, pages 46, 47

HBOS is hit hard

Bank shares bear the brunt. HBOS shares slide by 18 per cent amid concerns that the LloydsTSB rescue deal might yet unravel. Jean-Claude Juncker, the senior European policymaker, said that investors should not play a "casino game" with bank shares.

Oil falls, gold soars

The price of a barrel of US light crude oil tumbles $11.31 to a low of $95.58, one of its largest one-day falls, on fears that the turmoil will hit demand. Gold, a traditional safe haven, rises almost 5 per cent, hitting a high of $920 an ounce. Shares in Apple fell 18 per cent.

Champions League
Convincing wins for Arsenal and United Sport

THE TIMES

Max 16C, min 5C | Wednesday October 1 2008 timesonline.co.uk No 69443 | 80p

Brown in struggle to shore up bank rescue

Panic as £1bn is wiped off the value of HBOS

Patrick Hosking, Helen Power
Philip Webster

Gordon Brown was personally fighting to save the proposed £12 billion rescue of Britain's biggest savings bank last night amid growing doubts over the deal.

HBOS, which owns Halifax and Bank of Scotland, lost more than £1 billion of its value yesterday as shares slumped by up to 20 per cent. Traders took the view that shareholders of Lloyds TSB would block the rescue deal on its current terms.

The rising uncertainty forced the Prime Minister to take the unprecedented step of defying the markets publicly and intervening in a merger that he helped to broker.

"I am confident that the Lloyds TSB takeover of HBOS will go ahead," he insisted. Two weeks ago he played a key role in the proposed takeover by waiving competition rules.

HBOS	Lloyds TSB
-13.8%	+4.2%
122.4p	226.5p

Yesterday's closing prices

Lloyds is offering 0.833 shares for every HBOS share, which values the bank at 188p. The stock market is now valuing HBOS at about 35 per cent less than this. "The market is telling you the deal will just not go ahead in its current form," one leading investor in both banks told *The Times*.

If the takeover were to unravel it would be an acute embarrassment for Mr Brown and could also throw the solidity of HBOS, which has 20 million depositors, into fresh doubt.

On Wall Street and in the City of London share prices rallied strongly on hopes that the US Congress would pass a modified version of the bailout plan that was vetoed on Monday.

The FTSE closed 83 points up, or 1.7 per cent, while the Dow climbed 485 points, or 4.7 per cent. But the paralysis in the wholesale money markets — which ultimately determine the supply and prices of mortgages and loans to people and businesses — worsened. The cost to banks of borrowing US dollars for one day almost tripled to its highest level for seven years. Central banks continued to pump hundreds of billions of dollars of liquidity into the markets to help cash-hungry banks.

Gordon Brown said that America had a duty to fix the global financial crisis

In Washington, a frantic effort was under way to find 12 congressmen prepared to switch their vote after the House of Representatives rejected President Bush's $700 billion plan on Monday, which triggered Wall Street's the worst single day points fall.

Mr Bush made his second appeal to rebels in 24 hours, saying that the consequences of failing to act were growing by the day. Millions of Americans were facing the real prospect of economic hardship, he said. The Senate will vote on the proposals today.

Mr Brown said that the US had a duty to fix the financial crisis afflicting the world and that the problem had to be resolved in America. He said that he was confident that reason would prevail in Washington.

Regulators are determined that the HBOS-Lloyds deal should stand in its current form. The deal needs a 75 per cent approval from shareholders, who are growing increasingly sceptical. The vote is still two months away. Lloyds insisted that it would not try to renegotiate the deal. However, if its shareholders were to show serious signs of rebelling the board would have no choice but to walk away or demand sweeter terms from HBOS.

British bankers are putting increasing pressure on ministers and regulators for help. Some are pressing for a relaxation of the rules of the Bank of England's Special Liquidity Scheme, under which they can swap hard to trade assets for highly desirable government bonds. Others would like to see a government guarantee of all UK deposits, especially after the Dublin Government's decision to guarantee all deposits in Irish-owned banks.

Mr Brown said that the Government would raise the guarantee for bank savings to £50,000 from £35,000 but would not match Ireland's offer.

Lloyds and HBOS are lobbying their shareholders hard, arguing that the benefits of the deal to both sides are colossal because of the stranglehold the combined group would have in the personal banking market with the normal anti-monopoly rules being waived. That should outweigh any niggles over the precise terms.

Leading article, page 2
Reports and analysis, pages 4-7
Gerard Baker, pages 8, 9
Anatole Kaletsky, page 26
Business, pages 42-43, 48-51

IN THE NEWS

Retired Gurkhas win right to stay in Britain

A High Court judge ruled in a test case of five Gurkhas and a widow that an immigration policy denying them visas was irrational and misleading, and set the Home Office a deadline of three months to review the situation.

Unlike the majority of foreign soldiers in the British Army, the Nepalese troops do not have the right to settle in this country after four years of service. News, page 3

Banker murder arrests

Three men were arrested over the beating to death of a banking executive who confronted a gang he had seen attacking a young homeless couple. News, page 17

Call for higher fees

Parents who spend thousands on their children's school fees should be prepared to find more money for university, the Chancellor of Oxford said. News, page 15

Strategists help Palin

John McCain's strategists are putting pressure on organisers of tomorrow night's vice-presidential debate to go easy on Sarah Palin. World news, page 33

Mentally ill children

Hundreds of mentally ill children and teenagers are being treated on adult psychiatric wards in defiance of a government promise to end the practice. News, page 18

Tories to cut exams

A Conservative government would cut the number of exams that children sit and scrap some SATs, the party conference was told. News, pages 20, 21

Tesco boasts profits

The supermarket Tesco has defied the gloom with half-year pre-tax profits of £1.4 billion. It now plans to offer mortgages and current accounts. Business, page 45

Inside today

Vivienne Westwood's DIY fashion tips on how to survive the fallout
Lisa Armstrong at the Paris shows, times2

Chelsea lack bite in Transylvania

Plus Gerrard hits the magic 100, Champions League Sport

THE TIMES

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US Senate salvages the $700bn bailout Bill

Now markets hold their breath for House vote

Tim Reid, Patrick Hosking

The US House of Representatives was under intense pressure to pass the Bush Administration's $700 billion financial rescue package after a modified version was overwhelmingly approved in the Senate last night.

The White House and leaders in both parties will now take a second high-stakes gamble to get the Bill through the House of Representatives after the Senate sent a clear message that the plan is critical to avoiding a catastrophic meltdown in the American banking system. Senators passed the Bill by 74 votes to 25.

After the stunning failure of the Bill in the House on Monday, by 228 to 205, the modified version, which contained "sweeteners" to make it more palatable to rank-and-file members, is likely to be sent back to the lower the chamber today, where its passage is still far from certain.

Meanwhile, President Sarkozy of France floated an ambitious plan for a €300 billion (£237 billion) bailout fund to rescue banks across Europe.

Mr Sarkozy, whose country holds the European presidency, is seeking Mr Brown's support before an emergency summit, scheduled tentatively for Saturday, with Silvio Berlusconi, the Italian Prime Minister, and Angela Merkel, the German Chancellor.

His proposal was greeted with scepticism in Britain and outright hostility in Germany. It appears to involve the creation of a Europe-wide emergency fund that would be used to prop up banks when national governments are unable to intervene. Ms Merkel said that Germany could not and would not issue a blank cheque for all banks, "regardless of whether they behave in a responsible manner or not".

Amid the confusion and bickering between governments, France denied at first that it had put forward a proposal for a fund at all and then, after admitting that it had done so, denied that it would cost €300 billion.

Mr Brown also faced demands for action from British banks, furious that the Irish Republic's guarantee of all bank savings was already robbing them of precious deposits. The British Bankers' Association said the move was anti-competitive.

The Prime Minister has begun to set up an emergency committee, similar to Cobra, to take charge of Britain's response to the crisis. He is expected to announce it today or tomorrow at the same time as his reshuffle to replace Ruth Kelly, the Transport Secretary, who has asked to step down. Ed Miliband, one of Mr Brown's key lieutenants, could be promoted. There is still a question mark hanging over Alistair Darling's future as Chancellor.

The banking crisis
News, pages 18, 19
Tim Congdon, page 27
Business, pages 50-53

ELLIOTT FRANKS

David Cameron and his wife, Samantha, after addressing the Tory conference News, pages 6-8; Alice Miles, page 28

Cameron: 'What matters more than experience is character and judgment'

IN THE NEWS

Factories cut back

The credit crunch is forcing factories to cut overtime and even move to four-day weeks. Manufacturers suffered record falls in orders last month, forcing them to cut production at a rate not seen since the last recession. News, page 3

Electricity surges

Wholesale electricity prices surged amid fears of a supply shortfall next month. The forward price hit £133 per megawatt hour, up £10 since Friday. Last week National Grid predicted a thin margin between supply and demand. Business, page 44

EU team in Georgia

The European Union began to move its ceasefire monitors into potential Georgian flashpoints. Under the deal brokered by France, Russian troops are supposed to withdraw to South Ossetia and Abkhazia by October 10. World news, page 37

Inside today

'To smalltown housewives, Sarah Palin is a new American icon'

Janice Turner, times2

100 choose to die

More than 100 Britons have travelled to Switzerland to make use of laws that allow assisted suicide. The figure was released by Dignitas in Zurich. A High Court test challenge begins today to the laws that ban aiding and abetting suicide. News, page 5

High society fraud

A 52-year-old divorcée living on incapacity benefit manipulated a system of trust used by auctioneers and exclusive stores to swindle them out of at least £2 million worth of jewellery, paintings, silver, clothes and antique furniture. News, page 9

Is the show over for buy-to-let?
Life after Bradford & Bingley Bricks&Mortar

THE TIMES

Max 13C, min 0C

Friday October 3 2008 timesonline.co.uk No 69445

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Sir Ian Blair in three portrait photographs that he posed for in January 2006, months after taking over as Commissioner of the Metropolitan Police

Met police chief is ousted in Tory coup

Sir Ian Blair resigns after declaration of no confidence

Sean O'Neill, Adam Fresco, Sam Coates

Sir Ian Blair was forced to resign as Commissioner of the Metropolitan Police yesterday in a swift political coup at the top of Scotland Yard.

Boris Johnson, the Conservative Mayor of London, asked Sir Ian to go, hours after taking control of London's police authority. It is understood the mayor threatened Sir Ian with non-co-operation if he did not quit.

The commissioner went to what he thought was a routine meeting with Mr Johnson and two officials on Wednesday only to be told that the mayor wanted him to stand down. "The only topic of discussion was the strategic direction of the force and it was underlined to him that a change of leadership was necessary," a source told *The Times*.

Sir Ian was caught by surprise but accepted that he could not carry on without the support of the mayor and police authority. The meeting was said to have been conducted in a "professional and mature" manner. Government officials are furious, however, that the Home Secretary was not informed until she was contacted by the commissioner yesterday. Jacqui Smith and Mr Johnson are obliged by law to work together to appoint a new commissioner but the process is likely to be beset by political wrangling.

Labour made it clear that Ms Smith would not be dictated to by a Tory mayor. Mr Johnson's aides said that it would be "obscenely inappropriate" if she were to overrule the mayor.

Although Sir Ian has been an unpopular leader, there is anger in the police service that its most senior officer has fallen victim to party politics. Some candidates to succeed him might be reluctant to seek the job without assurances that they will not be subjected to similar political interference.

The commissioner's position had become increasingly tenuous, with allegations that he acted improperly in the award of Yard contracts to a friend and claims of racial discrimination by senior Asian officers — both of which Sir Ian denies. The Met is also facing a testing examination of its actions at the inquest for Jean Charles de Menezes, shot dead by armed officers who mistook him for a suicide bomber.

Sir Ian's resignation statement placed responsibility for his departure at Mr Johnson's door. "At a meeting yesterday the new mayor made clear in a very pleasant but determined way that he wished there to be a change of leadership at the Met," he said. "I understand that to serve effectively the commissioner must have the confidence of both the mayor and the Home Secretary. Without the mayor's backing, I do not consider that I can continue in the job.

"Personally I see no bar to working effectively with the new mayor but it is there that we differ and hence I am unable to continue."

Mr Johnson said that Sir Ian had a distinguished record but the Met needed change. "There comes a time in any organisation when it becomes clear it would benefit from new leadership and clarity of purpose. I believe that time is now," he said.

Sir Ian stands down on December 1. Sir Paul Stephenson, his deputy, is regarded as the favourite to succeed him. Other leading candidates are Sir Hugh Orde, Chief Constable in Northern Ireland, and Bernard Hogan-Howe, police chief of Merseyside.

Sir Ian, 55, is entitled to a full police pension. On the commissioner's £240,000 salary that is estimated to be worth about £160,000 per year.

Leading article, page 2

How thinking man's copper lost his grip on Met
News, pages 6, 7

It's time to shake up our policing
Tony Travers, page 36

IN THE NEWS

European bank rescue plan lies in tatters

Plans for a pan-European response to the global financial crisis lay in tatters as Greece followed Ireland in unilaterally guaranteeing all bank deposits. A French proposal to create a €300 billion bailout fund collapsed, leaving attempts on this side of the Atlantic to calm investor panic in chaos. News, pages 22, 23

Fossett plane found

Search teams scouring the Sierra Nevada mountains discovered human remains in the wreckage of the aircraft flown by Steve Fossett. The missing adventurer's plane was found after a hiker stumbled across his ID cards. World news, pages 39-41

Brown's reshuffle

Alistair Darling and David Miliband are to stay in their jobs when Gordon Brown leaves the top half of his Cabinet intact in a reshuffle today. News, page 11

Rock block on savers

Northern Rock may have to close its doors to new savers after a recent surge of deposits put it close to breaking competition rules. Business, page 52

Everton crash out

Everton's troubles grew as they exited the Uefa Cup but Man City, Portsmouth, Aston Villa and Tottenham all progressed to the group stages. Sport, pages 98-104

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The women taking over comedy
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Mandelson back in Brown's big gamble

The most daring reshuffle in modern times

Philip Webster Political Editor

Gordon Brown staked his premiership on the shock return of Peter Mandelson and the defeat of the economic crisis yesterday, in the most daring reshuffle of modern times.

He gambled by bringing back the twice-resigned Mr Mandelson from Brussels, elevating him to the Lords and making him his Business Secretary, as he promised to reinvent his Government to tackle the slump.

The former sworn enemies, two thirds of the triumvirate that created new Labour with Tony Blair, were suddenly back together after an astonishing reconciliation that began last Easter, developed with almost daily telephone chats, and ended with Mr Brown offering Mr Mandelson a job on Thursday.

According to one of the handful who knew one of the best-kept secrets of any reshuffle, Mr Mandelson "bit his hand off". The precise job was decided this week and, according to friends, was a "bombshell" to Mr Mandelson, who did not seek it. Mr Brown decided to bring him back to shore up his leadership and make use of the business skills accumulated during a former incarnation as Trade Secretary and as Brussels Trade Commissioner, a job he abruptly leaves.

At one stroke Mr Brown has neutralised the threat from Blairite ministers, who many believed might leave the Cabinet in the autumn to try to force Mr Brown's departure. With the arch priest of Blairism back at Mr Brown's side, such gestures would be pointless.

Mr Mandelson has come back because he wants to help Mr Brown to fight a resurgent Tory party that, if current polls were translated into the next election result, could destroy their new Labour project. "All hands on deck," was the way a clearly delighted new minister explained his recall. The twice-resigned Mr Mandelson joked that it was "third time lucky".

Although they have had massive differences over the years, Mr Mandelson has made plain that replacing Mr Brown would be "no panacea" for a Labour recovery.

The risk for Mr Brown is that Mr Mandelson is an unpopular figure with Labour MPs and the unions, and he could suffer a backlash from his own natural supporters if things go wrong. But Mr Brown, clearly emboldened by a successful Labour conference and praise for his handling of the global banking crisis, felt strong enough to take the plunge.

Mr Mandelson admitted that he and Mr Brown had had "ups and downs" but said that he was "very proud to have been invited to serve in his Government".

In another key move Mr Brown gave the arch-Blairite John Hutton, whom some have seen as a possible quitter from the Cabinet, the job he wanted: Defence Secretary. To balance those changes he appointed one of his most loyal allies, Nick Brown, as Chief Whip, and another, Ed Miliband, heads a new Department for Energy and Climate Change.

Mr Brown presented the changes as his response to the challenges of financial instability and oil and food price rises. He knows that his only hope of recovery is to show that Labour, and not the Tories, are best placed to help Britain through the bad times.

Twelve Cabinet ministers will serve on a new Cobra-style National Economic Council that will meet twice weekly during the crisis. Paul Myners, former chairman of Marks & Spencer, has been made City minister. Lord Drayson, returning after a sabbatical racing sports cars in America, becomes skills minister.

Asked if he had taken leave of his senses over Mr Mandelson, Mr Brown acknowledged past problems: "Whatever the ups and downs have been in the past, everybody has got to come together and make sure as a nation we come through this successfully."

Margaret Beckett also returns as Housing Minister. Des Browne, the former Defence Secretary, leaves the Cabinet, along with Ruth Kelly and Baroness Ashton of Upholland, the former Lords leader, who is replacing Mr Mandelson in Brussels.

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Peter Mandelson, who has resigned twice, said it could be third time lucky

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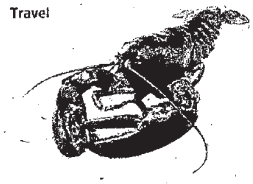

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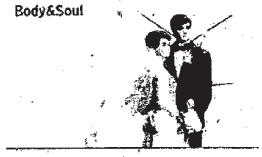

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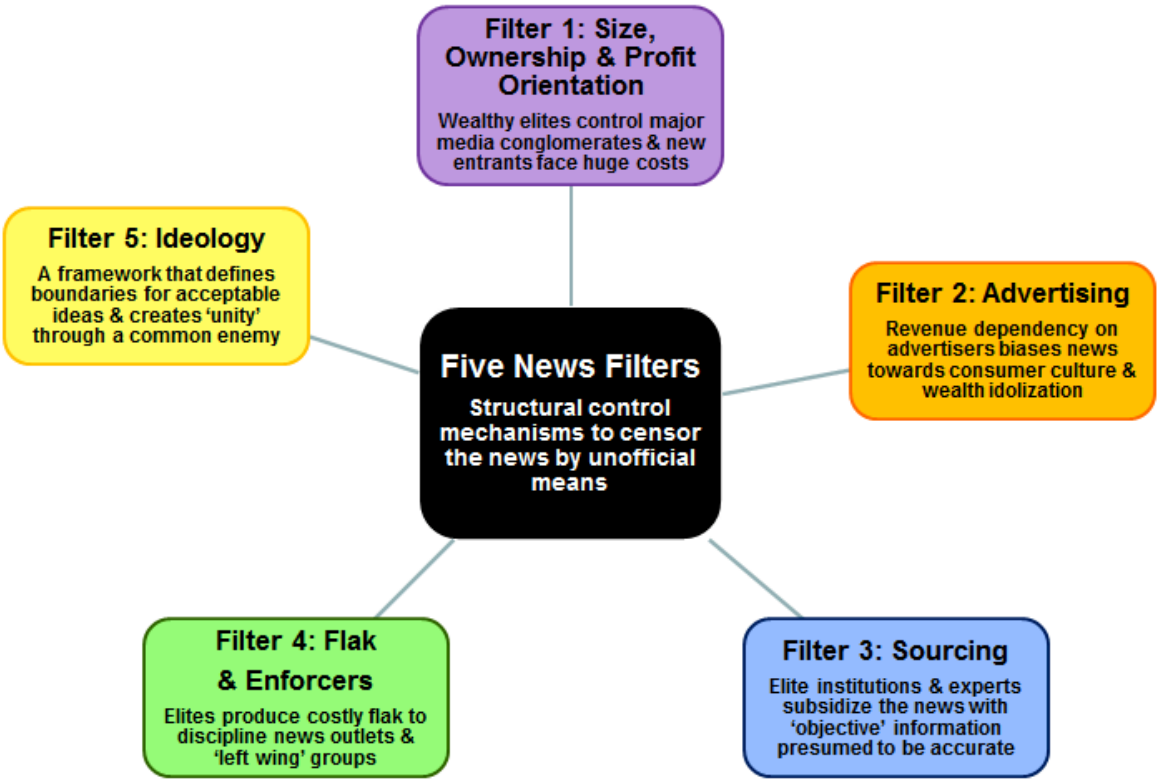
Appendix II: The Propaganda Model

Figure 1: The Propaganda Model

A 2-D interpretation of Herman and Chomsky's Propaganda Model explicated in their book, *Manufacturing Consent: The Political Economy of the Mass Media* (2008, [1988]).

Herman and Chomsky's Propaganda Model describes five news filters that act as structural forms of censorship through which mass-media news content must pass before distribution:



- Filter 1 restricts new market entrants through networked elite institutions that control vast resources, including finance, and ensures the news is dominated by elite world-views.
- Filter 2 forces media outlets to produce news that normalizes consumer culture and aspirations of wealth, and favourable coverage for advertisers and sponsors.
- Filter 3 subsidizes the news because official sources from elite institutions are 'assumed' to provide accurate, 'objective' information. Research is considered costly.
- Filter 4 disciplines news outlets for content that breaches those boundaries that are acceptable to elites and protects elites from sustained investigation. It also includes the frequent use of flak against 'left-wing' groups.
- Filter 5 simultaneously demarcates boundaries of correct thought and impairs critical thinking. It works best as a 'control mechanism' by making the ideology so widespread that target populations become oblivious to its embeddedness.

Together these filters provide formidable obstacles for the public to express broader views in the news, which leaves the ruling classes free to make the news, literally.

As their book *Manufacturing Consent* was first published in 1988 and the Cold War had not yet ended, Herman & Chomsky (2008) called the fifth filter 'Anti-communism.' This ideology had been used as the dominant control mechanism over American society and other 'free-societies' between 1950 and 1989. Herman & Chomsky argued that the anti-communist ideology served to "mobilize a populace against an enemy" and because the ideology was nebulous, its use was versatile since virtually anyone could be labelled as communist if they criticized the status quo – notably property interests (p.27). Subsequently, Edward Herman argued in 1998 that the 'free market model' had been "internalized" by journalists, and dominance of market-oriented institutions had made "nonmarket options seem utopian" (Herman 1998: 202). I have used cartoonist *PolyP* and *The New Internationalist*'s broader interpretation for the fifth filter, which is 'Ideology' (Filtering the news 2001: 13).

Figure 2: The Propaganda Model

A 2-D interpretation of Herman and Chomsky's Propaganda Model explicated in their book, *Manufacturing Consent: The Political Economy of the Mass Media* (2008, [1988]).

News filter 6, 'buying-out' was suggested by Oliver Boyd-Barrett (2004) to theorize conspiratorial news practices in his paper, "Judith Miller, *The New York Times*, and the Propaganda Model." Boyd-Barrett argued that 'buying-out' was a departure from routine journalistic practices, wherein the state might embed personnel within news organizations. However, oligarchy theory predicts that numerous elites, whose activities are collusive, will move freely between government, industry, academia, think-tanks and the media. Therefore, 'buying-out' is better conceptualized as a routine news gathering practice and describes the elite milieu that journalists and editors are themselves set in. I contend that major newsrooms have obscured this integration between elite institutions and the media by frequently using elite sources anonymously. This norm is routine.

While filter 3 describes elite source dependency as endemic to the elite corporate media, it suggests a largely naïve, submissive (and frequently lazy) participation by journalists, editors and producers. Filter 6 describes the practice of quoting elite sources 'off-the-record,' which means that journalists are 'off-the-hook' to conduct deeper investigations. In turn, this positions news consumers as spectators who lack crucial details regarding vested interests such that they remain largely oblivious about the real goals of ruling class elites and oligarchs. Crucially, the buying-out filter allows elite sources to use the news as a means to manipulate public perceptions in regard to matters that harm society, by using codified communications that elites can decipher. 'Buying-out' also entails the deliberate observance of ideologically constructed news frames, despite glaring discrepancies, evidence of wrong-doing, or widespread public dissent. In summary, filter six is added here to conceptualize how collusion and conspiracy can occur in large news outlets on a routine basis among personnel who have likely incorporated an ideological prejudice that collusive or conspiratorial behaviour among elites is non-existent, or could not occur at reputable institutions, or is unprovable.

Appendix III: 'Rescue' Master Frame

Figure 3: The 'Rescue' Master frame

This is a 2D model of the 'rescue' master frame, which describes the elements necessary to construct a narrative arc during 'financial crises.' It draws upon news framing theory, the Propaganda Model, crisis management and crisis journalism theories, as well as speed-politics, capital as power and oligarchy theories.

Early on in a 'crisis,' the news media maintains a 'business as usual' posture and then switches to a 'neutral bystander' stance amid mass 'Redemption' rituals or market panic. As the crisis unfolds, key players from financial authorities collude with market insiders under the rubric of 'emergency meetings' wherein 'ad hoc rescues' of 'too big to fail' financial institutions are agreed upon. The news media dramatize these formulaic 'crisis' rituals without acknowledging they are acts of oligarchic wealth defence that rely on speed-politics. The 'rescue' master frame is dependent on news outlets reporting on the spectacle of crisis from this 'neutral bystander' posture, which means the financial turmoil is taken as evidence to justify state interventions. Because news outlets continue to fail to investigate the root causes of the 'financial crisis,' their daily and weekly 'rescue' frames work to obscure the financial oligarchy's criminogenic environments. These 'rescue' frames are constructed with over-simplified pro-market, diagnostic-solution and personalization frames, which are effective at concealing the root causes and deeper impacts of 'financial crises.'

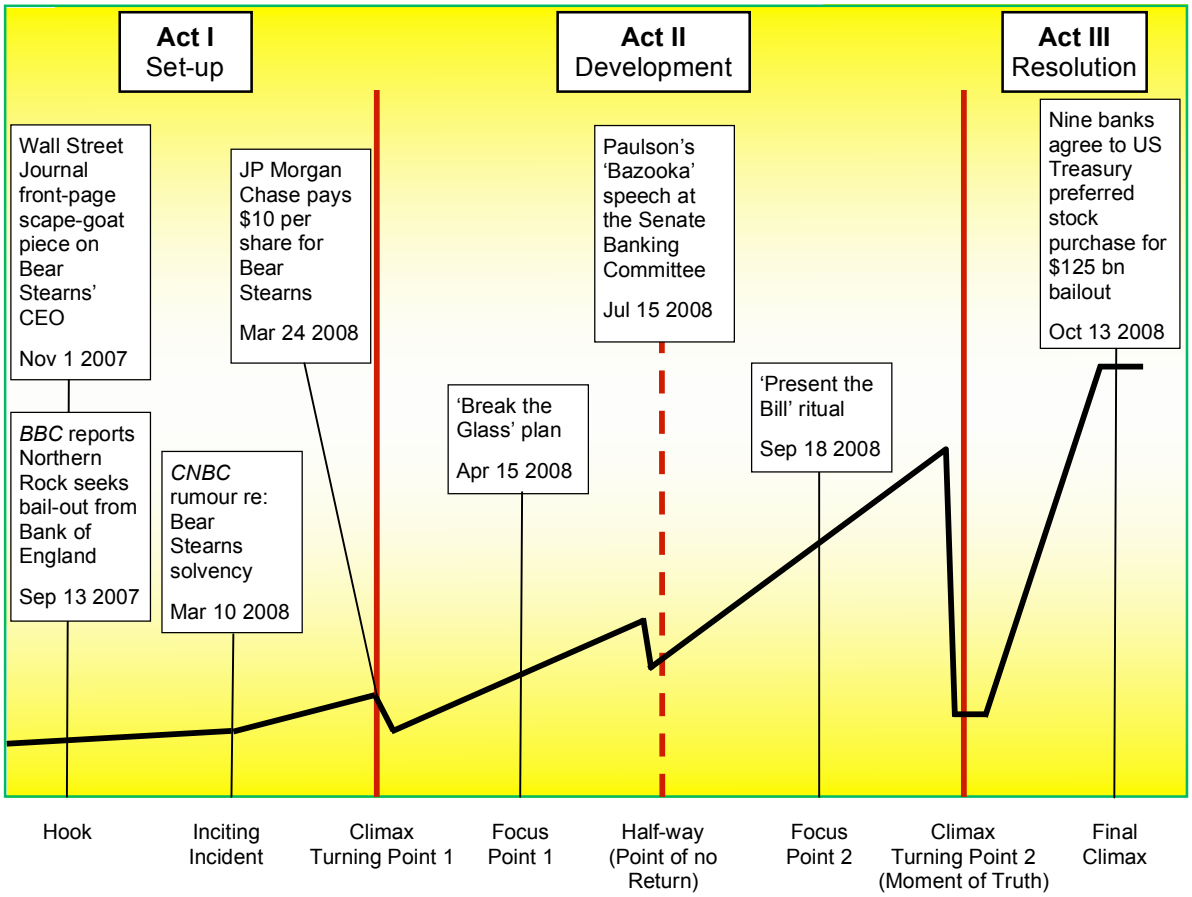
Fear frames are also essential to coerce citizens and politicians alike to support system-wide bailouts. Indeed, the 'rescue' frames magnify the financial crisis with the construction of complex fear-laden metaphors, bleak over-simplified historical referents and new justifications designed to mask unfolding events. Metaphors work to obscure the causes, power relations and objectives underpinning the financial crisis, primarily by evoking distorted pictures that naturalize responsibility and impacts. Their symbolism can, however, be deciphered by sophisticated news audiences to reveal their deeper meanings. The 'financial crisis' narrative arc reveals the meta-picture of the 'rescue' master frame; its central tenet is a *terra incognita* doctrine, wherein key players and institutions are cast as 'rescuers' and 'Saviours' saving the financial system and the economy from 'accidents.' Meanwhile, ordinary taxpayers are routinely positioned as financiers and underwriters of the debt-based financial system. Because the public, and non-establishment sources, are excluded from the 'rescue' master frame, they are unable to construct a counter-narrative via the mass media. Therefore, as the financial crisis intensifies, the 'Present the Bill,' 'Power Walk,' 'Sermon,' 'Present the Peril Live,' 'Solidarity,' Judgment,' 'Resurrection,' and 'Salvation' rituals are reported with valorizing treatments that renders the financial oligarchy invisible.

Appendix IV: Financial crisis Timeline

Figure 4: The 'Financial crisis' Narrative Arc

September 13 2007 to October 13 2008

This adaptation of the three-Act linear story structure from Ray Frensham's *Teach Yourself Screenwriting* (2003) maps the collusive power relations underpinning the 'financial crisis' narrative with key plot points.



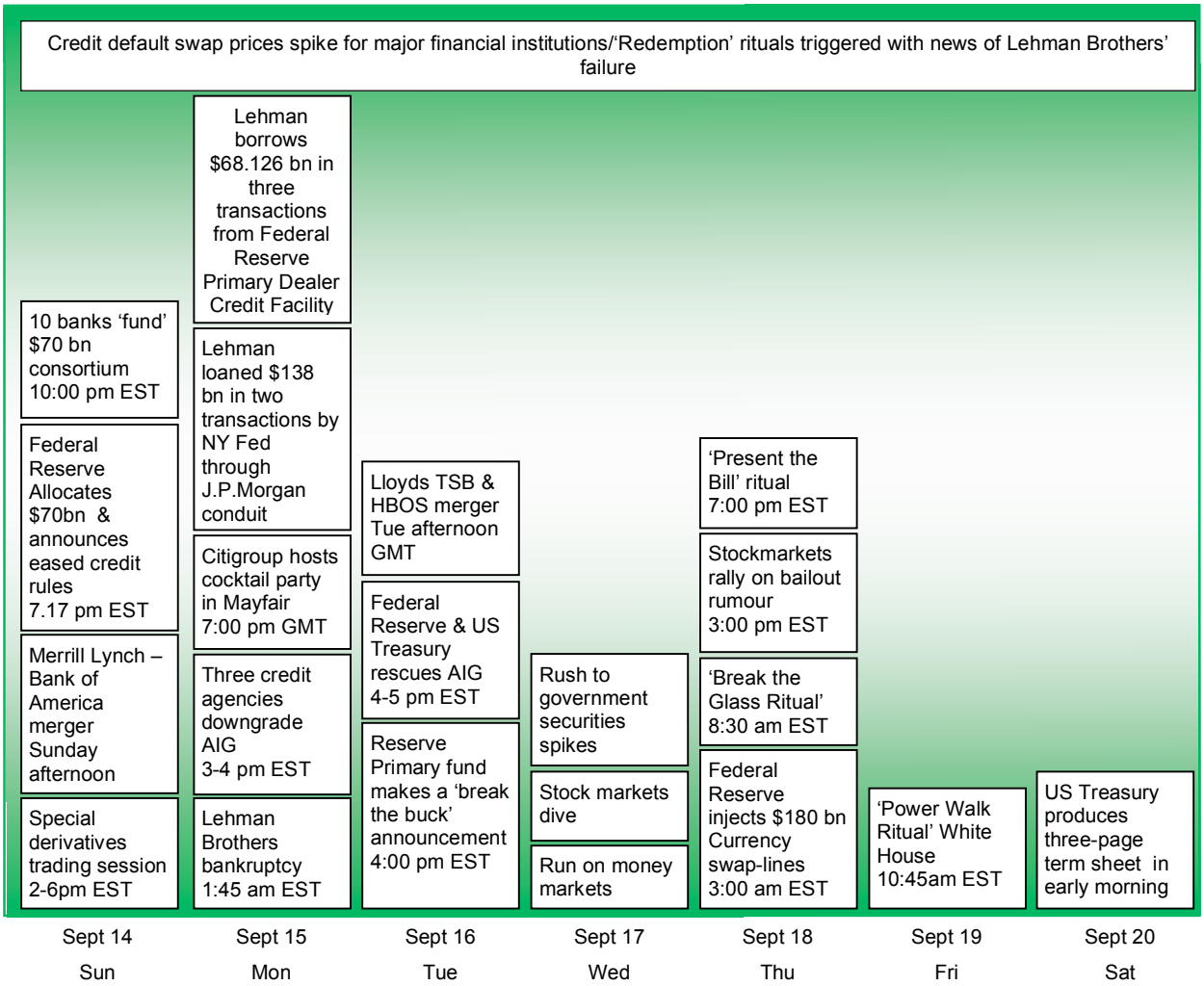
The news on September 13 2007 that Northern Rock sought a bailout from the Bank of England immediately sets off a bank-run. The images of panic grabs the attention of news audiences in Britain. On November 1 2007, a *Wall Street Journal* front-page scapegoat-piece on the CEO of Wall Street's fifth largest investment bank acts a story 'hook' – this time for American new audiences. *CNBC*'s broadcast on March 10 2008 that Bear Stearns' might be insolvent sets off a run from the financial conglomerate. Its subsequent takeover by JPMorgan Chase does not go as planned and the acquiring bank pays five times more than its original offer. On April 15 2008, Treasury officials meet with the chairman of the Federal Reserve, wherein they collusively agree to shelve a symbolically named scheme called the "Break the Glass" plan. Their tacit agreement is to coerce Congress at a later time when the 'crisis' will have become so severe they will vote for a massive bailout.

In mid-July, the US Treasury secretary passes the 'point of no return' when he asks for an unspecified sum that he claimed was akin to having a bazooka-packed pocket. Treasury secretary Paulson's bazooka-packing speech gains widespread coverage, but fails to instil confidence in anxious investors. On September 18 2008, Paulson and the Fed chairman perform a 'Present the Bill' ritual before congessional leaders amid the long-planned market turmoil. They use fear to persuade lawmakers that their "Break the Glass" plan is the only way to stave off system-wide financial collapse and economic catastrophe. After the bailout bill fails to pass in the House on September 29, the financial oligarchy is faced with a major set-back. With new resolve, the American financial oligarchy gains the passage of the $700 billion bailout bill on October 3. But, the financial contagion worsens. On October 13 2008, nine major banks are coerced by four financial authorities to sign contracts that allow the US Treasury to buy preferred stock in return for more cheap federal credit.

Appendix V: Event Cluster Timelines

Figure 5: Event Cluster One Timeline: Institutional 'Meltdown' and 'Fallout'

Lehman Brothers, Merrill Lynch, Reserve Primary Fund, AIG, Money markets dive, HBOS, Federal Reserve $180bn swapline, 'Present the Bill' ritual meeting

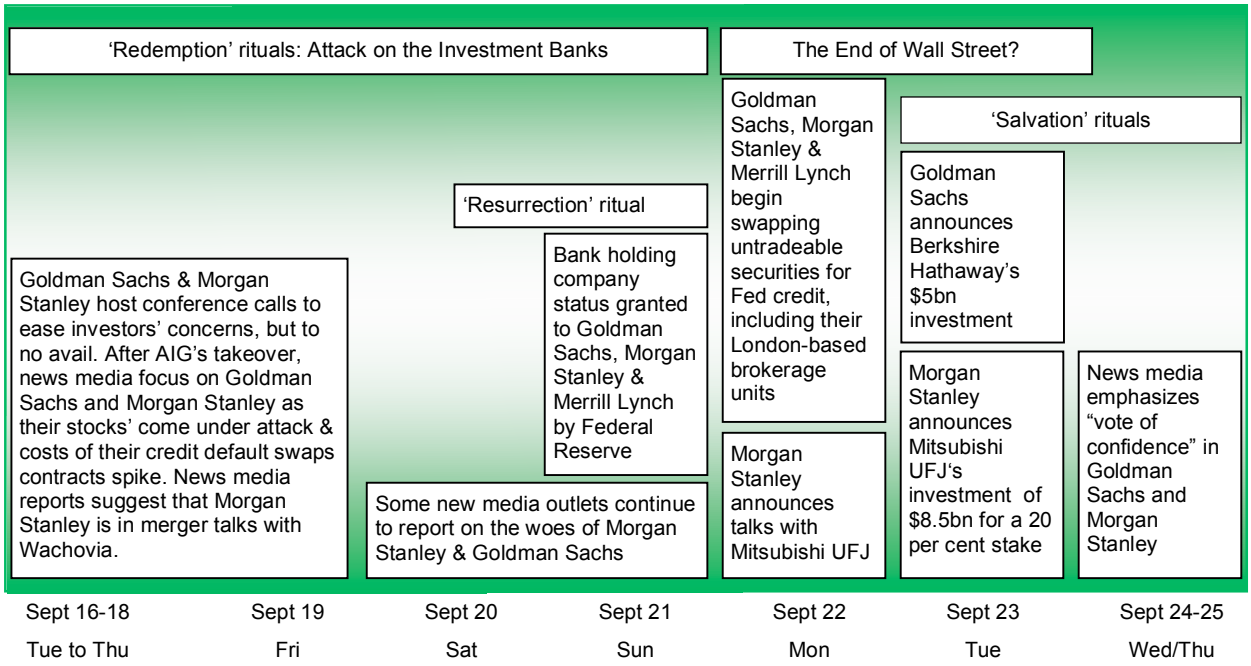


Late in the afternoon of Sunday September 14, Merrill Lynch merges with Bank of America and in the evening, the Federal Reserve widens collateral acceptance rules for new credit. Ten large banks 'coincidentally' announce their own $70 billion 'rescue' fund. Lehman Brothers' bankruptcy triggers a worldwide market panic or 'Redemption' rituals on Monday. The Federal Reserve surreptitiously loans Lehman Brothers $206 billion to settle trades. Meanwhile, in Mayfair London, Citigroup hosts a cocktail party at which Gordon Brown agrees to sweep aside anti-monopoly laws so that Lloyds TSB can takeover Halifax Bank of Scotland swiftly. AIG is subsequently taken-over by the US financial authorities on Tuesday.

On Wednesday, aggressive trading and panic selling continue, while purchases of government securities spikes. At 3 a.m. Thursday, the Federal Reserve expands its lending to five foreign central banks with its 'swap lines' program. By deliberately escalating the 'crisis,' the financial oligarchs and elites have the necessary experiential evidence that a system-wide bailout is needed. To this end, Treasury and Federal Reserve officials contrive a 'Break the Glass' ritual during a conference call. Markets around the world 'roar their approval' on 'rumours' to the bailout plan, which symbolize 'Redemption' rituals. In these rituals, investors vote in pursuit of self-interest and, in effect, 'crucify' the common interests of 'ordinary' people. On Thursday evening, Bernanke and Paulson perform a 'Present the Bill' ritual to Congressional leaders when they table a 'contingency plan' shelved five months prior. The next morning Bush, Paulson, Bernanke and Cox perform a 'Power Walk' ritual through the White House gardens as a symbolic display of unified power. Early Saturday morning, Treasury publicizes its three-page term sheet to appropriate hundreds of billions of dollars.

Figure 6: Event Cluster Two Timeline - Bank Holding Companies

Attack on the Investment banks; The End of Wall Street? & 'Salvation' ritual

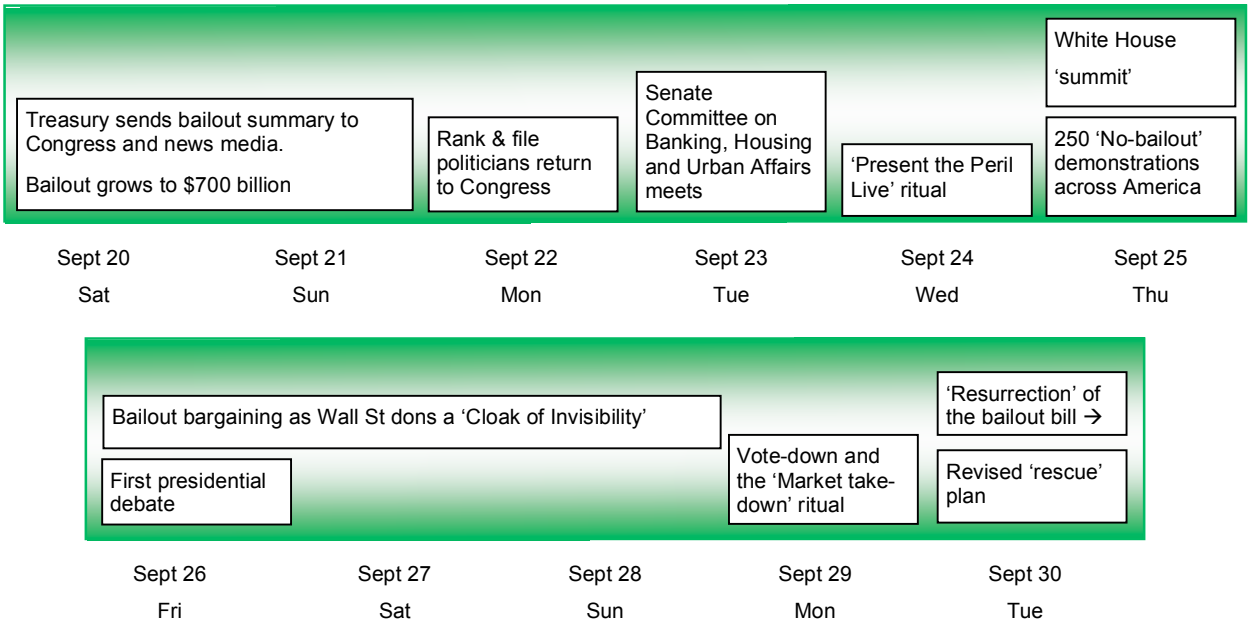


Amid the reportage of the AIG 'rescue,' news media outlets focus on the market turmoil, including the toll on the 'last' two investment banks. News outlets passively listen in on two conference calls held on Tuesday September 16 by Goldman Sachs and Morgan Stanley with 'bank analysts.' The news coverage reports Morgan Stanley and Goldman Sachs' stock price drops, as investors sell and speculators bet that their prices will fall further. Meanwhile, the cost of insuring Morgan Stanley and Goldman Sachs' financial contracts spikes. Known as credit-default swaps, these insurance instruments also work as speculative bets that increase the likelihood that the two investment banks will default on their financial obligations. On Wednesday September 17, Wachovia's CEO rings Morgan Stanley's CEO, allegedly to begin merger talks. After buying time with the announcement of a bailout plan, the Federal Reserve grants bank holding company status to Goldman Sachs and Morgan Stanley on Sunday September 21. This move is emblematic of a 'Resurrection' ritual.

Goldman Sachs and Morgan Stanley's new status as bank holding companies is reported as a situation that will see them subjected to stricter regulatory control in return for permanent access to federal credit. Under newly eased 'lending' rules, Merrill Lynch also gains access to cheap Federal Reserve credit. Conspicuously, the news media fails to report that all three banks' London units have also gained wider access to federal credit. Merrill Lynch is almost totally omitted from this coverage. Three days after Goldman Sachs and Morgan Stanley became bank holding companies, the news media reports that they have gained new capital from Berkshire Hathaway and Mitsubishi UFJ, respectively. These developments represent 'Salvation' rituals and are dutifully reported as a "vote of confidence" by the major news outlets.

Figure 7: Event Cluster Three Timeline - Bailout Rejection

Bailout grows to $700bn; Rank & File Politicians return to Congress; Senate Committee on Banking, Housing and Urban Affairs; 'Present the Peril Live' ritual; White House 'summit'; 250 'No-Bailout' protests; Bailout bargaining; Vote-down & Market take-down

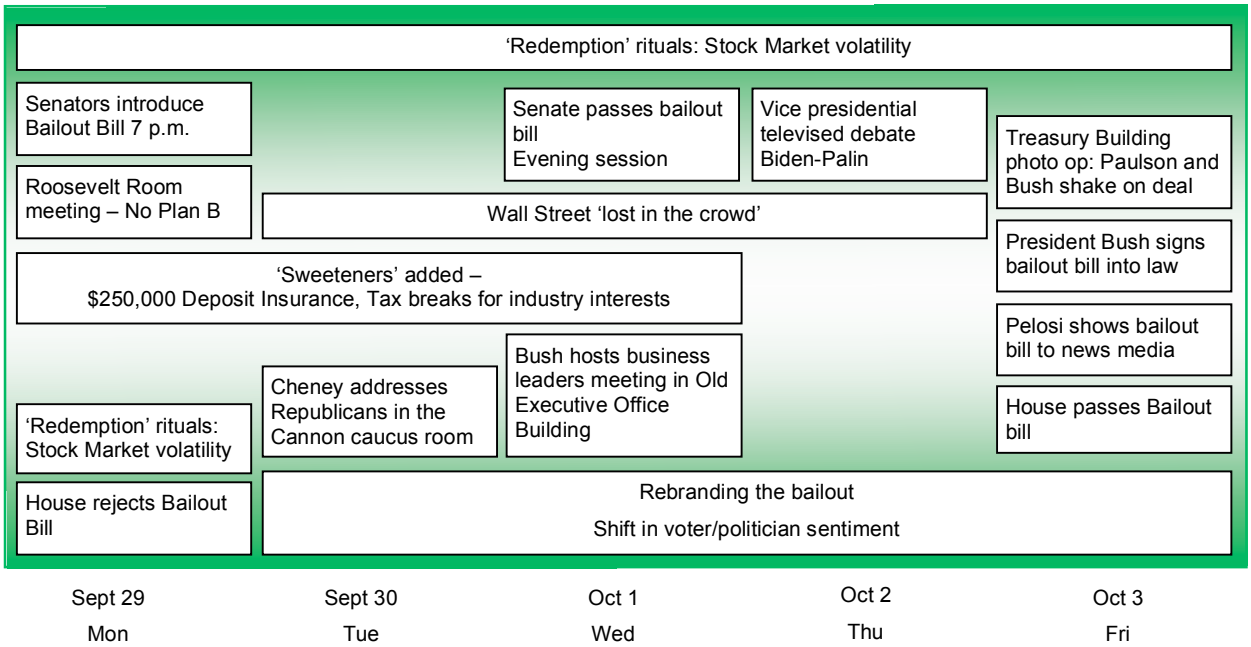


Following the 'Present the Bill' ritual meeting of Thursday September 18, the vague bailout of "hundreds of billions of dollars" is reported to be $700 billion in newspapers on Sunday September 21. The same day, Henry Paulson performs 'Sermon' rituals on television talk shows. The American newspapers uncritically report Paulson's spin on Monday September 22, which meant they had sung from the Treasury secretary's 'hymn sheets.' Despite this spin, the Treasury's three-page bailout summary of the legislative proposal drew the ire of 'rank and file' politicians on their return from their constituencies. Henry Paulson and Ben Bernanke appear before the Senate Committee on Banking, Housing and Urban Affairs on Tuesday September 23. Their performance lacks the necessary persuasive power to win over the public.

The next day, president Bush performs a 'Present the Peril Live' ritual on prime time television in which he claims the bailout is to help Main Street, not Wall Street. Despite there being 250 'No-bailout' demonstrations across America on Thursday September 25, including one on Wall Street, none receive front-page coverage in *The Wall Street Journal*, *The Washington Post* or *The New York Times*. Instead the three American newspapers cover the White House 'summit,' which was intended to be a 'Solidarity' ritual. Over the next few days, Wall Street 'disappears' from the negotiations to draft the bailout bill. On Monday September 29, the draft legislation is voted down and the stock markets fall further in a panic-aggression reaction. The next day the newspapers deploy flak at the ideologically blinded, election-focused politicians, emphasize pragmatism and mostly blame the lawmakers for the plunges in stock market values.

Figure 8: Event Cluster Four Timeline - 'Resurrection' of the Bailout Bill

No Plan B; Cheney's 'Decree Ritual; Senate and House Pass Bailout Bill



After the bailout bill is rejected in the House on Monday September 29 a crisis meeting takes place in the Roosevelt Room of the White House. At this meeting, president Bush allegedly asks Henry Paulson if there is a Plan B. Since there was no 'Plan B,' key government officials and politicians resolve to add 'sweeteners' to lure votes. That evening two Senators surreptitiously introduce the bill to the Senate. Between the failure to pass the bailout bill and Thursday October 2, the lobbying effort intensifies to gain wider support from special interest groups and dissenting House politicians for the bailout. Presidential candidates Barack Obama and John McCain join the mission to persuade. Throughout this period, the news media seeks to re-brand the bailout in terms of who is leading it and what it is intended for. The news media highlights the stock market volatility, or 'Redemption' rituals, as voter sentiment shifts from anger at Wall Street to fear regarding their investments, savings and income security.

On Tuesday September 30, vice president Richard Cheney meets with Republican rank-and-file politicians in the Caucus Cannon Room. His doctrinaire address riles the lawmakers who resent being coerced into voting on a large tax appropriation. On Wednesday October 1, Bush hosts a meeting with business leaders, including ones from Main Street. That evening, the Senate passes the bailout bill by 74 votes to 25. On Thursday October 2, the first vice presidential debate includes deliberation on the economy, which leaves Wall Street unscathed. On Friday October 3, the House of Representatives passes the bailout bill by 263 votes to 171. The news media captures House Speaker Nancy Pelosi showing off a bounded copy of the bill. Within two hours, Bush exercises the presidential right to sign the bailout bill into law. This moment symbolizes the 'Resurrection' of the bailout bill. Paulson and Bush hand-shake before the news media, which signifies a new pledge to enslave the citizenry with debt.

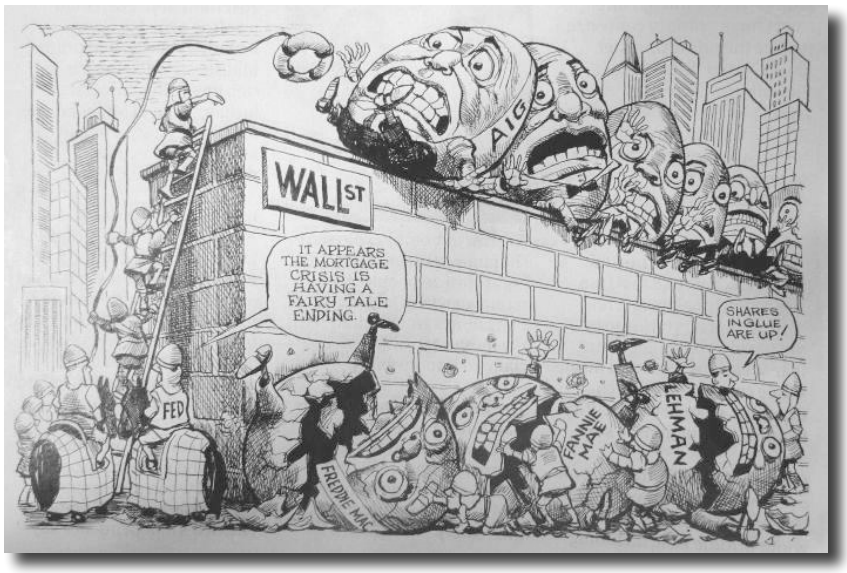
The Act, H.R. 1424, was in fact four Acts separated into three "divisions." These acts had been added on in order to gain wider support. After the House rejected the bailout bill, these extras, known as 'sweeteners' or 'pork barrel' additions included investment incentives for the energy and transportation industries, tax breaks for various schemes and recognition of mental health issues in insurance coverage.

Appendix VI: Commentary on Cartoons, Illustrations and Photos

The imagery that appeared in the weeklies and bi-weeklies were an important ideological element that news audiences consumed. These images worked to frustrate sense-making of the 'financial crisis,' the workings of the financial system and the role of actors. They demonstrate the variety of ways that fear-ridden, simplistic and disjointed mental pictures were constructed.

Event Cluster One: Institutional 'meltdowns' and 'fallout'

A political cartoon that appeared on *The Economist*'s "The world this week" page, symbolically depicted a wall built of stone upon which sat six very frightened egg-men, to illustrate the scene at "WALLST" (*The Economist* 2008, September 20). In a play on Lewis Carroll's Humpty Dumpty character from his book *Through the Looking Glass*, the king's men are the "Fed," dressed like knights (1952, [1871]). In *Through the Looking Glass*, when the adventurous Alice met Humpty Dumpty, he revealed his sense of self-importance and smug belief that his risk-taking wall-perching exhibitionism would not result in a fall someday – an event he regarded as purely theoretical. However, if this *did* happen, the King would "send all his horses and all his men" to rescue him (Carroll 1952, [1871]: 218-219). *The Economist*'s illustration captured a moment when the panicked financial Humpty Dumptys realize that the financial destruction (that they assumed could not happen to them) is real and anyone of them could fall. The confidence in the King's alleged promise is gone.



At a deeper level, the cartoon laid bare the claim that the financial system had been made more stable by dispersing risk with securitized derivative products. The multiple Humpty Dumptys symbolized the system-wide replication of this new 'market' innovation and the implicit expectation that if financial institutions did in fact fall, the Federal Reserve would ride in to perform the 'rescue' ritual. Thus, despite a few broken eggs, the crisis was producing a "fairy tale ending." The Fed knight's observation denoted the 'windfall' for insiders to buy up the fallen, cracked Humpty Dumptys cheaply. Here *The Economist*

was acknowledging that the image that financial institutions projected to the world during the crisis were like Humpty Dumpty's outsized sense of importance. This projected image masked the fact that Humpty Dumpty was susceptible to paranoid thoughts and was "a monster of private language" (Carroll 1952: 222-223; Puolokka 2006: 17). As subsequent financial data revealed, even the 'healthy' major banks were being 'rescued.' Unlike Alice, who was attempting to understand the world of Wonderland, *The Economist* was not attempting to clarify why Wall Street had an expectation that they would be rescued before they fell (and that if they did, they would be put back together again). Rather, the publication's role was to construct an ideologically infused version of reality that filled in the cracks even as they enjoyed a private joke that inter-elite collusion relies on a private symbolic language in order to communicate publicly with one another.

The Economist September 20 edition also included an opinion piece entitled "The financial crisis: Wall Street's bad dream" that promised to explain, "how the global financial system [had] fallen into a grip of panic" (2008: 81). The illustration accompanying the title page depicted a screaming businessman standing in the middle of a symbolic Wall Street. The stylized screaming figure, borrowed from Edvard Munch's famous 1893 painting entitled *The Scream*, worked with the title to naturalize the financial crisis as an uncontrollable nightmare. This naturalization allowed the writer to assert it was hard for scholars of crises-past such as Ben Bernanke, who was introduced as an expert on the Great Depression, to use their insights because every crisis has unique features. This was ironic because the article provided a description of the "strain" on the 'real economy' in recent times and into the foreseeable future; due to the burst credit bubble, restrictions on credit and falling asset prices.

Essentially, this passage matched the phenomena described in a paper, "The financial accelerator and the flight to quality" co-authored by Ben Bernanke (Bernanke, Girtler & Gilchrist: 1996). The "flight to quality" describes the situation, whereby investors were dumping riskier financial products in favour of 'assets' such as Treasury securities because - in turbulent markets - government debt is considered the safest bet (Appelbaum 2008, September 18: D1, *WP*; Bajaj 2008, September 18: A1, *NYT*; Bernanke, Gertler & Gilchrist 1996; Shrivastava 2008, September 19, C2, *WSJ*). The paper describes the shocks to an economy that follow a credit boom, when the net worth of borrowers' is adversely affected by falling asset values. As a result their capacity to access credit falls and therefore credit shocks are

magnified and this disproportionately affects borrowers' net worth throughout an economy. In their conclusion, Bernanke et al stated that further study was needed on the impacts of downturns between banks and households and the workings of the financial accelerator at a macroeconomic level (p.14).

Equally ironic, *The Economist* somehow could not 'see' that "the Panic of 2008" came 101 years after the Panic of 1907 (mentioned in the special report), because the magazine actually had enough publishing experience – 165 years – to do a special report entitled, 'Oligarchic Collusion 101' (The financial crisis: Wall Street's bad dream 2008: 82; European Banks: Cross-border contagion 2008: 86). Instead, the magazine inferred the Federal Reserve's ubiquitous creation myth wherein 'students' learn it was designed to prevent or ease such banking panics as had occurred in 1907 (History of the Federal Reserve n.d.). In fact, America's wealthiest financier at the time, John Pierpont Morgan (along with his bankers), escalated anxious market sentiment into a full-scale banking crisis by disciplining a bank. The bank in question, The Knickerbocker Trust Company, had participated with another in moves to gain control of the copper market, a move that was an affront to the House of Morgan, a vast cartel of banking and industrial conglomerates, including the copper-hungry General Electric (Kavoussi 2010: 4, 6; Rochester 1936: 37). On the morning that the banking panic of 1907 intensified, Tuesday October 22, *The New York Times*' front-page headline "Knickerbocker will be aided" reported that J.P. Morgan would provide $2 million to the two banks that were in financial difficulty. Meanwhile, *The Wall Street Journal*'s front-page headline "Clearing House has banking situation here well at hand" created the impression that the New York Clearing House, also controlled by J.P. Morgan, would financially support Knickerbocker (Federal Reserve Bank of Boston 2011: 6; Kavoussi 2010: 2, 5; Knickerbocker will be aided 1907, October 22). The Knickerbocker Trust Company was effectively scapegoated when Morgan's men let it suffer a bank run. As such, the root of the 1907 crisis was, in fact – the oligarchs – who were seeking to enhance their power by gaining a government sponsored mechanism for booms, busts and bailouts – a central bank (Brown 2008: 124; Engdahl 2009: 36-40; Griffin 2002: 3-24, 431-450; Rothbard 2002: 240-259; 2008: 230, 233-234). Thus, the cause behind the psychological metaphor of the recurrent 'bad dream' for investors was wryly communicated to *The Economist's* elite readers, while it remained obscure to its mass audience.

The cover of *BusinessWeek*'s September 29 issue used large letters appearing behind a low angle shot of the gabled frontage to the New York Stock Exchange building to ask the question, "Is it safe yet?" By setting this question against a black background and having it emerge from behind the Stock Exchange, the sense was given that investors were taking a tentative peek. Above the title are teaser headings, "What sank Wall Street;" "Sizing up the Fed's arsenal;" "Inside AIG's collapse;" "How to play the crisis." The contents page featured the

image of a buffalo bull wounded by a spear, accompanied by an inset title and teaser paragraph to whet readers' appetites. This text read:

> Wall Street staggers: We should have seen it coming: Easy money, hasty deregulation, and arcane derivatives have brought financial calamity before. As the markets begin to dig out of the muck, what have we learned? And will we recognize the warning signs next time? (Wall Street staggers 2008, September 29: 5)

The 'neutral bystander' posture apparent in this quote set-up readers for the opening paragraph of the article "Wall St. Staggers" stated, "we've actually had plenty of experience of this sort of thing before" (Barrett 2008: 28). The article featured an enlarged image of the buffalo bull wounded by a spear and an inset text and graphical presentation that was a round-up of market crashes and financial crises entitled "Lessons not learned" – dating back to 1962 (p.30). The image of the speared bull suggested that investors were guided by the needs of survival, and drew upon over-simplified cultural prejudices concerning native peoples' who were displaced as chattel slavery and capitalism spread across North America (Hartman 1999; McLuhan 1972; Rochester 1936; Silver et al. 2003). This depiction naturalized Wall Street as a buffalo bull and investors as hunters, which meant that aggressive collusion was lost in the representation. The business correspondent Paul Barrett, in his 'neutral bystander' role, mimicked a missionary empathizing with his faithful followers, while not explicitly acknowledging the 'religion' that *BusinessWeek* valorized. Since the virtues of the secular religion – financial capitalism – were greed, hubris and power, Barrett constructed a 'rescue' frame that deflected responsibility away from the news media, while ironically positioning the magazine with its readership. Petulantly, Barrett wrote:

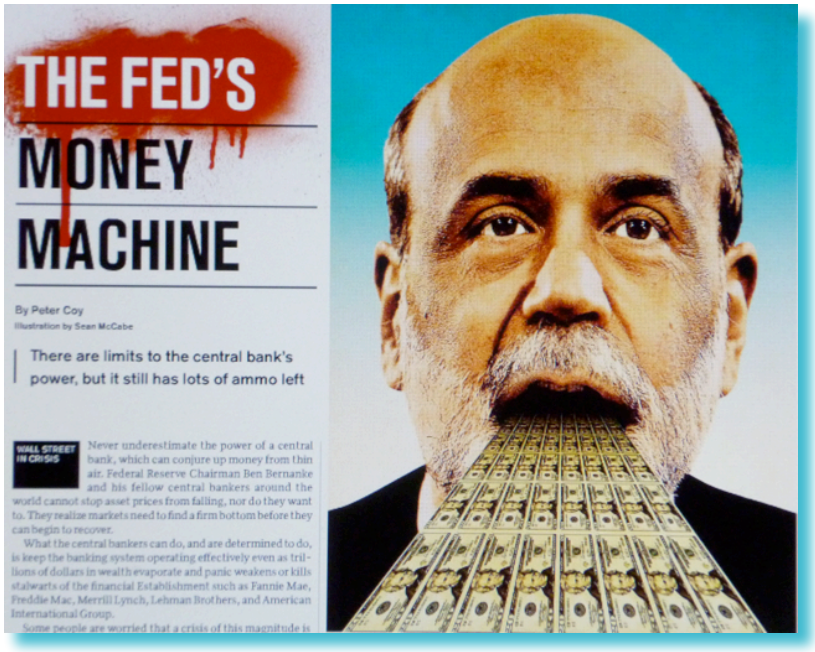
> …like some stubborn residents of hurricane zones, we swiftly choose to forget the last tempest and reassure ourselves that things will be different from now on. (Barrett 2008, September 29: 28, 31)

Having aligned himself with his readers, Barrett nonchalantly informed them that their shared unwillingness to learn was due to "the timeless power of hubris" during booms and "a set of foolish financial notions" that had emerged three decades ago. The reporter avoided an analysis of these sentiments. Encouraging soul-searching in the magazine's readers would have risked provoking them to see beyond the 'rescue' master frame (and maybe even ask difficult questions such as, why did *BusinessWeek* encourage hubris as though it were a virtue?). In place of calling the "antiregulatory ideology" by its proper term – neoliberalism – and examining its track record, wherein the leading Wall Street and City banks had relied on bailouts during the numerous financial crises they had created since

the 1970s, Barrett asserted the "tent-revival fervour" of "free-market true believers" was "perplexing" (p.31). This was so, Barrett claimed, because they believed that they would be rescued when they appeared to be failing.

The article "Wall St. Staggers" explored the emergence of financial deregulation during the Reagan regime, the proliferation of derivatives and the refusal of prominent officials such as former Federal Reserve chairman Alan Greenspan and former Treasury secretary Robert Rubin to have derivatives regulated following the near-failure of Long Term Capital Management in 1998 (Barrett 2008: 28). While it offered some criticism, particularly against Greenspan and Rubin, it fell short of describing the political power to control societies that the financial oligarchs enjoy. The reporter included a critical quote from Michael Greenberger, the official who worked under Brooksley Born at the Commodity Futures Trading Commission. Greenberger stated that Wall Street and government-appointed officials, such as Bernanke and Paulson, projected the idea that financial busts were, "like floods or hurricanes" (Greenberger as cited in Barrett 2008: 31). According to Barrett, Greenberger held the view that financial crises were not uncontrollable forces of nature, but were "predictable events." But, the reporter failed to investigate whether key players really believed the ideology. Instead, the *BusinessWeek* writer's argument protected the accused for errors of belief, rather than criminogenic acts of collusion. It also meant that Wall Street executives and financial oligarchs were merely guilty of pursuing a 'virtue' of capitalism – hubris – albeit the only one acknowledged by Barrett, while greed and power were ignored.

This insatiable appetite for power attained under the cover of greed – the virtue promoted by the news media during boom periods – was referenced in an image for an article "The Fed's Money Machine" (Coy 2008, September 29: 38). The illustration was a close-up of the US central bank's chairman Ben Bernanke, out of whose open mouth was a sheet of freshly minted $20 Federal Reserve notes. As the article's opening stated that central banks "can conjure up money out of thin air," the image was symbolically communicating the power of the head to the Federal Reserve to 'breathe life' into the financial system with newly created cash (p.38). This capacity to 'print money' is one of the so-called Open Market Operations 'tools', that occur by decree of the Board of Governors through their Federal Open Market Committee (FOMC) (Griffin 2008: 194; Rickards 2011: 104; Wessell 2009:


THE FED'S MONEY MACHINE

By Peter Coy

Illustration by Sean McCabe

There are limits to the central bank's power, but it still has lots of ammo left

WALL STREET IN CRISIS

Never underestimate the power of a central bank, which can conjure up money from thin air. Federal Reserve Chairman Ben Bernanke and his fellow central bankers around the world cannot stop asset prices from falling, nor do they want to. They realize markets need to find a firm bottom before they can begin to recover.

What the central bankers can do, and are determined to do, is keep the banking system operating effectively even as trillions of dollars in wealth evaporate and panic weakens or kills stalwarts of the financial Establishment such as Fannie Mae, Freddie Mac, Merrill Lynch, Lehman Brothers, and American International Group.

Some people are worried that a crisis of this magnitude is

45). Hence, the illustration wryly communicated the governor's 'open mouth operations' while invoking the Fed as a 'Saviour' and obscured the existence of the Wall Street-Washington Tax Haven Complex.

The Guardian Weekly's September 26 edition included a cartoon of Gordon Brown set against a backdrop of a 'global cataclysm' (Rowson 2008: 19). On the surface, the cartoon poked fun at the precarious life of political leaders facing re-election amid crises. The jaded tone to the humour belied the opportunistic exploitation of crises by political figures, and the manipulation through fear of the dark consequences that would supposedly ensue if the special 'rescue' powers of governments and monetary authorities were not activated.

Event Cluster Two: Bank Holding Companies

The October 6 edition of *BusinessWeek* focussed on the 'End of Wall Street?' phase. A brief one-page article titled, "Not such a radical makeover" depicted the dual move by Goldman Sachs and Morgan Stanley to become bank holding companies as a relatively easy one for them (Goldstein & Henry 2008b: 38). The reporters, Matthew Goldstein and David Henry stated that the banks had reduced their leverage ratios, in the months following the demise of Bear Stearns, to comparable levels with the big commercial banks. These observations made it seem as though the new bank holding companies had taken steps to become trustworthy. The reporters quoted an academic from the University of Maryland, Michael Greenberger, formerly of the Commodity and Futures Trading Commission under Brooksley Born (Johnson & Kwak 2010: 9). Greenberger stated that the 'commercial' banks had not been wise either. Goldstein and Henry cited Citigroup as an example, but underplayed the significance of this by mentioning that the bank had, for a long time, been under the Federal Reserve's supervision (Goldstein & Henry 2008b: 38). However, the reporters failed to disclose that large

038 NEWS

NOT SUCH A RADICAL MAKEOVER

By Matthew Goldstein and David Henry

Illustration by Jordan Isip

Goldman Sachs and Morgan Stanley may find it easy to meet the Fed's rules

WALL STREET IN CRISIS

When investment banks Goldman Sachs and Morgan Stanley announced on Sept. 21 that they were converting themselves into regulated commercial banks, observers predicted that the firms would quickly curb their freewheeling ways under the Federal Reserve's onerous rules.

Although the move quelled a massive sell-off in the stocks, talk of dramatic changes may be overblown. Long before the Fed stepped in, Goldman and Morgan had moved to reload their books. As a result, their cushion of capital to withstand losses—one big area of Fed oversight—already meets the higher standards for commercial banks such as Citigroup and JPMorgan Chase. "The historical significance of this change may be greater than the practical significance," says Ray Soifer of Soifer Consulting. In a huge vote of confidence, the legendary and finicky value investor Warren E. Buffett plowed $5 billion into Goldman on Sept. 23.

The cleanup at Goldman and Morgan has been going on for months. After Bear Stearns fell in March, investors pushed for big changes. Since then the firms have scaled back their reliance on short-term borrowing (the cash they take in from outside lenders to fund trading and other operations) because such funding can dry up overnight. They've also sold assets and raised capital, providing extra cushion for losses. In the past year their gross leverage, a measure of short-term borrowing, dropped from about 30 times capital to the mid 20s. By another government safety standard, their books already have the look of a commercial bank (table).

LOSS CUSHION

The 20 investment banks easily meet the Fed's capital standards

HOW STRICT IS THE FED?

And should the Fed slap banks with tighter leverage limits in the coming months, Goldman and Morgan won't need to revamp their strategy much. During the boom they took on leverage, mostly to play in the bond markets. But bond trading has slowed; other businesses that don't require huge amounts of borrowing, such as mergers advice, are the main profit drivers now. The real test for Goldman and Morgan Stanley will come years from now, when the bond markets heat up again.

Then again, leverage limits didn't rein in all commercial banks during the mortgage boom. Citigroup, long regulated by the Fed, disguised its true degree of leverage by keeping huge chunks of toxic securities off its books. Citi has taken $55 billion in write-downs since the summer of 2007. "The commercial banks haven't been the poster children for prudence in this fiasco," says Michael Greenberger, a University of Maryland professor and former regulator. Citi declined to comment.

Some rules will force Goldman and Morgan to make modest changes. The Fed, for example, limits the amount of nonfinancial businesses a commercial bank can own. Goldman most likely owns some power plants, and Morgan, a fleet of oil tankers. The Feds giving them two years to complete their transformations, and they can apply for up to three years of extensions.

That, of course, is a lifetime on Wall Street, where new markets quickly emerge to fill voids. It was—remember—just five years ago, in the wake of the tech crash, that signs of a housing bubble surfaced. BW

BUSINESSWEEK · OCTOBER 6, 2008

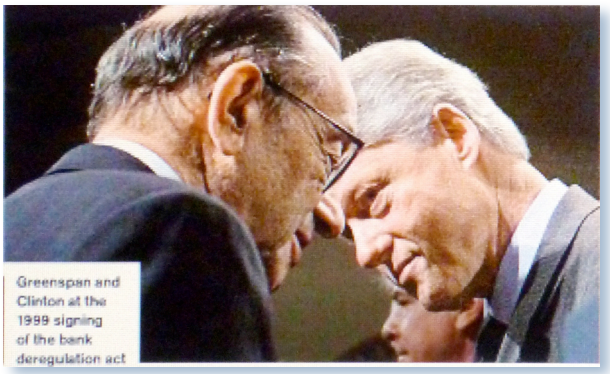
numbers of corporate entities were protected by the secrecy of tax havens quietly endorsed by the US central bank, which meant that the lack of transparency was endemic to the financial system. Instead, they claimed that Morgan Stanley and Goldman Sachs would be better regulated as bank holding companies, just as the newspapers had.

Accompanying the article was an illustration of a human figure 'leading-on' the turtle he is riding with a carrot dangling on a line. The figure is mounted on twin light blue coloured buildings that sit atop the turtle's shell that is stylistically presented as a painter's palette. The figure, whose head faces the reader, signifies the Federal Reserve, the twin buildings represent Goldman Sachs and Morgan Stanley. Two up-turned turtles appear to represent investors in Lehman Brothers and Bear Stearns. In the background, a light-bluish water-colour smudge wryly suggests precarious 'liquidity' drying up in the cubist-impressionist desert landscape of investment banking. The ecological-survival metaphor embedded in this image served as a control mechanism since it also subtly communicated the rewards and punishments that determined the survival of the turtles. Therefore, the human figure holding the carrot symbolized the financial oligarchs and financial elites.

BusinessWeek's edition of October 6 2008 touched on the investment bank-commercial bank divide in an interview that regular guest reporter Maria Bartiromo conducted with Bill Clinton. Accompanying Bartiromo's "FaceTime" question and answer format article, was a photo of Clinton, looking pensive with his head tilted back, presumably as he regarded the reporter. The anchor of *CNBC*'s "Closing Bell" program deployed a ritualistic 'hard' question to Clinton to make it appear as though serious investigation was occurring. Bartiromo asked the former U.S. president if he had any misgivings about signing the Gramm-Leach-Bliley Act into law in 1999; the one that legalized the banking mergers with other financial institutions (Johnson & Kwak 2010: 89). Clinton claimed that he viewed the legislation as a way to stabilize the financial system and make it easier for Wall Street to make more money (Bartiromo 2008c: 19). He further asserted he did not "see that signing that bill had anything to do with the current crisis." To support his argument he stated that Bank of America's takeover of Merrill Lynch would not have been possible without it.

However, Clinton's justifying logic deflected attention from the fact that the Act was in part, a seal of approval concerning the merger by Citibank and Travellers, which had, in effect, created the biggest banking merger in America since the Great Depression. The legislation paved the way for opportunity and rivalry inherent to the financial industry's race to become 'too big to fail.' This process was integral to the formation of the crisis (Ferguson 2011; Johnson & Kwak 2010; Prins 2009; Wilmarth 2002; 2009). The logic underpinning Clinton's argument was that the Act in question had nothing to do with the cause of the crisis because mergers between major financial institutions were permitted by the Act. His stance

failed to prove that the Act was *not* a *causative* part of the 'crisis.' From this perspective, the idea that mergers such as that between Bank of America and Merrill Lynch could de-escalate a crisis that was in part magnified by the Gramm-Leach-Bliley Act of 1999 was fallacious. Maria Bartiromo failed to press Clinton on his claim, not because she lacked the intelligence or experience, but partly because of her elite source dependency. Given that Bartiromo had numerous contacts on Wall Street, it would not have been too hard to obtain data on how much the three former investment banks were 'borrowing' from the Primary Dealer Credit Facility. A mere 19 financial institutions that were the most significant dealers in Treasury securities could use the Primary Dealer Credit Facility to exchange hard-to-value or hard-to-trade assets for cheap federal credit (Federal Reserve Bank of New York 2008b; Felkerson 2011: 12). Ironically, a photo accompanying the second page of the article depicting Greenspan and Clinton at the signing of the Act suggested there was more to the 1999 legislation (p.20). In the photo, Greenspan is clearly speaking quietly as Clinton is leaning close and watching the then chairman of the Federal Reserve. The photo suggests collusion.


Greenspan and Clinton at the 1999 signing of the bank deregulation act

Bartiromo's "FaceTime" article, which was first published online on September 24 2008, worked strategically to reassure investors that good returns could be made by investing in the big players that had access to bailout funds to buy up financial firms weakened by the crisis (Bartiromo 2008b). *BusinessWeek*'s treatment of 'The End of Wall Street?' phase served an ideological function, since the Federal Reserve was made to appear as a neutral and firm enforcer of the rules (Bartiromo 2008c: 19; Goldstein & Henry 2008b: 38). This portrayal relied on the key omission that the Federal Reserve was privately-owned by its members' banks and their private investors.

Event Cluster Three: Bailout Bill Rejected

MAD AS HELL ON MAIN STREET

Allentown, Pa., is emblematic of cities and towns across the country. Full of working people enraged at Wall Street

"I BROUGHT UP MY KIDS TO WORK HARD AND SAVE MONEY. NOW WHAT? THE RICH ARE GETTING BAILOUTS."

TRIVET Diner

An October 6 *BusinessWeek* report "Mad as Hell on Main Street" seemed to give a voice to 'ordinary' people from the smalls-ville of America – Allentown (Berfield 2008: 26). But, it was, in part, designed to regain legitimacy with investors from Main Street America by making it seem as though the magazine cared about their plight. It also worked as a sentiment-finding mission since the reporter, Susan Berfield, failed to provide context regarding why people on 'Main Street' had been struggling financially since the 1980s. Berfield pursued an agenda to glean anecdotes

and 'common sense' attitudes of everyday people that, in effect, presented a stereotypical picture conjured by the song "Allentown" – the Billy Joel tune that sympathetically captured the town's change of fortune. Indeed, Berfield made reference to Billy Joel's "anthem" and struck pay dirt when she found Georgia Goodman, an Indiana University student of philosophy, who unintentionally fitted the stereotype that the reporter imagined. Goodman stated in the article:

> I'm intrigued that the government is willing to pump money into corporations who have successfully pumped money into CEO's pockets. It was supposed to be that if you worked hard, you would benefit. And if you worked harder, you would benefit more. Now it seems to be the reverse. (Goodman as cited in Berfield 2008: 26).

The *BusinessWeek* reporter's use of Goodman's quote belied the cynical inspiration for choosing Allentown as the story's setting because it echoed lyrics from Billy Joel's song:

> All the promises our teachers gave, if we worked hard, if we behaved. So the graduations hang on the wall. But, they never really helped us at all. (Joel 1982)

Without contextualizing the fate of Main Street as largely the consequence of collusive activities of the financial oligarchy, "Mad as Hell on Main Street" served to promote anxiety and fear.

BusinessWeek's October 6 edition also contained an article entitled "What will AIG sell," which claimed the only thing that was certain about the plans of the troubled insurance conglomerate's new state-appointed CEO was that he was "moving fast" (Byrnes 2008: 40). However, the report failed to disclose that AIG's new CEO, Edward M. Liddy, was a former board member of Goldman Sachs, who according to *The Wall Street Journal* had "experience pulling apart empires" (Karnitschnig et al. 2008, September 17: A1). The image accompanying *BusinessWeek*'s article depicted a butcher chopping up duplicates of AIG's Lower Manhattan headquarters, as though the skyscrapers were 'carcasses.' This treatment naturalized the aggressive strategies of Wall Street's banks, including Goldman Sachs, and banks of the City and Europe, to disperse the risk of complex derivatives contracts, while rendering its 'rescue' as an 'accident.' Thus, the power crimes inherent to constructing "the fiction" that AIG did not collapse, disappeared even while the illustration depicted AIG as being 'on the hook' for losing the bets that its financial unit, AIGFP, made (Ferguson 2011; Markose et al 2009: 4; Wilson 2011).

An October 6 *Time* article "Who can lead us out of this mess" written by David von Drehle opened by downplaying the power relations that underpinned the two candidates almost-simultaneous decision "to field questions for the first time about the collapsing financial sector and the government's proposed bailout" (2008, October 6: 19). The *Time* reporter quoted a selection from the politicians' speeches to demonstrate their "uncanny" similarities. This started by introducing their quotes with phrases "Here was

Obama," "Here was McCain," then "More Obama," "More McCain" and then he blurred their surnames as " McBama" and O'Cain" to make the point they were essentially saying the same things. For example, the reporter quoted McCain and Obama in this way:

> More McCain: There must be a path for taxpayers to recover the money that is put into this fund. More Obama: If taxpayers are being asked to underwrite hundreds of billions of dollars to solve this crisis, they must be treated like investors. The American people should share in the upside as Wall Street recovers. (von Drehle 2008, October 6: 20)

To mask the financial oligarchs' control over political-media campaigns or meta-communications, the reporter created an ecological-survival metaphor wherein he described Obama and McCain as having "a genome of the alpha pol." Notwithstanding the ideological invocation of genetic determinism required to create this sub-species (Ho 1999; Rifkin 1999), von Drehle bestowed the two politicians with two "dominant traits" – "[t]iming and instinct." In a cheesy melding of natural history with propaganda, the reporter narrated that they were "driven by something wired, not taught" – evidently, like butterflies and cicadas. These ecological-survival and industrial metaphors worked to conceal the fact that the wiring was, in fact, the invisible lattice of oligarchic-elite networks.

The report's criticism was restricted. It mentioned the Obama and McCain's connections to individuals implicated in the excessively leveraged GSEs, Fannie Mae and Freddie Mac, respectively. Indeed, an inserted text and graphic presentation, replete with headshots of some key elites in "Team McCain" and "Team Obama," tacitly communicated the Wall Street-Washington Complex (p.21). But the accompanying brief bios and mentions of other elite advisors in the text were included as credentials, rather than evidence suggesting collusion. In this way, the reporter wrote from a 'neutral bystander' posture passively providing what were essentially cues as though this was a Voters' Guide to Campaign '08. Indeed, the article finished with the reporter leaving it up to the candidates to figure out how to articulate the problem of the financial crisis. His adherence to the 'neutral bystander' posture absolved him of this journalistic responsibility (Kandall 2000). The journalist wrote:

> What we seek is a leader who can size up a problem, explain it in a way that seems both true and hopeful and match the nation's priorities to its needs. Here's the crisis – which man is up to it? They have a month left to give us their answers. (von Drehle 2008, October 6: 22)

The pivotal word in this passage is "seems," which suggested constructing an account that would appear accurate, while at the same time managing to promise pragmatism *and* a better future. A photo of a printing press worker flicking through sheets of the Federal Reserve's $100 bills was set next to a graphic and text presentation entitled, "What you could do with $700,000,000,000." This worked to link

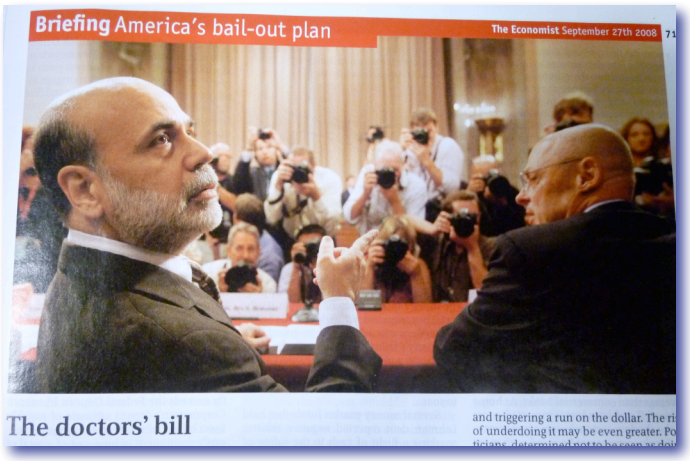
the bailout to the idea that Wall Street could finance the economy. In the graphic and text presentation, icons depicted the various sectors or expenditures of the economy that could be financed from the $700 billion. Ironically, some text below the photo of the worker flicking through sheets of $100 bills concluded, "or you could just pay off 7% of the $9.8 trillion of the national debt." The workings of the debt-based financial system were not explored.

In this way, von Drehle and *Time* suggested that the candidate and the party with more political capital to draw upon during the inevitable controversies ahead would win. That candidate was Obama as was subtly communicated in the article, such as when the reporter stated that McCain was associated with "the Bush brand" (p.22). This contrasted with Obama's supposed attributes:

> Obama would be quicker to spend, quicker to regulate but also probably faster to react to economic weakness at home. The choice might be as much about reflexes as about ideology. (von Drehle 2008, October 6: 22)

In other words, Obama was pitched as being more nimble and therefore more pragmatic, which matched the ideological framing in the article's exposition regarding evolutionary adaptability. This would appeal to *Time*'s Middle American audience who would have aversions to "ideology." It would also fit with the political elite's reading of *Time* to associate Obama with speed, since *time* was of the essence and '*speed* politics' was a crucial means of crisis exploitation.

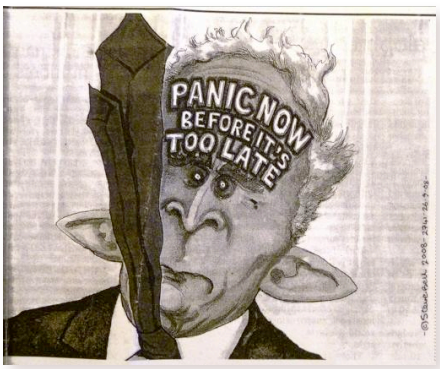
The Economist's September 27 edition inferred pragmatism in a report entitled "The doctors' bill" since it worked to naturalize the financial crisis by playing on the idea that the financial system was in a state of ill-health (2008: 71). Therefore, swift intervention by a doctor was needed. The article drew upon Bernanke's expertise concerning the Great Depression and referred to Ben Bernanke's "groundbreaking paper" published in 1983, which stated that the Great Depression began to subside as tax-funded statutory institutions such as Reconstruction Finance Corporation and the Homeowners' Loan Corporation loaned to industry and households (Bernanke 1983). *The Economist*'s portrayal of Bernanke helped cast the Federal Reserve and the Treasury with the shepherd-Saviour metaphor. Like the rest of the news media, *The Economist* upheld the sanitized version of the US central bank's



collusion with the financial oligarchy during the Great Depression so that readers would believe financial crises were too complicated to elicit patterns. The article stated "[a] month ago Mr Bernanke and his colleagues began to think" that a comparable approach may be prudent and mentioned that 'contingency plans' had been "drawn up" (p.72). But then, evidently when a "financial hurricane blew over" during the Lehman's crisis weekend, Paulson, Bernanke and Geithner calculated incorrectly that financial institutions were sufficiently ready for the failure of a financial conglomerate with the size and complexity of Lehman Brothers. Thus, a meteorological metaphor was also used to make it seem like the crisis was the 'natural,' wholly unpredictable phenomenon of 'the markets.'

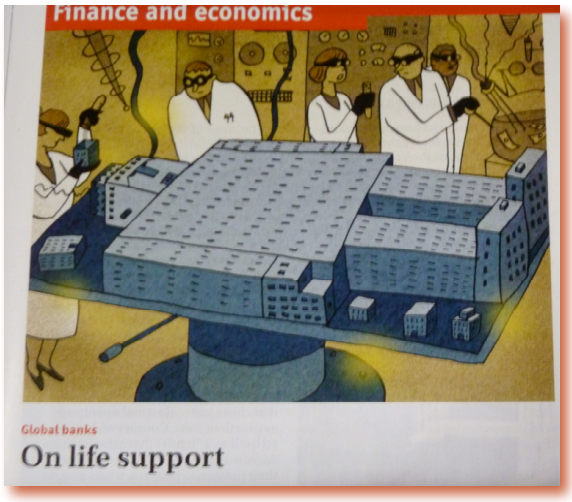
Event Cluster Four: Resurrection of the Bailout Bill

Two satirical cartoons in *The Guardian Weekly*'s October 3 edition inferred a critique of the financial crisis. One cartoon depicted president Bush who had "Panic now before it's too late" written on his forehead (Bell 2008, September 26. In: *The Guardian Weekly* 2008, October 3: 21). A rush of invisible wind had caused his tie to flap upward, which signified the presidential threat of a 'financial hurricane' if the bailout bill was not passed. At a deeper level, it subtly communicated the 'behind the scenes' political manipulations to have the president perform the 'Present the Peril Live' ritual.

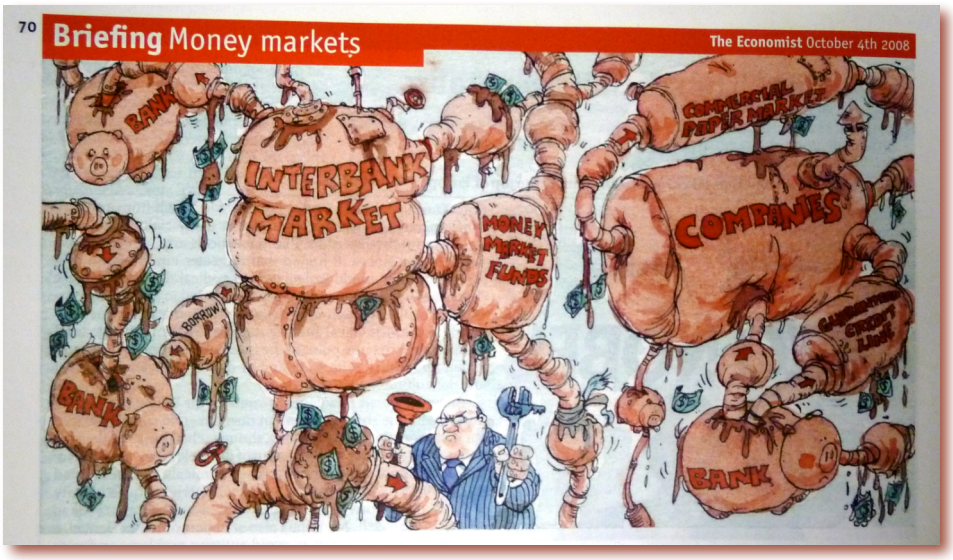


A second cartoon, depicted senator John McCain at an office door in Congress offer to "help" to surprised negotiators drafting the bailout bill. On the back of his jacket is written, " '…Economics is not something I've understood…' – John McCain" (iGNC 2008, September 26: 9; 2008, October 3: 21). The quotation on McCain's back was a reference to his frivolous admission to reporters in December 2007 that economics was an "issue" that he claimed no expertise in (Smith 2007, December 2007). This cartoon accompanied an article "McCain, master of manoeuvre…" which explored McCain's tendency to risky manoeuvres, but it too failed to investigate the formative influence of the financial oligarchs 'behind the scenes.' It also neglected to connect McCain's move to Bush's live television appearance. As such, the two cartoons did not capture the links between Wall Street and Washington and the key financial authorities.

In the October 4 edition of *The Economist,* an image accompanying an article entitled "On life support" depicted a robotic building that lay flat on an operating table in a science laboratory, wherein five financial scientists, who wore masks fitted with lenses, attended to the apparently 'fallen' bank robot (2008: 73). The sci-fi metaphor in this report was used to construct a 'rescue' frame to argue that confidence was the fundamental weakness of the banking system. But the report did not say why the banking system had this weakness. The surface meaning was that there was no overall coordinated solution.

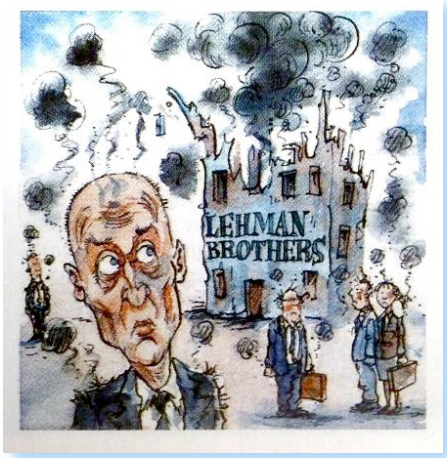


The article concluded by asserting that the consolidations taking place, such as the takeover of Washington Mutual by JPMorgan and Chase, posed the danger of creating an even bigger calamities if just one were to fail. This criticism was of course tightly controlled. In the role of the 'neutral bystander,' the writer stated that even the biggest banks had "little choice but to present a steely exterior and carry on as if nothing were wrong." This meant that their survival was conflated with the vulnerability of everybody else (including consumer investors) and therefore the 'too big to fail' banks – embodied in the giant robot – were being naturalized. But it is clearly not the case that JPMorgan Chase et al had "little choice" but to hope for the best. Therefore, the illustration reveals the meta-level meaning that the giant 'bank building' robot was not there to be 'rescued' by the financial scientists – it was their monstrous creation!



Another article in the October 4 issue of the *The Economist* entitled "Blocked pipes" inferred that global money market system needed a technological upgrade (2008, October 4: 70-72). The illustration accompanying the article deployed an industrial metaphor to convey the idea that the system was antiquated since it was constructed of materials that were prone to bursting under pressure. A pipe has ruptured and is spilling dollars and oozing a gooey liquid while a fat bespeckled man dressed in a pin-

striped suit holds a wrench and plunger. The article explains that the money markets are the "plumbing" of the financial system (p.70).



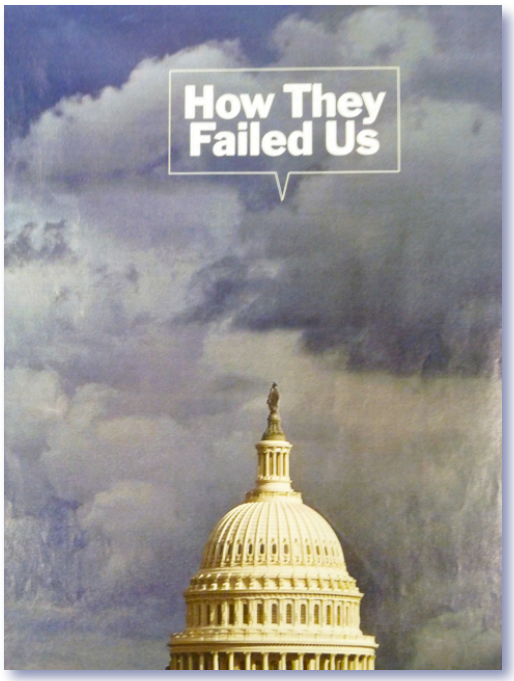
This edition of the *Economist* also downplayed the US monetary authorities decision to let Lehman Brothers fail in an article entitled, "The price of failure" (2008: 78). The intention was to obscure the American financial officials' subsequent decision to switch from an 'ad hoc rescue' approach to a systemic bailout by making it appear as though the escalation in financial turmoil was unintended. The writer argued that "officials felt an example needed to be made so as to combat "moral hazard" " This term was defined as "the risk that banks will act recklessly if they know they will be bailed out when their bets sour." The illustration accompanying the article depicted Henry Paulson as a singed "financial official." With a regretful expression, he makes a sideways glance at a smoking building, upon which the name is written: "Lehman Brothers." This image worked with the articles' opening:

> The government must privately rue its hard line toward Lehman. Confronted by blaze after blaze in recent weeks, America's financial firemen have rushed to douse the flames – with one exception. Unable to persuade any rival to take on a battered Lehman Brothers, the government was left with a hard choice: spray the investment bank with public money or let it burn. In choosing destruction, the government has provided a painful lesson in the dangers of doing the right thing at the wrong time. (The price of failure 2008, October 4: 78)

Like the pyrological metaphors that were used across the media to downplay the cluster of events in the week that Lehman Brothers collapsed, the pyrological metaphor used in "The price of failure" conveyed the idea that the "bail-out policy" had been "haphazard."

The Economist's regular 'Buttonwood' column entitled "Weaken the sinews: Why it is risky to speak so plainly of impending doom" in its October 4 edition criticised the appeal to fear that had occurred in America since the collapse of Lehman Brothers (2008: 76). The accompanying cartoon, depicting a caricature of George W. Bush pressing the 'panic button,' referenced the president's 'Present the Peril Live' ritual. But, while the column acknowlegded this event and that Bernanke's appeal to the spectre of a recession (if Congress failed to pass the bailout bill) was part of a "strategy," it did not admonish for the manipulation as such. Rather, the writer of the article took the view that it was not the role of politicians to undermine the confidence which underpins economic activity. Apparently, this was "the media's job." But because the writer finished the article on this point, *The Economist* was off the hook to explain *why exactly* the media had the role of "spreading despondency."

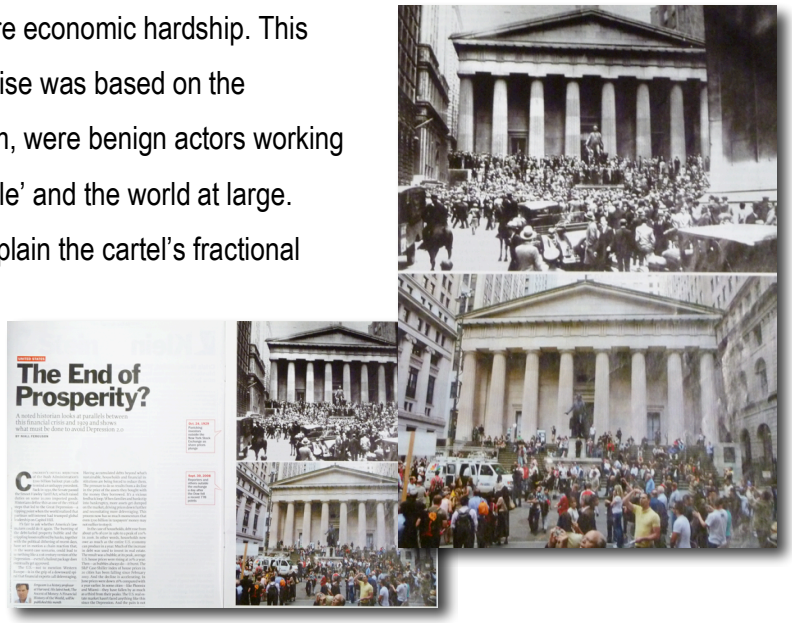
In the October 13 issue of *Time*, in the article entitled "How they failed us" the blame was squarely directed at Congress (Grunwald 2008: 26). The title was arranged as a rectangular shaped speech bubble placed in the sky above the dome of the Capitol building – home to both Houses of Congress. The surface meaning of the imagery was that public trust had been broken, which was the essence of Grunwald's ranting exposition. This breach of trust had resulted from successive White House appeals to the public, most notably the alleged need to invade Iraq. In this context, the bailout was framed as regrettable, but necessary and the vote-down by 'rank and file' politicians encapsulated the breach of trust felt by the public. However, the speech bubble saying, "How they failed us" that emanated from the Statue of Freedom was ironic since it was perched there in 1863 during the Civil War; ostensibly a war fought to free slaves (Achbar, Abbott & Bakan 2005; Brown 2008; Griffin 2008; Still 2009; Walton 2005). One of the oligarchic-mass settlements following the Civil War – the 14th Amendment to the Constitution – provided the framework upon which the Federal Reserve would later offload its debts to American taxpayers during the Great Depression (after the passing of House Joint Resolution 192 in 1933), as mentioned earlier in chapter five (Brobst 2003; 2010; Brobst & Beddoe 1991).



These visual framing elements supported the purpose of Grunwald's article, which was to project animosity toward members of Congress, and the Treasury secretary. Grunwald argued the president and US Treasury secretary had done a "lousy job … selling their plan" and had "failed to brand it as an economic recovery plan instead of a bailout." Paulson was also blameworthy in the reporter's eyes for having failed to produce evidence to support the case for a bailout (Ferguson 2010; Johnson & Kwak 2010; Williams 2008). Instead, Grunwald brazenly wrote that the Dow Jones Industrial Average worked as a superior lobbyist when it dropped 778 points the day the bailout bill was rejected. This effectively conflated the idea of political voting with 'market' voting. In doing so, the reporter abdicated his journalistic responsibility to investigate the decisions of the Federal Reserve, the US Treasury and their collusive connections with Wall Street.

Time's October 13 feature article, "The end of prosperity?" explored comparisons between the Great Depression and the financial crisis as of late September 2008 (Ferguson 2008: 20). This issue of *Time* magazine went to press between the House's rejection of the bailout bill and the Senate's passing of it; and featured a picture taken outside the New York Stock Exchange on September 30 (The end of prosperity? 2008, October 13: 20-21). Because the writer of the article – monetary historian Niall

Ferguson – failed to conceptualize the American oligarchy that had maintained control of the Federal Reserve since its establishment, the US central bank was positioned as a 'Saviour' in harsh times. Consequently, the archetypal shepherd role of its chairman was also implied by way of reference to his expertise on the subject of the Great Depression. This suggested that he had knowledge on how to not repeat the 'mistakes' that lead to severe economic hardship. This common referent to Bernanke's expertise was based on the assumption that he, and others like him, were benign actors working with the interest of 'the American people' and the world at large. Crucially, Ferguson's article did not explain the cartel's fractional reserve banking system, nor the impact of the 14th Amendment. Therefore, the nexus between the private creation of credit and the public obligation to carry the Federal Reserve's debt load was omitted.



A *BusinessWee*k column entitled "After the binge, who should suffer?" argued that the root cause of the crisis was the level of debt the US owed to foreign creditors (Mandel 2008, October 13: 32). Accompanying the article was an illustration of a fat, fallen Uncle Sam snowman lying on an icy-cold landscape, which was a motif that played on the 'financial ice-age' theme. This column, written by Michael Mandel, claimed that "much of the money" was "used" by American financial firms "for mortgage loans." Of course, this vague description maintained the deception that banks and deposit-taking financial firms 'lend' the money of savers and investors (rather than construct large loan pyramids upon relatively tiny bases of capital).

The writer also obscured the cause of the crisis by blaming the victims when he stated, "American families took a lot more debt than they could comfortably afford." Since the value of mortgage-backed securities was so deflated, and American households would struggle to meet all of their debt, Mandel presented a solution. This solution was a "shared sacrifice" between "borrowers, taxpayers and foreign investors." He added that it was "unseemly for the richest country in the world not to pay some of its debts." The columnist failed to explain the discrepancy between the view that America was the richest country on the planet, and the

fact that its families had over borrowed. Their need to borrow suggested that America was poor. Evidently, the private debts and debt securities of America's financial institutions owed to a foreign investment class was everyone's problem. In turn, blaming America's middle and working class for taking on too much debt legitimized the financial oligarchy's control of the debt-based financial system.

These fear-ridden, simplistic and disjointed pictures indicate a metapicture wherein the boom-bust-bailout formula is standard operating procedure. Implicit to this formula is the transferrance of private debt to the mass population through coercive confiscation of wealth or tax, and losses endured by ordinary investors, workers and 'borrowers.' Also implicit is the superiority of those conferred with the privilege to create private credit, derivatives and laws through systemic regulatory capture.

Appendix VII: Notes and Commentary

Chapter 1

[1] These figures are a cumulative sum that includes short-term debt frequently rolled-over. The commonplace acronym for the United States Government Accountability Office – GAO – will be used interchangeably with the Government Accountability Office.

[2] The systemic financial crisis of 2007-2011 has caused major economic hardship for hundreds of millions of people around the world. In the 18-month period from August 2007 to March 2009, $50 trillion in 'global wealth' was said to have 'vanished' (Adam 2009, Loser 2009: 7). Those losses included a $10 trillion collapse in US stocks and a $6 trillion drop in US house market values. But there was also the erasure of household sector investment, retirement plans, worker savings and state welfare schemes that came to $15 trillion (Prins 2009; Wilmarth 2009). Globally, by 2010, as a result of the downturn social unrest (including food riots) occurred in 25 or more countries, with around 30 million people having been thrown into unemployment, according to conservative figures from the United Nations' International Labour Office (ILO) (Food crisis: The facts, 2008; ILO 2010: 3; Kollewe 2010; Vidal 2011). The continued and deepening economic hardship, exacerbated by state imposed 'austerity measures' worldwide on behalf of unidentified 'creditors' or 'bondholders,' led to the emergence of the Occupy Movement, on September 17 2011 (Chossudovsky 2010a: 46; DeGraw 2012).

The Occupy Movement started with an occupation of Zuccotti Park in the Wall Street financial district of Lower Manhattan by a small group called OccupyWallStreet (Adbusters#OccupyWallStreet, n.d.). The Occupy Movement grew within a month into a global phenomenon as people around the world set-up encampments in over 1500 towns and cities (Meetup.com, n.d). The occupations of public spaces were actions of 'civil disobedience' by people who sought to express their frustrations, needs, rights and aspirations concerning an ongoing financial crisis that actually belied a crisis of economic and political power that the major news media outlets were not systematically investigating (Ogilvie, n.d; Grounded Television Network, n.d.a,b).

[3] 'Free market' economic policies are characterized by applying so-called 'market efficiency' across whole countries and are typically endorsed as a strategy to reinvigorate economies with sound finance (Nitzan & Bichler 2006).

[4] In chapter five, abbreviations of the newspapers and some other publications are used with the in-text references (and the accompanying footnotes and commentary) to indicate which news outlets have been sourced. These abbreviations are as follows: *The Wall Street Journal* (*WSJ*), *The New York Times* (*NYT*), *The Washington Post* (*WP*), the *Financial Times* (*FT*), *The Times* (*T*) and *The Guardian Weekly* (*GW*). Additionally, *Bloomberg* (*B*), *MarketWatch* (*MW*), *The New York Post* (*NYP*) and *Vanity Fair* (*VF*) appear elsewhere.

Chapter 2

[5] During a financial crisis the functioning of the financial system breaks down and financial markets work poorly, if they operate at all. The so-called 'real economy' or production and services in other industries become adversely affected. Systemic financial crises can result from busts that follow boom periods in property and share markets. Sovereign and private credit expansion may suddenly contract and over-inflated currencies may collapse (Felsenheimer & Gisdakis 2008). An economic crisis here means a serious downturn in production due to a massive sudden departure from market stability or a boom period. Such a downturn may trail a financial crisis and will always follow a banking crisis (Calomiris 2009).

[6] Mancur Olson described in *The Logic of Collective Action* that super-wealthy interest groups use their influence to benefit disproportionately from regulatory capture or the control of governments (Olson 1971 as cited in Johnson & Kwak 2010: 138-139; Buiter 2008b: 36).

[7] An important form of symbolic power exploited by wealthy individuals is philanthropy. Oligarchs use philanthropic projects, such as foundational grants, to create for themselves positive public images which will deflect attention from wrongdoing and wealth gained by exploitation. Not surprisingly, buy-in to the donors' ideology or worldview is a prerequisite for receiving project grants from foundations and trusts. The foundations and trusts of the wealthy are also an important mechanism for limiting tax exposure, maintaining control of formidable corporate hierarchies through genealogical lines and for power projection over the fields of science, education, arts and social development (Lundberg 1968: 384-385; Wormser 1958). Indeed, Ferdinand Lundberg (1968) observed in his seminal book *The Rich and Super-rich*, that the print media deployed "a variant of 'Orwellian Newspeak' " to promote an idea that "wealth means philanthropy"[7] (p.382). The term 'Orwellian Newspeak' refers to George Orwell's dystopian novel *Nineteen Eighty-four*. The wealthy, Lundberg observed, were readily described in the press "as philanthropists" (p.382). Lundberg argued that "[b]y American propagandic decree the wealthy man has thus transmogrified into the quintessential cream of humanity."

[8] Such an arrangement merges the oligarchic power interests with the aspirations of the largely property-less masses, as in the construction of the democratic political systems following the English, American and French revolutions, wherein the

majority were persuaded through the ruse of universal suffrage to settle for less and accept the key conditions of the oligarchs (Achbar 1994; Winters & Page 2009).

[9] Jeffrey Winters (2011) identifies three other forms of oligarchy. These are: warring, such as those of medieval Europe, ruling, such as those of classical Rome and Athens; and sultanistic, such as Indonesia under Suharto.

[10] As Ellen Brown stated in *The Web of Debt*, the Rich List's produced by publications such as *Forbes* do not accurately reflect the financial claims of the rich and super-rich (Brown 2008: 280).

[11] Investable assets do not include "primary residence, collectibles, consumables, and consumer durables" (Capgemini & Merrill Lynch Wealth Management 2011: 4). After two and a half decades of restructuring the American political-economy according to neo-liberal strictures an income pyramid emerged that became longer and thinner at the top. In 2006, half the population had an income that was less than $30,000, while the wealthiest half-percent averaged reported earnings of $26.5 million ("America by the numbers", 2006).

[12] The 12 Reserve Banks each have a nine-member board and they are divided into three classes. Each class is composed of banks with similar capitalization or size (Board of Governors of the Federal Reserve System 2008: 374; Deloitte & Touche 2009: 4).

[13] In his book *Oligarchy*, Winters does not define conspiracy. His case studies of civil oligarchies, the United States and Singapore, do not test for conspiratorial mechanisms.

[14] Henry Kissinger is widely regarded as being a key player behind the CIA-backed coup that instilled the dictator Augusto Pinochet, which enabled Milton Friedman's 'Chicago Boys' to implement 'free market' policies (Chomsky 2006: 112 en 20).

[15] During a secret conference held in Geneva in 1967, the executives of some the world's leading corporations such as the Chase Manhatten Bank, American Express, General Motors, ICI, British American Tobacco, Daimler-Benz A.G., Heinz and Siemens covened to work out with Indonesian officials how to restructure the economy for their benefit. Absent from the agenda of the innocuously sounding Indonesian Investment Conference was the CIA-backed military coup (Pilger & Lowry, 2001; Pilger, 2002).

[16] Anglo-American dominance over the world was gained at the end of World War II. Crucial to this dominance was securing control over petroleum and finance, which was formally established in 1944 at the Bretton Woods Conference in New Hampshire. The Bretton Woods agreement, which gave superior voting control to the United States and Britain over monetary and trade decisions, depended on: the International Monetary Fund (IMF), the World Bank and a General Agreement on Tariffs and Trade (GATT). The IMF would supply emergency funds for member countries in crisis; the World Bank was to make loans for infrastructure projects to governments; and GATTs was a program for 'free trade,' which was eventually institutionalized as the World Trade Organization in 1995 (Editorial 2000: 3-5; Engdahl 2004: 87, 120-126; 2009: 258-272; Lambie 2009: 158). The post-World War II plan had been carefully formulated between the US State Department and a CFR War & Peace Study Group, initiated with Rockefeller funding in late 1939 (Chomsky 1986: 11; Engdahl 2009: 136-162, 166-167, 184-186, 215).

In the late 1960s, Anglo-American dominance over petroleum and finance came under threat. The system used the United States dollar as a currency for global trade 'backed' by a gold standard regime, which maintained the US dollar's convertability at a rate of $35 dollars for an ounce of gold. Dick Bryan and Michael Rafferty (2006) note that the gold-backing was symbolic and that the real backing of the world's financial system was America's economy and its power as a major state (p.113). By removing gold as a stable standard, in 1971, against which commodity and currency values had been measured, commodities once again entered the 'casino circuit' for speculation (Strange 1997; Engdahl 2004; Bryan & Rafferty 2007; Chossudovsky 2010). American dollars in the international arena became a fully fiat currency, which is paper money with no precious metal backing (Engdahl 2004; Griffin 2008). With the decoupling of the US dollar from gold reserves, former chairman of the Federal Reserve Alan Greenspan explained, central banks gained the ability to manufacture and obliterate "unlimited supplies of money and credit" (Greenspan 1998: 247 as cited in Allen 1999: 87).

[17] While 'free market' economic prosperity was promoted, under the surface a strategy known as *new constitutionalism* was pursued by dominant capitalist coalitions that would make the neoliberal transformations permanent. This strategy featured "strong states, expanded markets and limited democracy" and the purpose was to preference the property rights of corporate capital and large investors (Citing Cox 1992; Gill 1998 as cited in Winseck 2000: 22). Through the construction of a global political economy, 'new constitutionalism' enshrines the fluidity of capital, and positions the investor as a sovereign legal person (Gill, 1998). The logic to the processes of 'new constitutionalism' can be interpreted by where they take place – within supranational institutions. As the term implies, supranational institutions operate beyond the reach of nation states, and are policy-setting bodies for the world's governments. As such, supranational institutions are designed to work out coercive strategies to gain nation-state cooperation and to reduce the capacity of democratic politics to be accountable to national publics (Gruber 2000; Wilson 2009; 2011). There are numerous supranational institutions including: the International Chamber of Commerce (1919), the Bilderberg Foundation (1952), the World Economic Forum (1971), the Trilateral Commission (1973), and World Business Council for Sustainable Development (1995) (Carroll & Carson 2003; Estulin 2009).

[18] These oil price shocks, which were orchestrated by the Rockefeller's Standard Oil cartel and Henry Kissinger (in collusion with the Bilderberger Foundation), set off an inflationary period. Mohammad Reza Pahlavi, better known as the Shah of Iran, was induced to buy US-made weaponry, but he lacked the cash. The Rockefeller-Kissinger-Bilderberger nexus worked out that they needed a trigger event that would work as a cover for the Shah of Iran to hike oil prices so that he could afford his military spending. Kissinger, with the assistance of 'back channels' in London, orchestrated the Yom Kippur War of 1973 by deceiving the Egyptians, Syrians and Israeli's about each other's agendas. The ensuing oil embargoes meant that countries were forced to pay 400% more for petroleum, which was traded in US dollars, amid the reduced supply of oil. In turn, this meant that Wall Street banks, especially Rockefeller's Chase Manhattan Bank made enormous profits. The Chase Manhattan Bank was the Iranian government's bank, as well as the bank of the National Iranian Oil Company and also the Shah's family bank (Engdahl 2004: 127-141; 2009: 265-272). Thus, the world was subjected to a far-reaching shock treatment that served the Anglo-American oligarchy's interests. Another heresy of Nixon's was that he had also publicly disapproved of the GATT 'free trade' agreement that was so central to Anglo-American dominance (see fn 15). Nixon's public statements evidently incensed David Rockefeller (Estulin 2009: 60).

[19] Nixon's declaration of a 'war on drugs' in 1971 resulted in a joint operation with French Police that intercepted trucks bearing a European Economic Community marker, the Triangle Internationale Routier (TIR). This marker exempted the trucks from customs inspection, thus enabling drug trafficking of heroin throughout Europe from opium refining factories along the French coastline (Coleman 2006a: 113-118;, 69-79, 391). As Michael Ruppert argues in *Crossing the Rubicon: The Decline of the American Empire at the End of the Age of Oil*, the drug trade is a vital source of income for CIA Black Operations (2004). These covert operations are vital to undermining democratic systems which are not subservient to the North Atlantic capitalist class. A former British intelligence officer, John Coleman (2006a), asserts that the drug trade is a major source of illicit income for the Anglo-American oligarchy.

[20] In his book, *The True Story of the Bilderberg Group*, Daniel Estulin summarizes the detective work of John Coleman, who argued his book *The Conspirator's Hierarchy: The Committee of 300*, that the Watergate plot was directed from the Royal Institute of International Affairs (2006a: 148, 196-205). The plotters worked to ensare Nixon in the Republican's attempted break-in to the Democrat's election campaign headquarters at the Watergate office complex (Coleman 2006a: 148, Estulin 2009: 55-60). Coleman also revealed that the Democratic National Convention's legal counsel, Joseph Califano, had accessed information from transcripts of wiretapped conversations between the president and his re-election committee. Califano, who was also a CIA asset and a member of Queen Elizabeth's Round Table, was privy to the secret wiretapping of president Nixon *prior to* the Watergate break-in (Estulin 2009: 57; Prouty 2008: 13). The movie *All the President's Men*, which depicted the story of the 'Watergate Scandal' by following the investigative efforts of two *Washington Post* reporters into the 'bungled' Watergate break-in, provided a glimpse of the deeper role played by the newspaper. In one news-meeting scene, one of the editors asked why the *Washington Post* was the only national newspaper continuing to cover the break-in story (Evans 1998: 568; Pakula, Goldman, Boorstin, Coblenz & Redford 1976). According to Coleman, it was the newspaper's owner and chairwoman of the executive committee, Katherine Graham, a CFR member, who ensured that the two reporters, Bob Woodward and Carl Berstein, stayed on the story. The newspapers' role was to keep revealing information in order to develop a narrative that would unseat the president (Coleman 2006a: 199). Evidently, the conspiracy exploited the psychological control techniques of the London-based Tavistock Institute of Human Relations, which was originally set up in 1913 to manipulate the Britons to support the British Round Table Groups' plans to make war with Germany (Coleman 2006a; Quigley 1996). According to Coleman, the Tavistock Institute's secret manuals provide instruction on how to isolate intended targets by betrayals, alternating between discipline and promises, and making inconsistent statements to the news media that together cause confusion, paralysis and loss of legitimacy (Coleman 2006a: 202). Coleman claims it was general Haig that was Woodward's secret 'Deep Throat' source, and not former associate FBI director Mark Felt (p. 148). Others argue that 'Deep Throat' was a composite of characters (Scott 2007: 48-49).

[21] David Rockefeller's older brother, Nelson, had spent part of World War II creating and maintaining Nazi-friendly business and political networks in Latin America, which were essential to covert routes and mechanisms to supply Nazi Germany with Standard Oil petroleum, patented technology and other information (Engdahl 2009: 161-162; Highham 1983: 39-40).

[22] This objective was really a reassertion of an older plan, albeit in a more comprehensive form, as described by historian Carroll Quigley in his book *Tragedy and Hope: A History of the World in Our Time*. Quigley argued that international bankers had devised a cartel system of central banks so that wealthy individuals could control the world's governments by financial means (1966: 324).

[23] Derivative financial contracts are also used by institutional investors as a form of insurance against price fluctuations and as a means to speculate for higher returns on the price and index changes of the underlying assets or debt instruments (Bryan & Rafferty 2006, 2007). For a relatively low capital out-lay a large exposure to risk can be achieved and therefore a speculator can leverage their capital to potentially achieve a higher return on their bet (or 'hedge' their exposure to future price drops) (Bryan et al. 2009; Tett 2010).

[24] In their book *Capitalism with Derivatives*, Bryan and Rafferty outline a predicament that nation states face, known as the 'policy trilemma.' In this scenario, governments cannot simultaneously pursue the following three broad policy agendas: (1) sustain the wealth that accrues to the workforce; (2) facilitate vast international movements of capital; and (3) manage

exchange rate stability. At most, only two of these three 'policies' can be maintained (Bryan & Rafferty 2006: 106-107). The Anglo-American political elites of the time succumbed to the will of bankers by prioritizing high international capital mobility. Once capital controls were lifted 'haphazardly,' exchange rate volatility became increasingly frequent around the world throughout the 1970s as a result of speculative attacks on currencies (p.118-119). Consequently, labour was used as the 'swing mechanism' of the 'policy trilemma' because governments attempted to maintain stable currencies amid high international capital flows. This meant a decline in real incomes for the majority of workers amid higher unemployment.

[25] Game theorists study "the behavior of independent decision-makers whose fortunes are linked in an interplay of collusion, conflict, and compromise" (Shapley & Shubik 1971: 5). In economic game theory, industries that are dominated by oligopolies are modeled in 'cooperative' and 'non-cooperative' games, which refer to whether there is competition or collusion, respectively (Radner 1980; Friedman 1985). This means that game theory models collusive tacit and explicit agreements as 'non-cooperative' behaviour (Ayres 1987: 297. See also fn 10). Whereas, I use Gideon Keren and Werner Raub's definition of 'cooperative' behaviour to describe collusion among cartel members, wherein threats and promises are signalled in moves that are expected to be reciprocated for the cartel to remain stable (Keren & Raub 1993: 430).

[26] The origins of game theory and its appropriation by economists has received little attention in the literature on the financial crisis. Game theory was developed in the 1950s for military strategies in the United States. The most famous is known as the 'Prisoner's Dilemma,' which is based on the premise that humans are inherently selfish and that trust can only be gained through a system that imposed threats and promises (Curtis 2007). Unsurprisingly, the only way to win the game is by betrayal. In the 1990s, game theory was mainstreamed into economics and finance in order to predict the behaviour of rivals and many games had in-built event trigger strategies (Bryan & Rafferty 2006: 163; Curtis 2007). Thus, financial oligarchs and elites found in game theory a mathematical way to express the narrow logic of power, rivalry and their vision for a world defined by financial strategems.

[27] Banking crises have two characteristics: banking panics and insolvency, which have different causes and which cause acute economic problems. Panics happen when the banking system is overwhelmed by abrupt demands en masse to redeem cash deposits as a result of perceptions or realities that banks are in financial trouble (Calomiris 2009; Felsenheimer & Gisdakis 2008). Insolvency occurs when multiple banks fail because they cannot meet their debt obligations.

[28] Junk bonds are high risk, high yielding corporate issued certificates that pay dividends in fixed intervals and on maturity the principle amount is repaid to the holder of the corporate bonds. They proliferated as a source of finance for non-financial firms to finance projects, but mostly as a means to fund corporate take-overs (Augar 2005).

[29] The world debt crisis was also potentially a crisis for major US banks, had the 'developing world' formed a counter-coalition (Klein 2007). At the end of 1982, the loan exposure to all developing countries by nine major US banks was at 287.7% of their stock market capital value. The loans to Latin America made by the nine major banks came to 176.5% of their stock market capital value for 1982 (Allen 1999: 121).

[30] 'Structural adjustments' were a euphemism for 'shock treatment' policies, wherein countries were pressured to implement the 'free-market' economic model, such as privatization of state-owned infrastructure, in exchange for emergency IMF loans and World Bank debt rescheduling. Inevitably, the structural adjustments 'failed' to generate enough tax revenue to service the loans and 'austerity programmes' were proscribed. These measures involved cuts to social programmes such as education, health and public housing, which were viewed as a misallocation of resources because they did not service debt and generate exports (Rowbotham 1998: 135).

[31] Before the launch of the Big Bang, 49 companies including conglomerates from the US, Europe and Asia signed up to be brokers.

[32] At the time, the October 1987 stock market crash included the largest one-day drop in stock market values in US history (Mishkin & White 2003 as cited in Hunter et al. 2003). The Dow Jones stock index fell 22.6 percent on October 19 or 'Black Monday'. The S&P 500 measured drops of 12.1 percent in October and 12.5 in November (Mishkin & White 2003).

[33] According to former stock trader Stephen Zarlenga, "[s]ome of the biggest firms in Wall Street … had to unplug or cut the wiring to computers" ("The 1987 crash" 2009; Zarlenga as cited in Engdahl 2009: 309).

[34] The strategy to undermine the ruble economic zone depended on gaining buy-in from local elites, who would cooperate to transform the peripheral communist states, by implementing separate central banking systems, new currencies and other IMF 'shock treatments' (Chossudovsky 2003: 247). Between 1990 and 1992, several former Eastern Bloc countries experienced either systemic banking or currency crises, or both: Georgia (1991, 1992); Hungary (1991); Estonia (1992); Latvia (1992); Lithuania (1992); Bosnia and Herzegovina (1992); Slovenia (1992), Poland (1992), Romania (1990), Russia (1992) (Chossudovksy 2003; Laevan & Valencia 2008; Klein 2007). Conspicuously missing from the IMF's survey in 2008 of financial crises from 1970 to 2007 was the Russian currency crisis of 1992 (Laevan & Valencia 2008).

[35] In 1991, Chemical Bank acquired Manufacturers Hanover Trust Company, a bank that was the result of a merger in the 1920s orchestrated by Harris Forbes Chase, a rival banking magnate to J.P. Morgan (Chernow 1991). With interstate banks

laws loosened, regional banks acquired branch banks to create nationwide holding companies (Johnson & Kwak 2010: 84). First Chicago merged with National Bank of Detroit in 1995, Chemical and Chase Manhattan merged in 1996, and Bank One merged with First Chicago in 1998 (p.85).

[36] European banks that merged with American investment banks were: Swiss Bank Corporation (which became part of UBS) who bought Dillon Read in 1997; Credit Suisse, which acquired First Boston in 1998; and Deutsche Bank, which bought Bankers Trust, also in 1998. In Europe and the United Kingdom, there were almost 1800 bank mergers between 1990 and 2001. In the United Kingdom between 1992 and 1999, HSBC merged with Midland, Lloyds with TSB and Royal Bank of Scotland with National Westminster (Wilmarth 2009). Two large Swiss banks merged to form UBS in 1998. The four largest French banks merged to become binary giants; BNP-Paribas in 2000, and Credit Agricole-Credit Lyonnnais, in 2003.

[37] For the same year, the Federal Reserve estimated that the magnitude of digital money moving through US payments systems was $544 trillion (Allen 1999: 7, 57). High velocity digitized currency flows had become mostly 'stateless' meaning that the electronic transactions were largely beyond the control of national regulatory authorities, who in any many respects no longer influenced foreign ownership of assets and foreign investment (Allen 1999; Fane 2000).

[38] In 1996, others joined in, such as investment bank Bear Stearns who began packaging 'emerging market' bonds from Latin America, Asia and Eastern Europe as part of a global wave in the deployment of collateralized debt obligations or CDOs (Prins 2009). Consequently, the Asian financial crisis, originally called the 'Asian Flu,' was renamed the 'Asian Contagion' as the spill-over effects spread to Latin America and Russia (Klein 2007: 264). China, which was the only Asian country to come out of the crisis unscathed, had kept its 'capital controls' in place. The IMF insisted that Asian countries had to remove trade and investment protections, privatize utilities and infrastructure, casualize work contracts, reduce social services, and allow 'free trade' in exchange for new loans (Klein 2007). In the aftermath, Western transnationals and banks acquired the weakened Asian firms.

[39] Robert Wade, Frank Veneroso and Peter Gowan (1998) used the term Wall Street-Treasury-IMF Complex when discussing the Asian financial crisis of 1997-1998. Jagdish Bhagwati used the term, the Wall Street-Treasury Complex in 1998 as well (Bhagwati 1998).

[40] According to Michel Chossudovsky, Lawrence Summers was mentored by David Rockefeller (Chossudovsky 2010: 40). Chossudovsky asserts that Citigroup and JPMorgan Chase are "entwined through intermarriage between the Rockefeller and Stillman families (p.10). In effect, these mergers represented a recombination of older oligarchic dynasties centred around the orbits of the Rockefeller and Morgan empires, that had once fought for supremacy, amid the rising power of new entrants to the financial oligarchy (Rochester 1936: 72-73). After playing an instrumental part in steering the Financial Services Modernization Act through the legislative process, thus legalizing the Citicorp-Travellers merger, Summers left his Treasury post to become president of Harvard University (Chossudovsky 2010: 40; Ferguson 2011).

[41] Hedge funds in the United States are unregulated firms that pursue aggressive investment and speculative trading strategies by exploiting a vast array of financial instruments across the spectrum of institutions and trading exchanges both domestically and internationally (Investopedia n.d.).

[42] Being a hedge fund, its core speculative strategy was to profit off price volatility. This is known as arbitrage trading which means exploiting price differences between similar assets (Thompson 2003: 35).

[43] As rumours flew about exposures to Long Term Capital Management, a 'flight to quality' by LTCM's clients also occurred (Sorkin 2009: 301). Major clients forced the company to pay them more by betting against the fund and this depleted the firm of more collateral (MacKenzie 2004: 19-24). In short, the hedge fund fell victim to the game it played.

[44] Famously, Bear Stearns turned down the Federal Reserve initiative and Lehman Brothers' CEO Dick Fuld only posted $100 million in capital, despite the other members of the cartel deeming that Lehman's share ought to be $250 million (Burrough 2008; Ferguson & Johnson 2009; Sorkin 2009: 341).

[45] The passing of the Financial Services Modernization Act of 1999 also legalized a pre-existing acquisition by NationsBank of Bank of America (Chossudovsky 2010: 38; Johnson & Kwak 2010: 85). However, the US monetary authorities forced Bank of America to sell 13 branches in New Mexico, evidently to address competition concerns regarding market share (Bank of America n.d.: 5). By 1999, the United States' ten biggest bank holding companies' portion of all US bank sector assets grew to 45 percent, up 19 percent from 1990 (Johnson & Kwak 2010: 85-86).

[46] Now free to augment a truly global bank, a merger between JP Morgan and the David Rockefeller-controlled Chase Manhattan Bank followed in 2000 (announced September 13), to form JPMorgan Chase (Chossudovsky 2010: 45; Johnson & Kwak 2010: 85; Tett 2010: 94).

[47] In this regard, the trade in over-the-counter derivatives (OTCs) grew exponentially from $7 trillion in 1989 to $88 trillion in 1999 (Wilmarth 2009: 992).

[48] Ironically, mortgage-backed securities raised the cost for borrowers, since more parties were attempting to earn a return off the securitized assets (Johnson & Kwak 2010; Bryan et al. 2009). The mass manufacture of financial products were packaged together and distributed by brokers, agents and traders to 'investors', with little financial analysis and therefore minimal transaction costs (Johnson & Kwak 2010; Prins 2009).

[49] This enforced competitveness occurs through 'free trade' policies, in which countries are organized into servicing the global production chains of transnational corporations. It involves a 'leader-follower country' mechanism wherein capital will move from a 'leader country' to a 'follower country' when labour becomes organized enough to make demands regarding pay, work conditions and environmental concerns (Achbar, Abbott & Bakan, 2005; de Angelis, 2001). This mechanism is inherently a disciplinary one since a withdrawal of the means of subsistence wages threatens survival. Thus, emerged a geographical diversification of corporate operations across the globe into a world system now commonly recognized as global capitalism (Robinson 2004).

[50] By 2000, US household mortgage debt reached $4.9 trillion, up from $2.7 trillion in 1991 when the global credit boom began (Wilmarth 2009: 1009, fn 210). In the UK, the ratio of household mortgage debt to income was around 95 percent in 1991 and this rose to approximately 100 percent by the start of 2001 (Bank of England 2008a: 48-49. See also Chart 3.12).

[51] The so-called 'financial globalization' of capitalism saw the ratio of foreign held assets to world GDP grow from 25% in 1980 to 50% in 1990 to over 90% in 2000 (Nitzan & Bichler 2006). The aggregate size of US commercial banks and securities firms assets and their securitizations was 55 percent of GDP in 1980 and 95 percent of GDP in 2000 (Johnson & Kwak 2010: 85).

[52] 13 major banks were implicated in the wrongdoing at both Enron and WorldCom (Wilmarth 2009: 1001). These banks were: Bank of America, Barclays, Bear Stearns, Citigroup, Credit Suisse, Deutsche, Goldman Sachs, JPMorgan Chase, Lehman Brothers, Merrill Lynch, Morgan Stanley, Royal Bank of Scotland and UBS (Federal Reserve Bank of New York 2008a; Wilmarth 2009: 968, 978, 980, 990, 994; 999-1001). BNP Paribas, Societe Generale, HSBC were implicated in one of the scandals.

[53] Tax evasion is considered a form of fraud because it deprives a party or jurisdiction of their material wealth, in ways that are illegal in most countries (Murphy 2008: 3-4).

[54] Offshore financial centre communities are populated by: accountants, lawyers, bankers, trust companies, private banks, and financial agents, who limit their clients' exposure to tax and other economic costs to businesses. Since economic unity is what defines a transnational enterprise, it can exploit jurisdictions by nominating one of its companies domiciled in a favourable tax haven to be at the zenith of its hierarchy (Dharmapala & Hines 2006). This is known as "jurisdiction shopping" wherein legal entities competitively browse for the regulatory packages that suit them and is, in effect, a "commercialization of sovereignty" (Palan 2002: 172).

[55] As tax-secrecy havens form part of a global digital finance network, they provide financial oligarchs and their incorporated legal persons with the capacity to make capital markets more volatile. By harnessing the power of high velocity money, tax havens are integral to the speeding up of the financial oligarchs' transformative processes. These secretive jurisdictional systems enable wealthy investors to collectively achieve an asymmetry of wealth and debt distribution by facilitating the creation of vast transnational enterprises, including banking conglomerates (Palin et al. 2010; Shaxson 2011). Some studies suggest that more than half of the world's money circulates through them (Murphy 2008: 116; Palan 2002; Palin, Murphy & Chavagneux 2010: 19-21; Shaxson 2011). However, when one considers that the United States, the United Kingdom and numerous European States are themselves tax-secrecy systems, this figure appears too low.

[56] The apex of this system is the 'central bank of central banks', the Bank for International Settlements, headquartered in Basel, Switzerland (Quigley 1966: 324).

[57] Commercial paper are yield-bearing corporate bonds, which are used by financial and non-financial firms to fund their operations and to generate investment returns (GAO 2011: 192). They are traded in what is termed a 'repo-market' which constantly recycles these corporate securities or IOUs (Tett 2010: 254).

[58] Despite the growing signs of danger, the authors of the International Monetary Fund's 2005 "Global Financial Stability Report" enthused, "This dispersion of risk has made the financial system more resilient, not the least because the household sector is acting more as a "shock absorber of last resort" " (IMF 2005: 5, 89). The "New Financial Architecture" (NFA) means the innovations in financial technologies, oversight and institutional capacities. The NFA was promoted with the core neoliberal claim that risk could find its correct price in so-called 'efficient markets.' As such, this architectural metaphor packaged insincere assertions such as transparency, integrity and economic prosperity to trick the public (Khawaja 2009).

[59] Indeed, Peter Gowan (2009) observed that by becoming the major underwriters to all kinds of securities, the global banks created an operational matrix that afforded them access to vast amounts of market-wide real time data. Major commercial banks, were able to join in this speculative arbitrage after the Financial Services Modernization Act lifted restrictions on their activities in 1999 (Wilmarth 2009). Gowan describes three easy steps global banks followed to operationalize what he called

the 'New Wall Street System:' (1) blow a bubble through coordinated entry; (2) speculate in the inflating bubble market to extract super-profits; and (3) exploit information asymmetries to exit early and inflate a new bubble (Gowan 2009: 103). This sudden large leakage of capital produces a delayed reaction as gullible investors realize, slowly at first, that the market has peaked. Panic then ensues as the 'herd' recognize that all the market's proxy signs do not match reality. The 'market herd' do not understand that big players, as market insiders, have cashed-up and migrated to a new bubble.

[60] Having bent the regulatory fabric of the banking universe to their interests, global banks continued to gain mass. By 2006, the four biggest securities firms, Goldman Sachs, Lehman Brothers, Merrill Lynch and Morgan Stanley, had morphed into global bank status (Wilmarth 2009: 978). By acquiring industrial loan companies and savings institutions, they could then make consumer and commercial loans. The newly acquired deposits gave the securities companies a relatively cheap source of funds with which they could leverage in new lending activities, speculative trading and other financial products. Between 2002 and 2006, 350 bank mergers occurred in the European Union (Wilmarth 2009: 976).

[61] In the six-year boom period from the beginning of 2001 until the financial tremors of 2007, Goldman Sachs had packaged and marketed bonds for a value of US $135 billion based on shaky home mortgages (Ferguson 2011; Gordon 2009). From late 2006, Goldman Sachs also sold more than $40 billion worth of securities backed by over 200,000 risky housing mortgage contracts prior to the US housing market collapse and made clandestine bets that the US house price bubble would soon burst. As Wall Street's largest investment bank, its house-mortgage securities included an estimated $83 billion brokered in 148 deals using the Cayman Islands and other tax havens to avoid the US tax regime (Gordon and *McClatchy Newspapers* 2010; 2009). Some of Goldman Sachs credit default swaps trades were made against their own clients' positions and were made with the insurer American International Group (AIG), in order to limit its risk exposure to its own mortgage securities (Ferguson 2011; Gordon 2009; Johnson & Kwak 2010: 169).

[62] Debt of all sectors, including households and government, was 357 percent of US GDP (Mah Hui 2009: 14, Table 3). When US house prices shot-up in 1997, the stock market capitalization of the US finance, insurance and real estate (FIRE) sector was $1 trillion; by 2007, it had risen to $3.7 trillion (Bichler & Nitzan 2009a).

[63] While many of the operators that comprised the predatory lending regime have disappeared, the banks and other financial firms that survived the financial crisis of 2007 and 2008 are still enforcing the loans, making foreclosures and bankrupting people. Furthermore, the shadow banking system is continuing to exploit informational asymmetries, vigorously defending its key components and its key players remain *at-large* despite systemic fraud. Therefore, the shadow banking system is still intact, and underwent more of a *rupture* rather than a demise (Bill Moyers Journal 2010; Jacoby & Kroft 2011).

[64] These shadow bailouts performed two functions, in combination with the more overt attempts to shift the burden of the financial system's debt to the public by guaranteeing the 'toxic assets' of the government sponsored home finance corporations, and of systemically important global banks. First, they signalled to the 'market' that monetary authorities were willing to pay premium values for assets even though they were worth much less (Ferguson & Johnson 2009). Second, they fed the belief that the Wall Street-Washington Complex would not let a market crash happen in the United States. In words and deeds, Paulson created the perception that the US government would save Wall Street, no matter what it took (Ferguson & Johnson 2009b; Sorkin 2009).

[65] The Federal Home Loan Bank System is a large US government sponsored enterprise (GSE) that is comprised of twelve regional banks that together are cooperatively-owned by over 8000 institutions. In other words, it is also a cartel. From July 2007, major American and some foreign owned banks opted to borrow from the lower profile Federal Home Loan Bank System rather than the Federal Reserve System's 'Discount Window,' which is a facility for cheap wholesale credit (Ferguson & Johnson 2009; Ashcraft, Bech & Frame 2009). By the end of 2007, Citigroup had borrowed $102 billion, Washington Mutual $63.9bn, Bank of America $57.2bn, Countrywide $47.7bn, Wachovia $41.9bn, US Bank $7.2bn, Merrill Lynch $11.7bn, Wells Fargo $11.3bn, PNC $8.7bn, and Capital One $6.8bn, from the Federal Home Loan Bank System (Ashcraft et al. 2009: 34).

[66] According to Gillian Tett, news of the European Central Bank's move to provide this extra credit provoked journalists to ask the central bank if there was a crisis, but they gained no conclusive answers because senior officials were on holiday (Tett 2010: 215-16). In the United States, the mortgage crisis had taken its toll on the biggest home lender, Countrywide, when it disclosed on August 15 its exposure to the declining US mortgage market. This announcement precipitated its stock price to plummet 13 per cent before the days' end (Tett 2010: 219). Importantly, Citigroup, Bank of America and JPMorgan Chase gained waivers on August 20 2007 to lift a restriction under Section 23A of the Federal Reserve Act, that prevented banks from lending to their own entities. These three universal banks held three-fifths of the United States' syndicated loan market between 2000 and 2007 (Wilmarth 2009: 983). Synicated loans are the major funding source for corporations. They were also the three leading banks in this market worldwide, which was $3.5 trillion in 2006 (Wilmarth 2009: 982). The limitation was designed to make commercial banks lend to broker-dealers and is especially important during times of 'credit crunches,' such as the one of August 9 2007.

[67] Formally called Public Debt Subject to Limit, it is a 'debt ceiling' which means it is the highest level that the government can borrow up to before it must gain new authorization from Congress. This is federal debt "held by the public" and Intragovernmental Holdings. Debt "held by the public" means "individuals, corporations, state or local governments, foreign

governments, and other entities outside the United States Government less Federal Finance Bank securities" (Treasury Direct (n.d.)). The Bureau of Public Debt explains that "[t]he 'ceiling' is routinely raised" by Congress passing new legislation (Bureau of the Public Debt 2010b).

[68] Under the radar, the Federal Reserve System advanced $30 billion to the European Central Bank and $6 billion to the Swiss National Bank on December 12 2007 (Cecchetti 2008: 13). These advances occurred through a mechanism known as 'swap lines,' which were Federal Reserve dollars advanced to the two European central banks, who loaned the credit to European-based commercial banks (p.15). The rationale for alleviating shortages in dollar reserves was because the central banks, including the Federal Reserve, allegedly lacked the authority to make the 19 primary dealers based in New York extend their reserves to other banks.

[69] On December 17 2007, the Federal Reserve opened its Term Auction Facility (TAF). This allowed depository institutions belonging to the Federal Reserve System to borrow federal credit against collateral. In their "Bailout Tally Report" for October 2011, Nomi Prins and Krisztina Ugrin estimated that the amount of federal credit advanced under this program was $900 billion (p.2). Whereas, a report entitled "Federal Reserve System" by the Government Accountability Office (2011) stated that total loans advanced under this program was $3.818 trillion (p.232). The GAO's figure corresponds with James Felkerson (2011) study entitled "$29,000,000,000,000: A detailed look at the Fed's bailout by funding facility and recipient." According to the GAO, the top 25 borrowers received loans totalling $2.767 trillion. Major banks took out 70 per cent of the program's credit (2011: 231). This program was closed on March 8, 2010.

[70] A credit shock is the rapid expansion in the supply of credit, and is more commonly referred to as a 'credit boom' (Bank of England 2008b: 5). During the "extended global credit boom" of 1991 to 2007 (Bank of England 2008b), US mortgage debt had swollen from $2.7 trillion to $10.5 trillion, with four-fifths occurring after 2000 (Wilmarth 2009: 1009). In the UK, household debt was $483 billion in 1996 (Rowbotham 1998: 22), and that ratio of household debt to national income rose from approximately 100% to over 160% from 2000 to 2007 (Bank of England 2008a: 49). In the United States, the financial sector enjoyed a $13 trillion expansion or a five-fold increase in credit between 1991 and 2007, while the indebtedness of all sectors of US economy to the credit markets rose from $14.1 trillion to $46.9 trillion over the same period (Wilmarth 2009). These patterns reveal increased systemic risk in the US and throughout the world.

[71] Also referred to as broker-dealer conglomerates, the other four Wall Street investment banks from largest to smallest were: Goldman Sachs, Morgan Stanley, Merrill Lynch and Lehman Brothers. This run on the investment banks occurred in order of smallest to largest, and therefore started with Bear Stearns. The investment banks earned large fees from brokering investments, including mergers and acquisitions, and were among 19 primary dealers of Treasury bonds and securities and were major dealers in derivatives (Acharya et al. 2009; Augar 2005; Ferguson 2011; Wilmarth 2009).

[72] A week later, JPMorgan increased the price to $10 per share to appease Bear Stearns' staff who threatened to block the sale with their stockholder voting power (Cohan 2009: 165).

[73] The loan was actually made on March 24, 2008 through a new corporation set up for the purpose called Maiden Lane LLC, registered in the tax haven state of Delaware (Ferguson & Johnson, 2009b). Symbolically, the carpark entrance to the Federal Reserve Bank of New York building is on Maiden Lane (Sorkin 2009: 330).

[74] Twenty-four hours before, Paulson had stated in a conference call with Federal Reserve chairman Ben Bernanke, Federal Reserve Bank of New York president Timothy Geithner, and Securities and Exchange Commission chairman Christopher Cox that they all needed to work on "a LTCM-like solution" (Sorkin 2009: 282). By this, Paulson evidently meant a 'rescue' of Lehman Brothers orchestrated by the US financial authorities, but with funds from the banks.

[75] Merrill Lynch's CEO John Thain agreed with his president Greg Fleming that his company would be next, so he set up a meeting with Ken Lewis, CEO of Bank of America (Sorkin 2009: 309, 323).

[76] According to Tett's account, the UK and US authorities reached an impassé over the guarantee issue. Barclays evidently held on with the assumption that they could get a waiver from the UK's Financial Services Authority (FSA) to bypass a regulation that stipulated shareholder approval (Griffiths 2009, September 12; Tett 2009: 273-274). In the US Government's Financial Crisis Inquiry Commission's report, it was Barclays' president Robert Diamond and its CEO, John Varley, who informed Paulson, Geithner and Securities and Exchange Commission chairman Christopher Cox at 8a.m. Sunday morning that the Financial Services Authority would not authorize the deal (Financial Crisis Inquiry Commission 2011: 335).

[77] Also, on Sunday September 14 the central bank heads and 'policy makers' from the Group of Seven largest world economies held a conference call (Perry & MacDonald, 2008, September 16; Sorkin, 2009). The consensus reached was that should Lehman's file for bankruptcy, the central banks would each "calm its respective market" (Ferguson 2011; Perry & MacDonald 2008, September 16: 19). Thus, a tacit agreement was reached among the G7 financial authorities to pursue generic bailouts.

[78] In an attempt to project positive news amid the imminent bankruptcy of Lehman Brothers, Bank of America (BoFA) announced it had bought Merrill Lynch for $50 billion before the markets opened, but BoFA's share price dropped 21% (Story

2008a, September 15; Prins 2009: 22). This 'sale' of Merrill Lynch to Bank of America did not actually go through until January 1 2009 (Prins, 2009, p. 23). Bank of America required Treasury financing and received $15bn on October 13, $10bn on January 9, and $20bn on January 16 2009. BofA also received federal guarantees to the sum of $118bn on January 16 2009 (Prins and Ugrin 2010, October: 7). Some markets were 'spooked,' because not only were investors being made to absorb losses on Lehman, its forced collapse meant any large complex financial institution was at risk (Council on Foreign Relations 2009; Johnson & Kwak 2010: 163; Tett 2010: 275-278). At 4 PM that day, a major US money market fund, the Primary Reserve Fund, announced that it had taken a loss of $785 million in the wake of Lehman's failure (Tett 2010: 276). The Dow Jones Industrial Average index plummeted 504.48 points, its biggest drop since September 17, 2001 (after New York markets re-opened following the terrorism of September 11 2001). The stock of the transnational insurance conglomerate American International Group (AIG) finished the day at $4.76, having lost 65 percent of its value (Sorkin 2009).

[79] The Depository Trust Company holds securities worth more than $36 trillion in custody (Engdahl 2009: 306).

[80] Johnson and Kwak stated that this quality of collateral argument "only appeared weeks later" (2010: 162). Ironically, Lehman's collateral was good enough *after* bankruptcy, and the loans were made under two collateral agreements struck between Lehman Brothers and its clearing bank, JPMorgan Chase in August and also on September 9 2008 (Ferguson & Johnson 2009; Kary & Seinta 2008; Prins & Urgin 2010).

[81] The seventeen global banks were: Merrill Lynch, Morgan Stanley, Lehman Brothers, Goldman Sachs, Bear Stearns, JPMorgan Chase, Citigroup, Bank of America, Barclays, BNP Paribas, UBS, Deutsche, Credit Suisse, Societe Generale, Credit Agricole, Royal Bank of Scotland and HSBC (Wilmarth 2009: 968, 978, 980, 990, 994; Federal Reserve Bank of New York 2008a). Importantly, American International Group (AIG), America's second largest insurance company was also a major counterparty to derivatives.

[82] The 'central bank of central banks,' the Bank for International Settlements reported that the notional value of over-the-counter (OTC) derivatives was approximately $680 trillion in June 2008 (Bank for International Settlements 2008), but the scale of this threat went virtually unreported in the mass media (Johnson & Kwak 2010; Prins 2009). These are largely fictitious values that make derivatives look more valuable than they really are, coalitions of dominant capitalists use them as leverage to force whole asset classes to perform according to their will (Independent Strategy 2006; Johnson & Kwak 2010) Hence, derivatives used to fuel the boom in values of assets from housing to currencies, to oil and food commodities have served the Anglo-American financial oligarchy's goals gain more profit and power (Brown 2010; Chossudovsky 2010a; Independent Strategy 2006).

[83] This sum of $1.176 billion that Barlcays borrowed from the Federal Reserve's Term Securities Credit Facility was almost $574 million less than the $1.75 billion the British-based financial conglomerate agreed to 'pay' for Lehman's assets on Wednesday September 17 (White & Dash (2008b, September 18).

[84] The government claimed it was going to sell-off the stake at a higher price when the markets recovered, which meant the financial oligarchs had been successful in socializing their bets they had made with the insurer. In this deal, the equity and risk exposure of AIG was to be financed by taxpayers. This meant the American public had become the underwriter of millions of derivatives contracts in one agreement, even though AIG was a private insurer.

[85] According to law scholar Arthur Wilmarth, the top twelve underwriters of residential mortgage-backed securities in 2007 were Goldman Sachs, Morgan Stanley, Merrill Lynch, Lehman Brothers, Bear Stearns, JPMorgan Chase, Bank of America, Citigroup, Credit Suisse, Royal Bank of Scotland, Deutsche Bank and UBS (Wilmarth 2009: 990, fn 100). By June 2008, AIG had insured corporate debt against default to a notional value of $441 billion through derivatives known as credit default swaps (Jacobs 2010: 54). As a result of the tax-funded 'rescue' of AIG, the federal government paid numerous banks: Goldman Sachs ($12.9bn), Merril Lynch ($6.8bn), Bank of America ($5.2bn), Citigroup ($2.3bn), Wachovia ($1.5bn), Barclays ($8.5 bn), UBS ($5bn), and Société Générale and Deutsche Bank received almost $12 billion apiece (Johnson & Kwak 2010: 169; Markose, Giansante, Gatkowski & Shaghaghi 2009: 5, fn 4; Walsh 2009, March 15).

[86] Kevin Fromer stated, "It's just a question of optics," by which he meant the experiential evidence of market turmoil would support the proxy note. Treasury's chief of staff, James Wilkinson advised Paulson that going to Congress "would only work if you scare the shit out of them" (p.442). According to *The Washington Post*, "Bernanke laid out a scenario of financial dissolution so grave that for parts of it he swore his listeners to secrecy" (Weisman, Cho & Kane 2008, October 4: A1).

[87] On July 21 2009 the US Treasury Department opened a guarantee program for money market mutual funds, which guaranteed $3.7387 trillion worth of assets (Prins & Ugrin 2010: 3). This program expired on September 18, 2009 (p.4)

[88] The first three phases of the shadow banking system's rupture were as follows: the collapse of the US home mortgage lenders in the first; the run from the structured investment vehicles (SIVs) in the second; and the run on the investment banks in the third (Acharya et al. 2009: 8).

[89] The top underwriters of corporate stocks and bonds were also the key manufacturers of over-the-counter derivatives, syndicated loans, asset-backed securities and collateralized debt obligations (Wilmarth 2009: 981). The major underwriters

in the syndicated loans market between 2003 and 2006 were JPMorgan Chase, Bank of America, Citigroup, Wachovia, Credit Suisse, Royal Bank of Scotland, Deutsche Bank, Barclays, HSBC, Credit Agricole, Societe Generale and BNP Paribas. The three biggest underwriters of syndicated loans in the US between 2000 and 2007 were JPMorgan Chase, Bank of America, Citigroup, whom together controlled three-fifths of this market (p.982-983).

[90] The Federal Reserve made loans with US currency to foreign central banks. The foreign central banks loaned this debt to banks in their jurisdictions that needed new credit. The Federal Reserve held foreign currencies that were exchanged for the US credit. When the swap ended, the foreign central banks bought back their currencies. The exchange rate for the second transaction was the same as the first. At the end of the currency swap, the foreign banks paid the Federal Reserve the interest they collected off the banks they made the loans to (Flemming & Klagge 2010: 2). This expansion of the Foreign Central Bank Currency Liquidity Swaps program raised the aggregate of 'swap lines' to $620 billion (Federal Reserve Bank of St. Louis n.d.: 8; Prins & Ugrin 2011).

[91] The September 30 IRS notice changed the rules for merger deals. Where before, a company doing the buying was prevented from reporting any losses that resulted from absorbing an acquired company in the same tax year as the transaction (Subramanian & Sharma 2010b). Now, with a 'rescue' regime created, the surviving big banks were allowed to offset the net operating losses of newly bought banks in the same year. In effect, the new rule meant that the surviving 'zombie banks' had gained a tax-funded 'shadow bailout' to acquire weaker competitors. A zombie bank here means a bank that stays 'alive' through public bailouts because they are actually insolvent and are feeding off the host-population – taxpayers (Ramirez 2009: 4). The same day Wachovia's share price rose 90 per cent to close at $3.50 per share. Wachovia, now recast as a zombie bank by the Washington-Wall Street Complex, suddenly became a more attractive proposition to Wells Fargo.

[92] This is a generalized explanation of the process of federal credit/public debt creation. The President and CEO of the Federal Reserve Bank of St. Louis, Jame Bullard, explained that "[m]onetizing debt means the government borrows money to buy goods and then repays its debt by printing more money. This is equivalent to simply printing money in the first place" (Bullard 2009: 7). Of course, James Bullard's 'essay' entitled "The power of money" does not disclose that the Federal Reserve System's 12 regional central banks are owned by its member banks. If the central banker had, he would not have been able to downplay the process of monetizing debt when he claimed it was the same thing as "simply printing money in the first place." The crucial point is that the Federal Reserve is not creating money debt-free. Rather, it's notes and Fed-wire transfers of funds to the US Treasury only become a form of money ('monetized') when they are swapped with Treasury-issued debt certificates or IOUs. In other words, taxpayers service the Treasury debt and therefore finance and underwrite the monetary base upon which the owners of the Federal Reserve System's member banks profit and augment power from.

[93] This widespread 'belief' that savers' deposits are used by banks to loan to other customers is promoted by industry professionals (Buiter 2008: 35; Gorton 2008: 10-22; Johnson & Kwak 2010: 159; Swagel 2009: 10-22), academics (Bernanke, Gertler & Gilchrist 1996: 2), and the media ("The bank that failed" 2007; "A confidence crisis…" 2008; "Rush on Northern Rock continues" 2007). This belief is also one that central banks actively promote (Grunwald 2009; Bank of England 2008b: 5, 9), through the use of common banking terms such as 'loans,' 'borrowers' and 'lenders.'

[94] The crucial point is that credit is used as a form of money, and is the same thing as debt, just viewed differently according to whether it is the creditor or debtor who is being referred to (Innes 1913 as cited in Bell 2001; Rowbotham 1998).

[95] See: Rothbard (2008) and Griffin (2008) for explanations of how banks treat deposits and loans on their balance sheets.

[96] Money has a hierarchy and is structured like a pyramid (Rowbotham 1998: 24). The place that a form of money takes on the debt pyramid is determined by the extent that society accepts it (Bell 2001; Lerner 1947; Ott 1982). Due to the coerciveness of taxation, the state's currency occupies the first tier at the top of the pyramid (Bell 2001; Griffin 2008; Schiff 1985, 2000). The sectors that occupy each successive tier are arranged in an order according to the ease with which different forms of money are convertible into state money (Bell 2001). Banks occupy the next highest tier because bank money is easily convertible into state money. Firms occupy the third tier, and finally households occupy the fourth tier at the bottom of the hierarchy, since they are not permitted to produce money that can be used to settle payments to the state. Some scholars and financial professionals depict debt-based money systems as an inverted pyramid (Rothbard 2008: 236; Independent Strategy 2007; 2009). In the US and UK financial systems, cash or 'power money' constitutes about 1- 3 per cent of the total (Brown 2008; Grignon 2009; Rowbotham 1998: 10, 24, 30). The other 97-99 per cent is borrowed into existence as transaction specific credit, either through mortgages or industrial debt (Brown 2008; Grignon 2009; Rowbotham 1998: 37-38). When derivatives are included in the measure, this form of commodity money constitutes about 82 per cent of the world's debt-based financial system (Independent Strategy 2009; Kwak 2010).

[97] The first regulatory change abolished the liquidity ratio in 1981, which restricted banks to making 'loans' to the value of 90% of its deposit base (Rowbotham 1998: 25). This meant that banks could build up their deposit base by continuously making new loans to the value of 90 per cent of its deposits. With a deposit base of $100 billion in a banking system, the theoretical limit of new credit created would be $900 billion, before the 10 per cent liquidity ratio was abolished (Federal Reserve Bank of Chicago 1994: 6-11; Rowbotham 1998: 25). Banks were also required to meet a 10 per cent reserve ratio, which meant that they had to have their own capital invested to a minimum limit of 10 per cent of deposits, which of course

included all the pyramided loans. However, this restriction, known as the reserve/asset ratio, was also largely removed. As CEO of Goldman Sachs, Henry Paulson led a successful Wall Street lobbying effort in 2004 to get the Securities and Exchange Commission to change the rules so that major banks could themselves set leverage levels – that is, their 'capital adequacy' ratio – according to their in-house risk models (Gowan 2009: 106-107). In other words, before this 'capital adequacy' ratio became whatever the banks themselves set, banks could expand money nearly 10-fold.

[98] Five days after the US Congress signed off the creation of $700 billion in new money, the UK government revealed a £500 billion support strategy for their major banks (Fratianni & Marchionne 2010: 9; Tett 2009: 283). Eight major banks –Abbey, Barclays, HBOS, HSBC, Lloyds TSB, Nationwide, Royal Bank of Scotland, and Standard Chartered – were to be recapitalized by the UK government's purchase of preference shares or through banks' own capital raising efforts (Morse 2009, Appendix Four: 6). Within this bailout initiative, the government was to 'guarantee' debt accessed through newly created facilities. Also on October 8, HM Treasury bought £17 billion worth of shares in Lloyds TSB to assist its merger with HBOS under the Recapitalisation Scheme, and it also purchased £20 billion worth of shares in the Royal Bank of Scotland (Morse 2009, Appendix Four: 7). Her Majesty's Treasury's programs included a: Special Liquidity Scheme, a £185 billion fund used to lend against asset-backed securities; a Credit Guarantee Scheme, which was a guarantee for up to £250 billon in new bank issued debt; the Recapitalisation Scheme, which was a £68.2 billion fund to buy bank shares; an Asset Protection Scheme, in which the Treasury insured $282 billion worth of assets from losses from income flows; and protection for the Bank of England from possible losses in the provision of £200 billion in funds (Morse 2009: 5, 21; Appendix Six: 13; Appendix Nine: 22-24).

[99] *Huffington Post* reporter Mary Bottari found 21 bailout facilities and observed that the Board of Governor's of the Federal Reserve System tabled 13 programs and facilities on its website (Bottari, 2010, December 2). These 13 programs and facilities are as follows: Agency Mortgage-Back Securities (MBS) Purchase Program; Term Auction Facility (TAF); Central Bank Liquidity Swap Lines; Primary Dealer Credit Facility (PDCF); Term Securities Lending Facility (TSLF) and TSLF Options Program (TOP); Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility (AMLF); Commerical Paper Funding Facility (CPFF); Term-Asset Backed Securitiies Loan Facility (TALF); Money Market Investor Funding Facility (MMIFF); Bear Stearns; JP Morgan Chase and Maiden Lane LLC; American International Group (AIG), Maiden Lane II and III; Bank of America; and Citigroup (Board of Governors of the Federal Reserve System, 2010c).

[100] This cumulative figure is based on data from the three studies mentioned. In his study entitled "$29,000,000,000,000: A detailed look at the Fed's bailout by funding facility and recipient," Felkerson found the total cumulative sum that the Federal Reserve extended through loans and asset purchases to financial institutions was $19.559 trillion, between December 1 2007 and November 10, 2011. The US central bank loaned a cumulative sum of $10.057 trillion to financial institutions' in other jurisdictions via foreign central banks, between December 17 2007 and February 1 2010 (Felkerson 2011: 31-32; Government Accountability Office 2011: 131, 205). The Government Accountability Office (2011) figure for Federal Reserve bailouts was $26.172 trillion (p.131, 205). This cumulative sum was dispersed through seven emergency programs, including the Federal Reserve's Dollar Swaps Lines. This currency swaps program, which extended loans via other Central Banks to support financial institutions either headquartered or with operations in foreign countries, amounted to one third of its cumulative financial bailout commitments; or $10.057 trillion (Felkerson 2011: 32; GAO 2011: 205). These Swap Lines were extended through to August 1 2012, with no upward limit (GAO 2011: 202; Prins & Ugrin 2011: 2, 8). When the Dollar Swaps Lines are excluded, just 14 financial institutions received nearly 84% or $16.41 trillion of the $19,599 extended directly by the Federal Reserve to banking and financial conglomerates (Felkerson 2011: 33). According to Prins and Ugrin, the Treasury's support in loans, purchases and guarantees, including explicit and implicit guarantees to the GSEs and the money market funds, at its height came to $13.1 trillion (Prins & Ugrin 2011: 2-3).[100] The Federal Deposit Insurance Corporation financial commitments, including an estimated $700 billion in retail deposit insurance, came to $2.557 trillion (p.3). Other federal guarantees and support came to $1.34 trillion.

[101] Ordinary people and industry are heavily constricted because there simply is not enough cash circulating in the world's debt-based economies to fund projects, living needs and recreation. In other words, enterprises and individuals alike cannot earn enough 'income' to meet the ever-increasing prices (Rowbotham 1998: 39-41). Due to their limited purchasing power, firms and citizens are forced to borrow and compete for artificially scarce cash to service their borrowing and survive (Brown 2008; Griffin 2008; Rowbotham 1998).

[102] Consumer inflation measures only the increase in the cost of 'goods' over time, while the costs of 'assets,' such as land, buildings and machinary are ignored (Rowbotham 1998).

[103] Indeed, in response to resistance from Wells Fargo president, chairman & CEO Richard Kovacevich, Paulson stated, "Your regulator is sitting right there. And your going to get a call tomorrow telling you you're undercapitalized and that you won't be able to raise money in the private markets" (Sorkin 2009: 525). This further corrobates my position that Bear Stearns and Lehman Brothers were aggressively undermined by the cartel for being too independent. Furthermore, the Treasury promised not to interfere in their boards' decisions, which meant the government department would not attempt to reign in Wall Street. Despite much public outcry at the huge bonuses that Wall Street executives were enjoying, the media promoted the idea that the government had no power to stop it. This was not strictly true (Johnson & Kwak 2010; Prins 2009). This issue came up at the Treasury meeting of October 13 2008 with the nine banks. Treasury's general counsel

Robert Hoyt stated that if Congress made a law that affected their compensation, bank executives would have "no insulation" (Sorkin 2009: 525). Without the 'government' imposing any restraints, Wall Street executives could easily meet their bonus package criteria by using the bailout money on offer to make more profit from clients eager to trade assets that had become 'toxic.'

[104] The recipient banks present were: JPMorgan Chase ($25 billion), Citigroup ($25bn), Wells Fargo ($25bn), Bank of America ($15bn), Goldman Sachs ($10bn), Morgan Stanley ($10bn), Merrill Lynch ($10bn), Bank of New York Mellon ($3bn), and State Street ($2bn) (Congleton 2009: 31 fn 43; Johnson & Kwak 2010: 153, 164). The agreement involved selling the government shares in their firms in return for cheap capital. The Treasury Department purchased preferred stock off numerous banks through until the end of May 2009 (Federal Reserve Bank of St. Louis, n.d.).

[105] This configuration of nine bankers and four financial authorities was significant, for it signalled to the banking industry that by becoming banking holding companies, they could all gain cheap federal credit and buy up other banking operations across America. Indeed, the symbolism of nine and four appears meaningless, except that in 1994 banks gained the legal right to have branches across state borders (Wilmarth 2002; 2009). Those restrictions were there to restrict Wall Street financial interests from constructing huge banking and financial conglomerates. As Hugh Rockoff (1990) points out in his paper "The Wizard of Oz as a Monetary Allegory," the author of *The Wizard of Oz*, L. Frank Baum, used symbolism in numbers to make linkages to dates of important banking legislation. This popular children's story is widely recognized as a allegory of the American populist movement's attempts to reign in the power of the bankers (Brown 2008; Still 2009).

[106] This well-used expression has its origins when Julius Caesar crossed the Rubicon River in 49 B.C. with his army; an act that broke the law and was a provocation for war with the leader of the Rome, Pompey (Burns, Lerner & Meacham 1980: 180). The expression is commonly used to mean that the 'point of no return' has been passed.

[107] Furthermore, on October 13 2008 details of the UK government's £500 billion support strategy (first announced on October 8) were made public (Morse 2009, Appendix Five: 8). Meanwhile, the European governments pledged a 'rescue' plan equivalent to $2.3 trillion dollars in loans, asset purchases and guarantees and was reported on October 13 (Chossudovsky 2010: 68-69; Haruni 2008, October 13; Schwartz 2008, October 13).

[108] This dysfunction in the commercial paper market meant businesses were unable to roll-over their short-term debt, which often occurred on a nightly basis (GAO 2011: 193).

[109] On November 25 2008, the Federal Reserve announced it was supplying an additional $800 billion to credit markets ("US Fed announces $800bn stimulus" 2008, November 25). This was comprised of $200 billion for the Term Asset-Backed Securities Lending Facility (TALF), $500 billion for the Agency Mortgage-backed Securities Program and $100 billion for the Government Sponsored Enterprises (GSE) Program (Government Accounting Office 2011: 149; Federal Reserve Bank of St. Louis (n.d.); Prins & Ugrin 2010, October 1: 2). A further $60 billion came from the Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility, which had been created on September 19 in order "to meet redemption requests and to foster liquidity in the asset-backed commerical paper (ABCP) market" (GAO 2011: 154).

[110] Under the arrangement, Citigroup swapped preferred shares with Treasury and the Federal Deposit Insurance Corporation in return for "protection against losses on a $306 billion pool of commercial and residential securities" (Federal Deposit Insurance Corporation 2009: 12; Federal Reserve Bank of St. Louis (n.d.).). Citigroup would take the first 39.5 billion in losses on the pool of $301 billion assets identified; Treasury guaranteed 90% of the next $5 billion; the FDIC guaranteed 90% of the next $10 billion. In the event that the losses went beyond $56.2 billion, loans from the Federal Reserve Bank of New York would be triggered for the rest of the assets in the $301 billion pool (GAO 2011: 189-190). Citigroup received an additional $20 billion under a TARP facility called the Targeted Investment Program (GAO 2011: 188; Prins & Ugrin 2010: 6). The Government Accountability Office's report entitled "Federal Reserve System" stated that Citigroup received loans totalling $2.513 trillion from five of the Federal Reserve's emergency programs between December 1 2007 and July 21 2010 (GAO 2011: 131). This figure is a cumulative sum that includes short-term debt frequently rolled-over.

[111] Felkerson's study entitled "$29,000,000,000,000: A detailed look at the Fed's bailout by funding facility and recipient" is comparable to the findings of the Government Accountability Office's report entitled "Federal Reserve System."

[112] On December 17 2008, Bank of America's CEO Kenneth Lewis rang Paulson and informed him that Merrill Lynch was expected to make a loss of $18 billion for the fourth quarter. Bank of America's board was considering backing out of the merger deal with Merrill Lynch by invoking a Material Adverse Change (MAC) clause (Paulson 2011: 425; Subramanian & Sharma 2010b: 6-7). Over several days, Federal Reserve and Treasury officials, including Fed chairman Ben Bernanke and Paulson stressed to Lewis that such a move would result in simultaneous runs on both banks (Paulson 2011: 425-430; Subramanian & Sharma, 2010b: 6-7). In a conversation on December 21 with Lewis, Paulson stated Treasury would "remove the board and management" if the CEO invoked the MAC clause (Subramanian & Sharma, 2010b: 7). On December 22, Lewis called Bernanke to tell him Bank of America's board wanted a letter from the US financial authorities that they intended to supply a 'rescue' package. Paulson phoned Lewis and told him such a letter would require Treasury to make a public announcement, which in turn would have a material adverse effect in the markets. Paulson reiterated that Bernanke and

himself had already made it publicly known that no "systemically important" firms would be allowed to fail (Paulson 2011: 430).

[113] The GAO states that the Bank of America received loans totalling $1.344 trillion from five of the Federal Reserve's emergency programs between Deceember 1 2007 and July 21 2010 (GAO 2011: 131). This figure is a cumulative sum that includes short-term debt frequently rolled-over. Bank of America received $10 billion in capital from the Treasury's Capital Purchase Program on January 9 (in addition to the $20 billion allocation of October 13). On January 16, the US Treasury, Federal Reserve and the FDIC provided a $118 billion asset guarantee to Bank of America (Prins & Ugrin 2010: 7). In this deal, Bank of America agreed to take "the first $10 billion in cash losses plus 10 percent of any remaining losses incurred" (GAO 2011: 186). Treasury and FDIC would absorb 90% of losses exceeding $10 billion, but up to a maximum value of $10 billion. If losses exceeded $20 billion, the Federal Reserve Bank of Richmond would be required to lend. It also received $20 billion from the Treasury's Targeted Investment Program.

[114] By March 31 2009, total US public debt had reached $11.126 trillion. Since the beginning of the crisis in 2007 to February 17 2009, the statutory limit on US public debt was "permanently increased" five times (Bureau of Public Debt 2007; 2008a,b,c,d,e; 2009).

[115] This sum was increased twice in 2009, to £175bn on August 6 2009 and then £200bn on November 5 2009 (Morse 2009, Appendice Two: 45). Through late 2008 and into August of 2009, the Bank of England had "lent" £185bn to the banking sector in the form of Treasury Bills under its Special Liquidity Scheme against £287bn worth of collateral (King 2009: 4; Morse 2009, Appendix Three: 3). The Bank's Governor Mervin King blithely stated that this and other extraordinary measures were taken "to protect the economy from the banks" (King 2009: 4). However, King's explanation and the Bank's Annual Report underplayed the fact that the UK central bank did not have the money to buy the £185bn worth of Treasury Bills. In its May 2009 "Inflation Report." the Bank of England stated its Monetary Policy Committee's purchase of £125 billion worth of corporate bonds and government bonds were "financed by the issuance of central bank reserves" (Bank of England, 2009a: 9-10). But, neither the Inflation Report nor the 2009 Annual Report explained how such a mechanism worked (Bank of England 2009b). However, in a video produced to clarify what is meant by the euphemistic term 'quantitative easing,' the Bank explained that its Monetary Policy Committee had purchased assets from the private sector in order to inject more money into the 'economy.' These purchases were financed with new money that the bank "*created electronically*" through its Asset Purchase Facility (Bank of England (n.d.)a,b). (My emphasis)

[116] The 13 bankers present were: James Dimon of JP Morgan Chase & Co.; John Mack of Morgan Stanley; Lloyd Blankfein of Goldman Sachs; Vikram Pandit of Citigroup; Ken Lewis of Bank of America; John Stumpf of Wells Fargo; Robert Kelly of Bank of New York Mellon; Ronald Logue of State Street; Richard Davis of US Bank; Rick Waddell of Northern Trust; James Rohr of PNC; Ken Chenault of American Express; John Koski of Freddie Mac (Johnson & Kwak 2010: 4).

Chapter 3

[117] The apex of this system is the 'central bank of central banks', the Bank for International Settlements, headquartered in Basel, Switzerland (Quigley 1966: 324).

[118] In his book *Propaganda*, Jacques Ellul emphasizes, "The propagandist naturally cannot reveal the true intentions of the principal for whom he acts … That would be to submit the projects to public discussion, to the scrutiny of public opinion, and thus to prevent their success … Propaganda must serve instead as a veil for such projects, masking their true intention" (1965: 58-59 as cited in Herman & Chomsky 2008: LI).

[119] This reconfiguration of media firms into media conglomerates is a pattern common to all industries and is well documented in economics and media industry books (Golding & Murdock 1997; Nitzan & Bichler 2009; Noam 2009).

[120] In such an environment even newspaper companies were under intense pressure to extend their market reach in order to compete with television stations for advertising revenues. Television stations typically covered a greater geographical market than newspapers (Bagdikian 2000), but once the regulatory wall between the mediums was lowered, the rules of the game changed.

[121] The 'free-market' model was reinforced by new industrial relations legislation that favoured the authority of capital (Marjoribanks 2000) and this was positively spun by the rise of corporate PR to a "captured business and financial news" market (Davis 2000: 286). Unconstrained by 'meddling' unions, major media firms were free to pursue their will. Media elites, like other neoliberal-aligned businessmen alongside politicians and bureaucrats, regarded unions as a hindrance to profits, growth and efficiency.

[122] Between 1990 and 1995, the number of mergers and acquisitions matched that for the previous three decades (Arsenault & Castells 2008: 712). By 2008, the "big 7" media conglomerates who reported annual revenues over $10 billion were: The Time Warner Company ($43.7bn), Disney ($34.29bn), News Corporation ($28.66bn), Bertelsmann ($24.21bn), NBC Universal ($16.12bn), CBS ($14.32bn) and Viacom ($11.47bn). The largest media conglomerate was the Time Warner Company, based on market value of assets. In addition to owning AOL, Time Warner is the owner of: Turner Broadcasting,

which includes *CNN*, *CNN International*, and the *Turner Television Network* (*TNT*); and over 150 magazines including *Time*, *Fortune* and *Time Money* (McChesney 2004: 182; Arsenault & Castells 2008: 715). Bridging the Atlantic, News Corporation had a substantial presence in both the United States, and the United Kingdom. In addition to owning *The Wall Street Journal*, News Corporation owns over 150 newspapers including *The New York Post* in the US; and in the UK, it is the owner of *The Times*, *The Times International Edition*, *The Sunday Times*, *The Sunday Times Scotland*, *The Sun*, *The Scottish Sun*, *News International* and owned the now defunct *News of the World* (News Corporation 2011; Media UK 2011). News Corporation also broadcasts *Fox News*, in the UK and the US (News Corporation 2011; Media UK 2011). *Fox News*' US-based rivals include NBC Universal, CBS Corporation and ABC Television Network (Arsenault & Castells 2008: 715). The UK's main television networks were: the BBC, including *BBC World Service News* and *BBC 24 Hour News*; *ITV*, *TV3*, and *Channel 4* (Media UK 2011; UK/Ireland Media 2010). McGraw-Hill Companies, owner of Standard & Poor's, also owned *BusinessWeek*, but announced its sale to Bloomberg L.P. on October 13 2009 (MondoTimes 2012a).

Of the approximately 1447 newspapers remaining in the United States in 2006, only 275 were independently owned, with more than half of the media markets dominated by one paper (Government Accountability Office 2008; *Ownership chart: The big six* n.d.). The second tier media corporations with newspaper interests include: The New York Times Company, which in addition to producing it flagship paper, *The New York Times*, also owns the *International Herald Tribune* and owns 18 other newspapers in other cities and towns, including *The Boston Globe* (Columbia Journalism Review 2010). In addition to its flagship newspaper, *The Washington Post*, The Washington Post Company also owns *The Daily Herald, The Express, The Gazette*, Comprint Military Publications, and the weekly *Newsweek* magazines tailored for numerous countries (*Ketupa.net*, n.d.; Arsenault & Castells 2008). In addition to the News Corp-owned newspapers, about a dozen second tier media groups own the rest of the UK's 1600 newspapers (UK Media 2010). The Guardian Media Group is publisher of *The Guardian,* and *The Observer* newspapers, and numerous county newspapers and six radio stations, it is in turn owned by The Scott Trust (Guardian Media Group 2011). The Pearson Group, owner of the Financial Times Group, which includes the whole ownership of the *Financial Times* newspaper and 50 percent stake in The Economist Group (Brook 2008; *Ketupa.net: FT & Economist: Overview* (n.d.)).

[123] In this way, media conglomerates centralize control by dispersing their content across multiple platforms simultaneously. The logic of owning numerous kinds of media for a major conglomerate is that their brand power is enhanced when it is "cross-promoted" through marketing (Klein 2001: 57). This cross-promotion extends to the media as brands in themselves and results in self-referentialized news coverage. This occurs when news reports reference stories produced by news outlets owned by the same parent company. It is a communications strategy to mask the lack of "product differentiation" in the news organization's coverage from their 'competitors' and represents a manipulation of news content (Puhringer & Siegert 2007: 196; Esser, Reinemann & Fan 2001: 39). Self-referential communications strategies include 'live coverage' of events, 'exclusive rights' for scoops or exposés and the subsequent repackaging of 'hard' news into feature articles over several issues, or current affairs stories and TV documentaries. Media outlets aggressively promote this extended coverage on their newspaper front-pages, magazines covers and during news bulletins (Achbar, Abbott & Bakan 2005; Greenwald 2004).

[124] In 2005, the ten largest 'institutional investors' in the US with ownership stakes in media enterprises were Fidelity Management and Research, Mellon Bank, Vanguard Group, Capital Research and Management Group, Wellington Management, State Street Global Investors, Axa Financial, Barclays, Northern Trust, and TIAA/CREF (Noam 2009). Institutional investors are usually defined as mutual funds and pension funds, which invest in shares, securities and other assets on behalf of pools of investors. Between 2004 and 2007, private equity firms or buyout businesses emerged as a powerful sub-group of institutional investors within media and communications companies (Crain 2009). Buyout firms are aggressive groups of investors that acquire other firms either by leveraging their capital with large amounts of cheap borrowed funds, or by issuing corporate junk bonds in the name of the target firm. Buyout firms typically burden the acquired firm with the debt used to take it over, and will often liquidate some assets quickly and restructure operations to make it more cost-efficient. Together, these pressures exerted by buyout firms force media enterprises to become more market-driven and therefore more sensitive to the trajectory set by investors (Crain 2009). Buyout firms such as Bain Capital, Blackstone Group, Carlyle Group, Kohlberg Kravis Roberts & Co (KKR), Thomas H Lee Partners, and Providence Equity Partners, have bought both small and substantial holdings off large media conglomerates or numerous second and third-tier media properties (Crain 2009; Noam 2009).

[125] Wall Street investment banks became central players in brokering first and second-tier media mergers and acquisitions. Morgan Stanley and Goldman Sachs managed $450 billion worth of information industry mergers in 52 deals during the first three months of 2000 (McChesney & Schiller 2003: 13).

[126] In their study of corporate director interlocks of 13 major US newspapers covering from 1988 to 2000, An and Jin (2004) found that the newspapers' boards were dominated by the directors from US-based transnational corporations, including financial institutions from Wall Street firms and other financial centres. *The New York Times*, for instance, held board linkages with major US corporations, who were either their leading advertisers such as Consolidated Edison, IBM, and United Telecommunications or were representative of financial institutions such as AmeriBank, American Express, Chase Manhattan Bank, First Boston Inc., Morgan Guarantee Trustee Co., the Federal Reserve Bank and Metropolitan Life Insurance (An & Jin 2004: 586). In 2008, Goldman Sachs, JPMorgan and Rothschild Investment Trust had a presence on News Corp's board, while The Federal Reserve Bank of New York and The Carlyle Group were present on the board of NBC

Universal. Citigroup, Morgan Stanley and the New Stock Exchange all had representation around Time Warner's boardroom table. Additionally, News Corp had ties with the global policy-shaping groups such as the New York-based Council on Foreign Relations, the London-based Royal Institute of International Affairs and the Bilderberg Foundation. The board of News Corporation also hosted 'free market' think tanks such as Brookings Institute, and the Hoover Institution, and was also politically connected to the Financial Control Board for the City of New York (Arsenault & Castells 2008: 732; Estulin 2009).

[127] By 2007, there were just four holding companies in the advertising industry's top tier. The largest advertising groups were: Publicis Groupe whose holdings include Publicis Worldwide, Saatchi & Saatchi and Leo Burnett Worldwide; WPP Group with subsidiaries that include JWT, Ogilvy & Mather Worldwide and Young & Rubicam; Omnicom Group, owner of BBDO Worldwide, DDB Worldwide and TBWA; and Interpublic Group's properties which include McCann Erickson, Lowe & Partners and Draftfcb (Adbrands.net 2010; Arsenault & Castells 2008: 740).

[128] The top six American newspapers ranked by advertising revenue for 2006 were *The Los Angeles Times* with $1.55 billion, *The New York Times* taking $1.48 billion, *The Wall Street Journal* earning $1.25 billion, *The Chicago Tribune* collecting $1.17 billion, *USA Today* receiving $803 million, and *The Washington Post* making $689 million. In 2007, global advertising spending was $466 billion (Arsenault & Castells 2008: 740). Some of the biggest media companies were themselves big advertising spenders in the US, such as Time Warner which spent $3.09 billion, Walt Disney ad expenditure was $2.32 billion, NewsCorp ($1.24 billion), Viacom ($934 million), Comcast ($568 million), and CBS Corp ($369 million) (Advertising Age 2007; Arsenault & Castells 2008).

[129] These same big advertising spenders (Wells Fargo, who spent $456 million, Washington Mutual, which expended $443 million and Bank of America Corporation, which spent $1.334 billion on advertising) were all represented on Disney's board of directors – owner of the ABC TV network. Bank of America also had a presence on CBS. American Express, with an advertising spend of $928 million was present on News Corp's board, as were JP Morgan Chase, with an advertising budget of $1.062 billion. The latter also had a presence on NBC Universal's board. Citigroup spent $1.012 billion, and was represented at Time Warner's boardroom table. Berkshire Hathaway, which spent $1.093 billion in 2006, had corporate board representation with The Washington Post Company (Advertising Age 2007; Arsenault & Castells 2008).

[130] News media outlets trade on the idea that they are objectively representing events the way they happened and position themselves as bearers of truth, mediators of conflicts and carriers for impartial resolutions or solutions. To convey this perception, news outlets occupy the centre stage of society from where they "naturalise" their claim to be reporting 'reality' (Riegart & Olsson 2007 146; Fairclough 1995: 42). The result is what I call a 'hegemonic objective news posture,' wherein the notion of 'objectivity' is universalized by news outlets. 'Objectivity' in news evolved out of the professionalization of journalism, which developed during the American Progressive era (1890s-1920s), wherein reporting practices were routinized so that the news could be more easily controlled (McChesney 2008: 74). Professionalized journalism created the impression "that the news would not be influenced by the biases of owners, advertisers, or the journalists themselves" (Herman 1998: 197).

[131] The time constraints on news systems to manufacture a product on a daily or weekly basis means that well-resourced interests can select what information is abundantly reproduced and what information is subject to scarcity. The effect on news journalism is that ubiquitous information that reflects elite views magnifies the time scarcity of news organizations, since available, contestable information becomes harder to verify. Additionally, the onus to check facts falls on those who stand outside the accepted ideological news frames. Therefore, the vast resources that corporations command affords their owners, executives, advertisers and connected interests an inordinate advantage over ordinary citizens, as the propaganda model shows (Achbar, Abbott & Bakan 2005; Pappas 2004; Wintonick & Achbar 1992).

[132] Stephen Reese made the point in his study of *The Wall Street Journal* that such a routine deference to well-resourced institutions means that journalists automatically pass their power to official sources (1990: 395).

[133] For all their resources the major media outlets have conducted no systematic critique of the networked US financial oligarchs, non-financial firms, elite public and private institutions and their links to major media. In 2003, a major groundswell of discontent emerged in the United States over the issue of concentrated media ownership. The public opposition occurred in the US because Americans had witnessed the media's marginalization of their concerns over highly significant issues, such as the corporate scandals in the wake of tech-stock bust of 2000-2002, and the legitimacy of a war against Iraq following the terrorism of September 11 2001; all amidst general concerns about corporate domination. Not only did big media come in for criticism from a burgeoning range of groups, but so did the Federal Communication Commission. McChesney's book *The Problem of the Media* (2004) chronicled the Federal Communication Commission's (FCC) efforts, led by its chairman Michael Powell, to diminish public participation in its regulatory review on media cross-ownership. Michael Powell, the son of retired general Collin Powell, opposed the majority view of his fellow FCC commissioners when, in 2000, they voted to maintain numerous controls on ownership. A conservative columnist, William Safire, wrote numerous pieces in 2003, including eight in *The New York Times*. He was highly critical of "concentrated power" in the media because, as he wrote, it "enables a political clique to concentrate its power" (Safire 2003 as cited in McChesney 2004: 281).

[134] When Herman and Chomsky (2008) first described the Propaganda Model, they focussed on what was perceived to be the dominant enemy of Western liberal democracy – communism. Fear of communism had served to mobilize the US

population to create a permanent war economy. In this context, ideology was focussed on protecting the nebulous notion of 'freedom' – evidently produced by capitalism – a private political system (Nitzan & Bichler 2009).

[135] Capitalist power constantly reshapes ideology as it transforms the world. As Nitzan and Bichler (2009) theorize, capital universalizes its power by directing capital toward anything that is expected to profitably shape the future. In turn, financial capitalism markets an ideology based on the belief that risk-informed behaviour is a virtue. As such, financial capitalism represents the articulation of the belief that trust can only be 'purchased.' Although financial oligarchs have the capacity to promote their views by harnessing the "allocative power" of finance through media ownership structures and the composition of corporate boards (Carroll 2006: 2; Giddens 1984: 33), 'free market' proponents often portray media ownership as merely an economic power possessed by 'investors'. One example of this appeared in *The Washington Post*, in a column by Robert J. Samuelson who dismissed media critics as absurd. Samuelson equated their belief that " 'big media' has dangerously increased its control over our choices" with religious myth, and wrote that journalists, politicians and the public "confuse share with power" (Samuelson 2003 as cited in Noam 2009: 21). However, Samuelson's "market choice" frame advances the idea that economics is separate from politics and ignores the widespread neoliberal strategy of globalizing property rights for investors, over and above any other consideration. Samuelson's editorial, published in early August 2003, came two months after the Federal Communications Commission's June 2 2003 vote on its closely guarded rule changes for media ownership.

[136] Indeed, despite the Federal Communications Commission receiving unprecedented opposition to any further loosening of media ownership, its 3-2 decision in favour of removing several important restrictions in June 2003, indicated that powerful oligarchs had captured democratic processes in Washington (McChesney 2004: 282-283). The FCC lifted restrictions on cross-ownership of television, radio and newspapers in the same market, allowed corporations to buy three television stations in large markets and green-lighted the biggest television broadcasters to increase their market share (McChesney 2004: 285; Lendman 2008). Despite the mass opposition from 'below', the mass media actively helped the FCC promote itself as a government regulator that was protecting and enhancing the media to become more globally competitive by deepening their cross-ownership ties (McChesney 2004).

[137] Indeed, Andrew Sorkin's (2009) book *Too Big to Fail: Inside the Battle to Save Wall Street* is an exemplary example of 'buying-out,' as the text is almost entirely based on anonymous interviews. Consequently, the reader has no idea who was recounting the dialogue, thoughts and emotions which were used to reconstruct scenes to form the narrative. Apart from public sources - such as news reports – the supplementary evidence includes phone records, texts, and a few documents, that were mostly provided by his anonymous sources. While the book contains much useful material, Sorkin's style is parsimonious. Unsurprisingly, given the book's title, he downplayed the collusion and also says in his epilogue there was no conspiracy (p.533). Instead, Sorkin summed up the political economy of the financial 'crisis' and 'rescue' with the metrological metaphor – a "perfect storm" (p.534).

[138] When the papers did name their sources, such as academics from business faculties or capital management firms, there was often no disclosure given about whether or not they had a vested interest in the circumstance under scrutiny.

[139] Norms are social constructs that set the boundaries of those behaviours deemed appropriate in various social settings, contexts and cultures "for actors with a given identity" (Fuchs & Graf 2010: 9).

[140] Allan (1999) also claimed news audiences or readerships are taken for granted in the Propaganda Model, and further contended that they were cast as "passive dupes" who routinely and uniformly absorbed the manufactured news uncritically (p.60). Herman and Chomsky were arguing that the commercial media system is structurally biased to favour elite interests, but when oppositional voices do make it through the filters, their perspectives are usually framed safe for public consumption and the media's attention to such voices is deliberately fleeting.

[141] Robert McChesney, John Bellamy Foster, Inger Stole and Hannah Holeman (2009) argued that a 'sales effort' was more than simply advertising. The 'sales effort' reached into the production process, so that products were designed to be highly marketable (p.5). They argued this 'sales effort' was harmful for society because professional journalism obscured the influence of concentrated media ownership and large corporate advertisers. This meant that news outlets eschewed context and instead promoted the creation of market bubbles which undermined democracy (p.5, 11). I use the term 'sales effort' more broadly to encompass the activities of the news media and media outlets to promote financial capitalism, through advertising and the recruitment of expert sources.

[142] Instead, the mass media was used primarily to sell elite brand-loyalty, and support for policy positions and intentions that had already been established. The trick was to present the appearance of public inclusion to create an air of legitimacy. Davis called this an *elite-elite mass media* paradigm, since the viewpoints that dominated news coverage reflected elite opinion, and by exclusion elite groups cast the rest of society as "consumer-citizens" and "ill-informed spectators" (Davis, 2003: 673). The propaganda model is both an elite-elite and an elite-mass media paradigm, but Davis' point here is that the City's 'elite-communication network' maintains such a dominant position over the UK political economy, the elite-elite media paradigm overshadows the elite-mass media paradigm.

[143] American-based thinktanks or foundations include: the American Enterprise Institute, the Brookings Institution, the Cato Institute, Heritage Foundation, the Project for the New American Century and the Rand Corporation (Burris 1992; Engdahl

2004; 2009; Griffin 2008; Perloff 2008; Ross 2002; Wormser 1954). The UK-based ones such as the Centre for Policy Studies (1974), the Royal Institute for Economic Affairs (1919), the Institute of Economic Affairs (1955), the Fabian Society (1884), the Institute for Public Policy Research (1988), the National Institute for Economic and Social Research, the David Hume Institute, the Adam Smith Institute (1977), the Policy Studies Institute (1963), the International Institute for Strategic Studies (1958), and the Tavistock Institute (1913), (Coleman 2006b; Gill & Law 1989, James 1993; Estulin 2009; Stone, Denham & Garnett 1998).

[144] "The Analysis Group, Charles River Associates, Compass Lexicon and the Law and Economics Consulting Group" are some of the companies that supply "academics for hire" for the financial services industry (Matt Damon, Narration in: Ferguson 2011).

[145] In Richard Parker's multiyear study of US financial media coverage titled "The Revolution in America's Financial Industry: How Well is the Press Covering the Story?" (1999), personal finance stories in major American newspapers were shown to dominate over the three sample years: 1989, 1993 and 1997. Stories on topical issues such as "banks and crisis," "mergers and consolidation," and "reform and regulation", "Glass Steagall", "ATMs" and "Redlining and Community Investment," featured far less. None of these categories ever broke through the 1000 story ceiling in any of the three sample years, despite their importance (Parker 1999: 26-34). Parker observed that *The New York Times* covered financial sector crises far more than the other papers in the study data set. Business stories on the three big television networks *ABC*, *CBS* and *NBC* dominated and personal finance stories were relegated to the morning programmes. Financial industry news was more prevalent on the cable channels, *CNN*, *CNNfn*, *CNBC* and *MSNBC* and dominated their coverage. Importantly, personal finance journalism made no presumption that its audiences had a sophisticated knowledge of finance markets and focused on managed fund investment products. The growth in personal finance stories generated important new advertising income for US newspapers. In turn, these developments served to grow the audience base for the business section as more Americans invested in company shares and mutual funds (Parker 1999). Parker presented his paper at a conference hosted by Harvard University's John F. Kennedy School of Government in Washington D.C. called *Money, markets & the news: Press coverage of the modern revolution in financial institutions*. Present at this conference were reporters from *The Wall Street Journal, The New York Times*, *The Washington Post* and *BusinessWeek* (Shorenstein Center in the Press, Politics and Public Policy 1999: 2).

Crucially, at the same conference in 1999 academic Robert Litan presented a paper entitled "Covering financial services: Advice to the media from the academy," in which he downplayed "conglomerate mergers" in the finance sector. Before an audience of financial elites, policy-shapers, academics and media elites, Litan made the intriguing claim that "few, if any of the large combinations pose serious *competitive* concerns" (Litan 1999: 69. Emphasis added). At the time, Litan was also on the board of advisors of the American Antitrust Institute (between 1999 and 2001) (Litan (n.d.)). Ironically, Litan asserted that such mergers were the result of "public policy," and dismissed the requirement that regulatory authorities should prevent these mergers by invoking antitrust law (Litan 1999: 70). Importantly, Litan stated that by "public policy" he meant that if the financial and banking conglomerates were to become so large, financial authorities would not be able to let financiers "lose money" (p.70). If such a scenario occurred, Litan claimed, "public policy will have artificially tilted the competitive playing field toward larger institutions." However, Litan downplayed the risk of large bailouts by claiming that as nationwide banking combinations they would be able to absorb localised losses. The conference and publication of its papers was "[s]upported with unrestricted funding from Bank of America" (Joan Shorenstein Centre on the Press, Politics and Public Policy 1999: ii).

[146] Thompson (2003) stated that the inclusion of retail investors into markets as so-called 'day-traders,' through the proliferation of communication technologies, allowed this investing group to be easily manipulated by more sophisticated investors through the deployment of rumours especially on *CNBC* (p.30). This pattern created much temporary price volatility. He noted that during the tech-stock bubble bust institutional investors were well aware that the bubble was not based on sound financial analysis and were exploiting consumer-investors' inflated expectations about ever-increasing stock values. Such investors had the capacity to "anticipate – and precipitate" market shifts (p.31). Thompson made the observation that "source capture" and journalists lack of specialist knowledge contributed to a scarcity of skeptical reporting.

[147] This intensified sales effort was focussed on reshaping peoples' worldviews so that they would competitively pursue "financial self-responsibility" to advance up the economic hierarchy, and as the means for self-development (Martin 2002: 3). Anglo-American capitalism's incessant advertising messages set the boundaries of meaning-making and infused the news with a sense of 'this is the way the world is.' Self expression through 'consumer identity projects' thus became a natural pastime (Holt 2002; Goldman & Papson 2006; Applbaum 2000). In fact, the finance industry was promoted as "normal, natural and, most importantly, *scientific*" as Marieke de Goede argued in *Virtue, Fortune, and Faith: A Genealogy of Finance* (p.3, original emphasis). Such ideas downplay the power relations underpinning financial capitalism, which in turn, as Paul Langley argued, "leads to the exclusion of alternative conditions of possibility" (2006: 292). Furthermore, the media conglomerates' synergistic marketing strategies merged entertainment with finance news to gain the 'buy-in' of viewers, readers and listeners (Clark et al. 2004: 293; McChesney 2008).

[148] In his study "Ignoring the alarm," Charles Layton found that the news media was complicit in magnifying the market boom by making "wannabes" from Wall Street into "superstar analysts" simply on the basis that they made wildly exuberant predictions that stocks would soar and they were from top Wall Street firms (2003: 23). Layton argued it was commonplace

for market insiders to speculate on the "pet stocks" of analysts they knew were about to appear on *CNBC*. This would predictably result in "trusting viewers" sending those stock prices upward. On US television, fashionable celebrity anchors and star financial experts hosted money and finance programmes because they had the financial kudos to present attention-grabbing reports that would become the topical morning stories. Their kudos was constructed upon "*ex-cathedra* homilies and opinion" (Clark et al. 2004: 293). The guests promoted highly marketable products, and theatrically told rise and fall stories at any given moment. The term *ex-cathedra* means the doctrinaire views of Roman Catholic popes on matters of the religion's beliefs and sense of morality (*Collin English Dictionary* 1992: 540). The power of papal definitions relies on Catholics believing they are infallible truths, which of course is the 'task' of ideology. See: Joseph Campbell (2001; 2002 [1986]) for discussions on the reproduction of staple religious metaphors throughout the world before Christianity.

[149] Elias was quoted widely across the financial press such as *The Wall Street Journal*, *Barron's*, *BusinessWeek*, *Forbes*, *Fortune* and *Chief Executive* and appeared on numerous television programs, such as on *CNN*'s finance programs "Moneyline" and "Business Day," and its financial news channel *CNNfn*, and also on *CNBC* and *NBC*. Elias was not the only market celebrity to be given widespread coverage (Augar 2005: 159; Layton 2003). Furthermore, media regurgitation of corporate hype was widespread within Britain and the United States (Davis 2007). In the late 1990s, both the NASDAQ and NYSE, giddy with the booming stock market, advertised themselves within a meta-imagery of capital and in doing so conflated investment with the idea that they were able to democratize capital. This conflation of ideas implied that technological innovation could overcome any obstacles and even insinuated the unification of Earth with an imaginary 'heaven.' The market was recast in quasi-religious terms with a power to shape reality through reconstruction of the world's resources into commodities - without limits (Goldman & Papson 2006: 338; Cited by Cox 1999: 20; Goldman, Papson & Kersey 2005). In this world, the stock exchanges presented packaged personalities of investor subjects, which 'consumers' could 'buy' through gambling their surplus 'capital' (Goldman & Papson 2006; Holt 2002: 72; Langley 2006).

[150] By forming syndicates with one another, the universal banks shared the risk to underwrite the internet-telecom stocks (Wilmarth 2009). In 2000, the average syndicate numbered 15 banks, falling from 19 in 1996, (Ljungqvist & Wilhelm, 2003: 728). Under direct share programs, a fraction of the initial public offerings were sold cheaply and this practice grew dramatically as the dotcom-telecom bubble expanded (Augar 2005: 17-19; Ljungqvist & Wilhelm 2003: 730). The percentage of initial public offerings (IPOs) of internet stocks allocated in direct share programs was 92.6 per cent in 2000, compared with 79.2 per cent in 1999 and 24.7 in 1996 (Ljungqvist & Wilhelm 2003: 730).

[151] The initial public offerings (IPOs) of internet stocks in 1999 and 2000 averaged first-day returns of 89 per cent in 1999 and 2000 for market insiders (Ljungqvist & Wilhelm 2003: 723, 730; Ofek & Richardson 2003). From January 1996 through to 24 March 2000, share prices for internet companies grew by 1000 per cent (Bhattacharya, Galpin & Ray, 2009: 657).

[152] In those first three months of 2000, 3,892 internet companies were acquired and 962 shutdown (Tapia 2004).

[153] For example, *BusinessWeek*'s magazine cover featured CEOs from the Fortune 1000 index 18 times in 2000, compared with one feature in 1981 (Layton 2003).

[154] This *New York Times* article also described a sales manual called "Track" that lending officers were trained to memorize. It included tactics to get the clients to drop their defence mechanisms, instructions on how to understate contractual terms, and advice containing misleading financial definitions (Henriques & Bergman 2000, March 15). This would later become known as the 'boiler room culture' of Wall Street (Starkman 2009a).

[155] Other early warning stories such as "How big lenders sell a pricier refinancing to poor homeowners" by John Hechinger at *The Wall Street Journal* told of how mortgage lenders including Citigroup, Ameriquest, Countrywide and H&R Block had persuaded the poor to sign over their interest-free government loans for new loan contracts that would later change to those with high interest rates (2001, July 12).

[156] To help Enron's "financialization of energy," five global banks - Merrill Lynch, Citigroup, Barclays, Chase and Credit Suisse - had conspired with Fastow to create shell companies that were used to hold debts off the parent company's balance sheet (Gibney 2005; Wilmarth 2007; 2009: 999).

[157] Despite the fact that the biggest corporate bankruptcy in America's history had just happened, numerous large US newspapers, including *The New York Times*, all synchronized the timing of their filings with the FCC to call for lighter media ownership restrictions the following day. The newspapers argued that the media and communications regulator should allow companies to own both a newspaper and a broadcast station in the same town or city. This coordinated political manoeuvre to seek more control over the news for its owners' interests, belied cartel behaviour (Bagdikian 2004: 106-107).

[158] Layton (2003) argued that *Fortune* adopted an innocent bystander posture with its cover title, "Can we ever trust Wall Street again?" (2001, May 14), while *BusinessWeek*, according to Layton, reversed its stance toward Wall Street three times in a four year period. An October 1998 *BusinessWeek* investigation of stock analysts entitled "Corporate earnings: Who can you trust?" accompanied an exposé entitled, "The Superstar who wears two hats" about the conflicts of interest of a popular stock analyst, Jack Grubman (Bartlett 1998, October 5; Smith 1998, October 5). In May 2000, *BusinessWeek* published a valorization profile piece about Jack Grubman entitled "The power broker: From his Wall Street perch" (Elstrom 2000, May

15). Then, in a May 2002 piece entitled "How Corrupt is Wall Street?" *BusinessWeek* again reversed its stance (Vickers & France 2002, May 13). In discussing *BusinessWeek* last reversal of the tech-stock boom and bust period, Layton observed that the report ironically claimed, "Only now are the ugly details of the conflicts at play being laid bare" (2003: 27)

[159] Thompson (2003) found that because persuasive language regarding the assumed capacity of markets to underpin societies had become dominant in news programming, broader discussions regarding politics and human agency were less newsworthy. Thompson explored how the structures of economic and political power affected communications and the relations between news outlets, information carriers and market participants. His study was informed by the view that "markets are social constructions" that rely on beliefs, standards and symbolic meanings. This in turn meant that various manifestations of money gained their validity and functionality from accepted patterns of behaviour according to circumstance and environment.

[160] James Williams studied five major print publications from the US and UK to see what was excluded or silenced in the coverage of corporate crimes during 1 December 2001 to 30 November 2002. The five major print publications were: *The New York Times*, *The Washington Post*, *The Los Angeles Times*, *The Globe and Mail*, and *The Economist* (Williams 2008).

[161] In other words, Williams positioned the media coverage within a concerted elite sense-making effort whereby news outlets constructed attribution frames that limited financial actor responsibility. As the 'scandals' narrative unfolded, recovery or 'market reinvestment' frames were deployed that suggested 'solutions' which matched the 'problems' suggested in the attribution frames (2008: 476-477). These attribution and recovery frames assumed that financial markets were the only possible way to arrange an economy (p.488). The US news medias' coverage was designed to influence regulatory reform, move markets and promote behaviours that caused and inflated the tech-stock bubble and the criminal practices associated with it (Wilmarth 2008).

[162] Examples of the 'bad apple' frame include *The Wall Street Journal*'s front page piece, "Best interests: How big lenders sell pricier refinancing to poor homeowners" (Hechinger 2001, December 7); "Is housing the next bubble?" in *Fortune* (Bernasek 2002, April 1); and *BusinessWeek* with "Consumer credit: A crunch may be coming" (Coy & Timmons 2002, August 12).

[163] The nine news outlets in Starkman and The Audit Teams' study were: *The New York Times*, *The Wall Street Journal*, *The Washington Post*, *The Los Angeles Times*, *Bloomberg News*, *BusinessWeek*, *Fortune*, *Forbes*, and the *Financial Times* (Starkman 2009b: 26).

[164] Other housing bubble warning stories were: *The New York Times*' "The ever more graspable, and risky, American dream" (Andrews, 2004, June 24 as cited in Starkman, 2009, p. 28). The financial magazines also chimed in with *BusinessWeek* asking, "Is a housing bubble about to burst?" (Coy, Miller, Young & Palmeri 2004, July 14) and *Fortune* followed in September 2004 with a substantial article, "Is the housing boom over?" (Tully 2004, September 20). In December 2004, *BusinessWeek* ran a story titled, "Home buyers: Armed and dangerous? Adjustable rate mortgages are pulling in new home buyers – but the risks are high" (Palmeri & Miller 2004, April 12).

[165] According to Starkman, *The Wall Street Journal* reported that by December 2007, the fraction of credit-worthy borrowers who were incorrectly servicing subprime loans was greater than 50 per cent (2009a: 29).

[166] Goldman Sachs in New York would later come under close scrutiny for having made bets against its own clients in late 2006 and 2007 with the foreknowledge that the American home-lending market would collapse (Gordon 2009, November 1).

[167] Curiously, one of the myths he sought to debunk was "risky mortgage products" that were said to help to inflate house-prices. At the time, Barsky was a managing partner of a hedge fund, Alson Capital partners. Barsky had been a *Wall Street Journal* reporter before working at Morgan Stanley as a real estate equity research analyst. Barsky partially declared his vested interests, but framed his stance as "putting his money where his mouth is," which was a way of saying, no need to believe the "gloom and doom" (Glynn et al. 2008; Barsky 2005; Oberlin College 2010).

[168] In 2000, Wall Street's manufactured pools of mortgage-backed bonds amounted to $56 billion. They peaked in 2005 – the year these bubble warning stories were printed – when US subprime mortgage market securities totalled $508 billion (Hudson 2007).

[169] For example, a *New York Times* article addressed the predicament of unsophisticated middle class borrowers in "Holding Off Bankruptcy, But Draining Home Equity" (Fessenden 2005, October 2). This article also explored the invention of a credit derivatives model that would later be at the centre of the hedge-fund meltdown. Similar articles that appeared in other publications were: "Betting on the right loan: Buyers looking only for the lowest payment could be gambling with their future" in the *Washington Times* (Fleishman 2005, September 3); a *Wall Street Journal* piece "Slices of risk: How a formula ignited a market that burned some big investors" (Whitehouse 2005, September 12). Similarly, *BusinessWeek*'s "Mortgage lenders: Who's most at risk," commented upon Wall Street's connection to subprime lenders (der Hovanesian 2006, April, 24); and a myth-busting piece "Getting real about the real estate bubble," appeared in *Fortune* (Tully 2006, August 25).

[170] References for stories by Gillian Tett that investigated the financial industry and in particular credit derivatives from early 2005 through 2007 are as follows: Tett 2005, May 13; Tett 2006, March 24; and Tett 2006, July 11).

[171] Other journalists who worked to warn the public about the perils of debt-finance included Mike Hudson and E. Scott Reckard from the *Los Angeles Times*. They consistently wrote numerous warning stories on the subprime beat such as, "More homeowners with good credit getting stuck with higher-rate loans" (2005, October 24). However, Mike Hudson and E. Scott Reckard's *Los Angeles Times* article, "Workers say lender ran 'boiler rooms'" which exposed the predatory lending practices of one mortgage finance company, Ameriquest Capital Corporation, did not contextualise the story by tracing the borrowing chain back to the Federal Reserve System (2005, February 4). Also notable was Mark Whitehouse's stories for *The Wall Street Journal* including the aforementioned "Slices of Risk" (2005, September 12), "As data points to slowdown, housing market may land harder than economists predict" (2006, August 7) and "Risk management: As home owners face strains, market bets on loan defaults" (2006, October 30). Likewise, Greg Ip's and Mark Whitehouse's *Wall Street Journal* lead story, "Awash in Cash: Cheap Money, Growing Risks" sought to explain "an unprecedented wave of capital flowing around the world," as a result of a "global savings glut," but this explanation - promoted by the Federal Reserve - obscured the cartel nature of central banking (2005, November 3).

[172] In their study of news covering the US real estate market of four newspapers, Glynn, Huge and Hoffman (2008) traced the changing dominance of news frames from 1996-2007. The researchers sought to determine what role, if any, the media played in inflating the US house market bubble. They found that between the period 1996 to 1998, a 'Quantitative Data Release' frame dominated real-estate market news. This frame was constructed from economic indicators or quantitative data releases about housing shortages, rising real estate prices and government action for renters on low-incomes. During this time a 'Market Impacts' frame came second, which focussed on the connections between the shift from saving to debt-financed speculation in the housing bubble and the state of the economy (p.14). Then a shift occurred in 1999 that lasted throughout 2004, wherein a 'Perceptual Localisation' frame took the lead as 'investing' in residential properties became more popular (p.14-15). *The New York Times* and *San Francisco Chronicle* treatment of this frame emphasized rising house values, and also gave personal accounts of the effects on renters, and the woes of buyers and sellers as the bubble progressed. During 2001-2004, the data-oriented news frames continued to be popular, emphasizing the falling mortgage lending rates. The 'Market Impacts' and 'Controversy/Uncertainty' news frames took over in 2005-2007. This frame emphasized the noticeable rise in foreclosures and the trap of "low 'teaser' interest rates offered in subprime lending for naïve house-buyers (p.15). They found that as economic data turned for the worse, media coverage increased and that public perceptions regarding the 'economy' became correlated to news media reportage of the economy.

[173] The news media quoted more widely from the conference held at the New York Stock Exchange, which was sponsored by Dow Jones and *The Wall Street Journal* (although this was conspicuously not covered by *The New York Times*). Henry Paulson's remark that the market volatility was "a wake-up call to focus on excesses" was widely quoted from the New York conference (Evans-Pritchard 2007, June 29, *DT*; Kouwe 2007, 28 June, *NYP*; Ng, Lauricella & Aneiro 2007, June 28, *WSJ*). But, less widely quoted were his Polly Anna remarks, "I've never seen a stronger global economy. You're always going to have volatility in the markets" (Kouwe 2007, 28 June, *NYP*).

[174] These remarks were quoted in *The Times*, *The Wall Street Journal* and *The Daily Telegraph.*

[175] *Bloomberg*'s news wire service reported this remark.

[176] This 'accidents theory' was also tacitly promoted by a former reporter, columnist and editor at *The Washington Post*, Martha Hamilton, in her article "What we learned in the meltdown" that appeared in *Columbia Journalism Review*. In her conclusion, Hamilton stated "thoughtful regulation is good for industries, which sometimes are not the best judges of the consequences of certain practices" (2009: 39).

[177] Resignification is a construction of truth claims or a "proclamation of truth;" the success of which relies on the 'truth-sayer' being able to employ power resources within the relevant 'discursive net' (Fuchs & Graf 2010: 9). This resignification activity may be a conflictual process. Open dispute may serve to mark the boundaries of the possible, or it may denote an anchoring of new norms so that the appearance of continuity is maintained despite a rupture with the old regime (p.10).

[178] Kenway and Fahey describe emotions as "communicable, transmittable and infectious, even viral" in that they move like currents among populations and geographies (2010: 718).

[179] Fear as an emotion is routinely bundled into the news, often sandwiched between problem frames, which seek to attribute blame and propose a way out (Altheide 1997). David Altheide argues the news media constructs problem frames which generate fear and thus fear has become the most prominent logic underpinning mass media coverage (p.650, 664). Importantly, the effect of problem frames (and the sense of fear packaged within) is magnified when a news audiences' "total stock of knowledge" of an issue has been constructed from news reports that have in turn been appropriated from the dominant problem frame.

[180] Thompson (2009) noted that elite opinion varied more in the elite financial media compared to the general mass media news. Some general news outlets, such as *CBS* and the *Daily Mail*, expressed outrage about the bailouts and the need for investigation to determine the responsibility of financial institutions (p.81).

[181] Such activities are termed 'power crimes.' Wilson's papers (2009; 2010; 2011) apply the theories of 'speed-politics' and 'pure war' formulated by critical theorist Paul Virilio (2005) and also references Nikos Passas (1999; 2007a,b), who has defined and argued for the concept of 'power crimes.'

Chapter 4

[182] Paul 't Hart (1993), who outlined how political actors and crisis actors could exploit symbolic action during crises, defines a crisis situation as "a breakdown of familiar symbolic frameworks legitimating the pre-existing socio-political order" (p.39). Even in crises news media activities are rituals because they recur according to recognized behaviours, although those doing the performing and constructing may not be aware of, or be explicit, about the process (Riegart & Olsson 2007: 146).

[183] In their paper, "Performing finance: The industry, the media, and its image," Clark et al observed that during market booms, the news media played a formative part in supporting the exurburant speculation, and switched to a bystander role once a market bubble burst (2004: 291). Riegart and Olsson argue in their paper "The importance of ritual in crisis journalism," that an affectation of 'neutrality' masks the news media's desire to be perceived as producing authoritative accounts of history, particularly in the coverage of crises (Riegart & Olsson 2007: 147). Therefore, I have combined Clark et al's observation of the news media's bystander role during market busts with Riegart and Olsson's argument regarding crisis journalism rituals, to term this phenomenon the 'neutral bystander' posture.

[184] Early on in Act I of the classic three-Act story structure, a hook that "grabs the audience's attention" is deployed to provoke them to follow the narrative (Frensham 2003: 111-112. See Appendix IV, Fig. 4).

[185] In his paper entitled "Turmoil in financial markets: What can central banks do?" the Bank of England's governor Mervyn King argued that risk was "underpriced" and that liquidity support to banks "increases the intensity of future financial crises" (2007: 8-10). References for news reports that reported Mervyn King's stance on bailouts are as follows: Duncan & Hosking 2007, September 13; Elliott 2007, September 13; Giles, Guha & Tett 2007, September 13; Giles & Tett 2007, September 13; Lynch 2007, September 12; McConnell 2007, September 13.

[186] One banker from Goldman Sachs, Kevin Daly, who matter-of-factly outlined what would happen next, was quoted in a *Financial Times* article headlined "No time for drastic measures, says King" (Giles & Daneshkhu 2007, September 12). In this article Daly stated, "Up until the point that it takes further action, the Bank [of England] has to maintain that the action it has already taken is sufficient."

[187] Indeed, King had tacitly communicated the monetary authorities' speed politics strategy to mask the collusion when he wrote in his cover letter to the House of Commons, "I am conscious that in sending you this statement I am taking a snapshot of a fast moving situation with a long exposure camera" (King 2007).

[188] References for news articles that reported the appointment of Ron Sandler and his bank rescuing powers are as follows: Croft & Giles 2008, February 17; Desai & Jones 2008, February 17; Northern Rock to be nationalised 2008, February 17; Staff & agencies 2008, February 17; Walsh 2008, February 17.

[189] On February 22 2008 in the United Kingdom, HM Treasury took ownership of Northern Rock. This nationalization meant the Bank of England loaned funds to Northern Rock, which amounted to £26.9 billion at the end of 2007 (Kellaway 2009: 30, 32). Together with Northern Rock's liabilitiies, this nationalization added £102.3 billion to the national debt, which represented 7.2 per cent of GDP. According to the chancellor of the Exchequer, Alistair Darling, Northern Rock's directors were to blame for its collapse (Inman, Elliot & Hencke 2008, February 18). While this was partially true, this 'finger-pointing' overlooked the fact that HM Treasury had been active in changing laws to lower capital reserves and was complicit in the accounting practice of allowing banks to hold assets off their balance sheets in special purpose vehicles (SPVs) (Gowan 2009: 105; Murphy 2008: 136, 158-159). Northern Rock's corporate structure was complex and included SPVs which held mortgage backed secuities that investors had become concerned about (Kellaway 2009: 17-22).

[190] A '*deux ex machina*' metaphor was a narrative device used in ancient Greek and Roman theatre, wherein a god appears from a machine that would prove decisive in resolving the plot.

[191] *Fortune* made a parsimonious effort to investigate the professional lives on Wall Street, in its November 27 2007 edition entitled, "What were they smoking?" The cover story entitled "Wall Street's money machine breaks down: The subprime mortgage crisis keeps getting worse – and claiming more victims" by Shawn Tully lacked depth and was myopically focused on Merrill Lynch (2007: 47-59). While an accompanying story looked at former Treasury secretary Robert Rubin's role as a

Citigroup advisor (Loomis 2007: 50-51), *Fortune* and other major media publications failed to systematically investigate the political economy of the financial system.

[192] A collaterized debt obligation (CDO) is a note or security based on bundled financial instruments that generate fixed returns from underlying debt such as mortgages, bonds and securities. CDO's are structured into tranches or grades of risk, wherein senior tranches pay-out first, mezzaine next and equity tranches last (Ashman 2009: 110; Gorton 2008: 3; Tett 2010: 334, 336).

[193] JPMorgan Chase lost money when Carlyle Capital failed to post more collateral in response to JPMorgan's margin call (Neven 2009: 70).

[194] According to *Fortune*, on Friday March 7 Bear Stearns attempted to gain short-term credit in the high turn-over debt 'repo-market' from "a major bank" that refused. The reporter, Roddy Boyd, did not investigate which bank had "rebuffed" Bear Stearns (2008: 57).

[195] Also on March 10, *The Wall Street Journal* began its "Business Insight" series with what turned out to be portentous advice. The editor wrote that firms should be wary of ignoring attacks from the internet that "may hurt your company in ways you've never imagined" (Rout 2008, March 10).

[196] News accounts that mimicked *CNBC*'s scapegoating of Bear Stearns by quoting Ace Greenberg without providing a broader contextualization are as follows: Bryant 2008, March 11; Burrough 2008; Clark 2008, March 11; Kennedy & Jagger 2008, March 13; Kouwe 2008, March 11; Seib & Kennedy 2008, March 12; Shellock 2008, March 11. *CNBC* was a 50-50 joint venture between NBC Universal and The Dow Jones Company (Arsenault & Castells 2008: 715; *Ketupa.net: Dow Jones Group* 2006; Winseck 2008). The Dow Jones Company was acquired by NewsCorp on December 13 2007 (News Corporation 2007).

[197] *The Wall Street Journal* reported that approximately 13,000 bets were placed on Monday March 10 wherein holders could sell the stock options for $30 by the end of the following week (Curran 2008, March 11). These bets were evidently placed by individual investors rather than institutional investors.

[198] Nomi Prins states that Spitzer was not the great threat to Wall Street that the news media made him out to be (2009: 203). In this regard, it would appear that Spitzer's removal was designed as a precaution, a threat to others with prosecutorial powers and a provocation from the regulatory side of the Wall Street-Washington cartel requiring 'cooperation' from the media cartel.

[199] *The New York Times*' articles covering Spitzer's demise included: "Bank reports, then wiretapping, led to unravelling of ring and its client 9" (van Natta & Becker 2008, March 13); "A day that shook the state, and hinted at a resolution to come" (Confessore & Peters 2008, March 13); "After Eliot Spitzer" (2008, March 13); and "Felled by sex scandal, he says his focus is on family" (Kocieniewski & Hakim 2008, March 13). *The Washington Post*'s reports included: "A fallen star; The flameout of New York Gov. Eliot Spitzer" (2008, March 13); "Ritual of repentence; The post-scandal litany of New York Gov. Eliot Spitzer has familiar echoes" (Copeland 2008, March 11); "Spitzer's successor has few enemies; Many see Paterson as an agent of healing" (MacGillis 2008, March 13). *The Wall Street Journal*'s reports included: "Wall Street cheers as its nemesis plunges into crisis…" (Lucchetti & Langley 2008, March 11); "Spitzer's rise and fall (2008, March 11); "Spitzer's media enablers" (Strassel 2008, March 12).

[200] The prostitution ring, which numbered 10,000 clients, was run from her apartment in Midtown Manhattan, a few blocks from the New York Stock Exchange (Ferguson 2011).

[201] A brief look at the corporate boards of *The Washington Post, The New York Times* and *The Wall Street Journal* reveals ties to Wall Street and the City. The financial institutions, JPMorgan Chase, Goldman Sachs and Rothschild Investment Trust had representation on the board of News Corp, the parent company to *The Wall Street Journal* (Arsenault & Castells 2008: 732-734). *The Washington Post*'s board included Warren Buffett, who was one of America's most famous billionaires and co-founder of hedge fund, Berkshire Hathaway (Crippen 2011, January 20). Concurrently, two hedge funds, Firebrand and Harbinger Capital, and James Kohlberg of the buyout firm Kohlberg Kravis Roberts were in negotiations to have representation on The New York Times Company board (*Dealbook* 2008, April 23; Clifford 2008, April 23).

[202] According to the reporters, Nicholas Confessore and Jeremy Peters, Spitzer said these words as a declaration that he intended to clean up the politics of his district in his new role as governor (Confessore & Peters 2008, March 13). This article did not mention the threat of the impeachment vote. Instead, this information was presented in another *New York Times* report, "Felled by sex scandal, he says his focus is on family." Not surprisingly, this March 13 article did not express any scepticism about the power relations underlying the events (Kocieniewski & Hakim 2008, March 13).

[203] On November 4 1979 in Tehran, 52 American embassy staff were taken hostage by Iranian students who sought to galavanize political support for Ayatollah Khomeini. Democrat president Jimmy Carter attempted to capitalize politically from the crisis by gaining their release in October 1980, in time for the November elections. Key Republicans however

undermined this effort with a counter-October Surprise in which they secretly negotiated with the Iranian junta. The counter-October Surprise culminated in the release of the hostages timed to coincide with Reagan's presidential inaugaration on January 20 1981 – 444 days after their capture (Aslan 2004, November 24, *N*; Parry 2011; Scott 2007: 93-113). The day after the 'Iranian hostage crisis' ended, *The New York Times*' lead story was headlined "Reagan takes oath as 40th president; Promises an 'era of national renewal' – Minutes later, 52 U.S. hostages in Iran fly to freedom after 444-day ordeal" (Pappas 2004).

[204] Among the details that ought to have prompted journalists from *all* the newspapers to exercise scepticism was fact that two banks had filed 'Suspicious Activity' reports. In a *New York Times*' article headlined "Bank reports, then wiretapping, led to unravelling of ring and its client 9," the reporters revealed that the two banks – HSBC and the North Fork Bank had been subject to investigations by the New York attorney general's office when Spitzer held the top post (van Natta & Becker, 2008, March 13). As Ferguson and Johnson pointed out, North Fork Bank was owned by Capital One, a major US bank with large stakes in subprime mortgages (2009b: 34, fn 24). *The New York Times*' report from March the 13th, written by journalists Don van Natta and Jo Becker, downplayed this information as potential evidence of vindictive behaviour and possible conspiracy by stating, "Experts who advise banks and individuals on anti-money laundering regulations, said that the two banks were just following the law when they reported the suspicious financial transactions to federal authorities" (2008, March 13: A20). *The New York Times*' reporters set about framing HSBC and the North Fork Bank's surveillance of "suspicious financial activities" as "due diligence" (van Natta & Becker 2008, March 13: A20). This was a term they took from a quote by Bob Serino, a former deputy chief counsel at the Office of the Comptroller of the Currency.[204] The term "due diligence" is financial jargon used to describe an appraisal of accounts that prospective buyers perform when considering a hostile takeover (Sorkin 2009). During hostile takeovers, hostage postings are often made, in the form of financial commitments or by placing key people on the boards of rival institutions (Keren & Raub 1993: 430).

[205] According to *Bloomberg* reporter Scott Lanman, Ben Bernanke also attended three meetings in New York on Friday March 7 2008, including a lunch. Lanman stated *Bloomberg* obtained copies of pages from Bernanke's daybook for March 2008 (under the Freedom of Information Act) and that the Federal Reserve had "blacked out" who was present at the three meetings (Lanman 2008, May 12).

[206] Ironically, Henry Paulson presented The President's Working Group on Financial Markets' report two days later, stating that the markets had "relied excessively on credit ratings" and that this reliance had "contributed to their complacency" (The President's Working Group on Financial Markets 2008: 4). This long-scheduled press conference, held on the 13th floor of the National Press building, essentially obscured how the Wall Street-Washington Complex constructed the 'crisis.' Also on Tuesday March 11, the chairman of the Securities and Exchange Commission (SEC) Christopher Cox told reporters that "we have a good deal of comfort about the capital cushions that these firms have been on" in regard to Wall Street's five largest investment banks (Cohan 2009, p. 28). However, Cox's statement was not widely reported, with only *Reuters* and *CNBC* publishing it on their websites on March 11. Their headlines, respectively were "U.S. SEC comfortable with investment banks' capital" (Younglai 2008, March 11) and "SEC, CFTC formalize cooperation agreement" (*CNBC* 2008, March 11). Conspicuously, Tuesday March 11 was also the day that the Federal Reserve announced the Term Securities Lending Facility (TSLF) that would provide liquidity or cheap credit of up to $200 billion against AAA rated securities to Wall Street banks, as mentioned in chapter two (Cohan 2009: 27; Prins 2009: 103).

[207] Alan Schwartz took over the CEO position on January 8 2008 after chairman and CEO James Cayne resigned from his CEO position (Cohan 2009: 19).

[208] As William Cohan argued in *House of Cards* (2009), all of the big five investment banks were vulnerable to their funding model, which was a combination of corporate bonds, preferred shares and short-term borrowing in overnight commercial paper markets (p.5).

[209] Bear Stearns' closing stock value was $32 on Friday after starting the week at over $70 (Burrough, 2008). References for news stories that reported on Bear Stearns demise at this time are as follows: *The Associated Press* [*AP*] 2008, March 15; Eavis & Reilly 2008, March 15, *WSJ*; *MSNBC* 2008, March 17; March 15; Sorkin 2008, March 17, Wilson & Saltonstall 2008, March 15.

[210] Curiously, on March 15, in a *Washington Post* article headlined "Fed comes to rescue as Wall St. giant slips" Bear Stearns was suddenly described as "venerable," when clearly it had been treated as expendable (Irwin & Tse 2008, March 15). The adjective was not without religious subtextual meaning, since it is used to denote a dead person whose biography has made it through stage one of canonization to 'sainthood' (*HarperCollins* 1992: 1701). The article contained elements of an obituary-piece, noting the firm was established in 1923 and described its risk-taking trading culture and maverick management style. At this time Bear Stearns' management thought it had obtained a credit line from the Federal Reserve that gave it 28 days reprieve, in order to address its financial issues (Burrough 2008; Cohan 2009).

[211] In the *Reuters*' story "Paulson defends U.S. rescue of Bear Stearns," Paulson reiterated that the American monetary authorities had "a strong-dollar policy" which meant employment would be 'sacrificed' since financial officials also facilitated high international capital mobility. As mentioned in chapter two's notes and commentary section, the 'policy trilemma' means that at most only two of the three policies can be maintained at any given time (Bryan & Rafferty 2006: 106-108). In 'free-

market' regimes, full-employment is not pursued (Klein 2007). References for other news stories that failed to challenge the US monetary officials 'rescue' rhetoric are as follows: AP 2008, March 15; AP 2008b, March 17; AP 2008c, March 17; March Bernard & Bel Bruno 2008, March 14; Clark 2008, March 16; Goldstein 2008, March 16; Ellis & Luhby 2008, March 17; Landon 2008, March 15; Morgenson 2008a, March 16; Moyer & Martin 2008, March 16; Murray 2008, March 16; Norris 2008, March 15; Smith 2008, March 17; Sorkin 2008, March 17.

[212] For example, an article headlined "Fed comes to rescue as Wall Street giant slips…" *The Washington Post* endorsed the 'rescue' frame by claiming that Federal Reserve officials had decided, after lengthy conference calls, that if they let Bear Stearns fail, "other big Wall Street banks" would face immediate danger, as they also relied on short-term debt for funding (Irwin & Tse 2008, March 15). The *Post*'s report stated that a major Federal Reserve loan transaction would come through JPMorgan Chase; because it was a commercial bank, it had "access to the Fed's discount window" (Irwin & Tse 2008, March 15). The subtitle for this *Washington Post* report was: "Bear Stearns gets emergency funding via J.P. Morgan" (Irwin & Tse 2008, March 15).

[213] The Term Securities Lending Facility did not become operational until March 27 2008 (Board of Governors of the Federal Reserve System 2010b). Additionally, the Federal Reserve created the impression that Bear Stearns might have more time to work through a solution by announcing, along with JPMorgan Chase, that Bear could access a temporary federal credit facility for a period of "up to 28 days" (Cohan 2009: 78-81).

[214] This was an incredible omission given that, notwithstanding its status as a primary dealer, Bear Stearns had been excluded from the Federal Reserve's luncheon on March 11 (Cohan 2009: 30; Lanman 2008, May 12). It was also a major omission because JPMorgan Chase, along with The Bank of New York Mellon, were in a pivotal position as clearing banks for all derivatives securities (Scholtes, & Guha 2008, September 16). This meant they were custodians of collateral for derivatives contracts and if the two banks, as 'clearing houses,' deemed that risk of those securities had increased, they could demand that the relevant bank or financial holding company post more collateral. Therefore, JPMorgan Chase's role as a 'clearing house' placed it in a powerful position to attack a rival firm's solvency. It also meant that if a major investment bank such as Bear Stearns failed, JPMorgan Chase and the Bank of New York Mellon would become vulnerable too. As such, the Primary Dealer Credit Facility was opened on March 17 so that the major banks with primary dealer status could borrow under wider parameters from the Federal Reserve (GAO 2011: 213-214; Felkerson 2011: 18; Scholtes & Guha 2008, September 16). Ironically, the Federal Reserve announced the Primary Dealer Credit Facility on March 16 2008, a fews hours after the US Central bank assisted JPMorgan Chase's takeover of Bear Stearns (Cohan 2009: 131-132).

[215] Andrew Sorkin noted in his book *Too Big to Fail* that JPMorgan Chase CEO Jamie Dimon was equated with John Pierpont Morgan and in doing so *The New York Times*' journalist replicated the view that the wealthiest American financier had merely "helped ease the Panic of 1907," rather than foment the conditons for it (2009: 71). (See Appendix VI: Event Cluster One for a brief account of J.P. Morgan's role in escalating the Panic of 1907).

[216] At the time, JPMorgan Chase's share of deposits in the New York Federal Reserve was by far the largest at 31.55%, with the two next biggest deposit holders, HSBC Holdings and Citigroup Inc. having a market share of 8.65 per cent and 8.43 per cent, respectively. These figures were for June 2008, sorted by market share for New York State (Federal Deposit Insurance Corporation 2008c).

[217] Furthermore, the reporters failed to press the Securities and Exchange Commission as to whether Bear Stearns' share price had been shorted. Neither did the financial and business press ask why the SEC had, in 2004, changed a regulation that made short-selling legal – for the first time since 1932 (Norris 2006, December 8). In place of skeptical reportage, the news media regurgitated quotes attributed to JPMorgan Chase's CEO Jamie Dimon in which he allegedly extended support to Bear Stearns investors (Goldstein, 2008, March 16; Guerrera & Sender 2008, March 17; Kossoff & Wallop 2008, March 17; Moyer & Martin 2008, March 16; Sorkin & Thomas 2008, March 16). The reporters failed to inform readers that these statements were not historical facts, but were ritualized crisis management statements designed to feign empathy with the victims (Coombs 2006: 249; Coombs 2007: 165, 167). Therefore, these crisis management statements were deployed to smooth over the takeover-bailout in lieu of a more thorough material account of what happened.

[218] While there was a 'crisis of confidence,' it needs to be remembered that the 'crisis' itself was produced in the criminogenic environment of the Wall Street-Washington-City Complex. As such, the news media neglected to ask the critical question: Why is it that the 'financial system' is so vulnerable to perceptions about credibility? An exemplary example of this apparent lapse was in a *New York Times* article headlined "Rescue me: A Fed bailout crosses a line" (Morgensten 2008, March 16). The reporter, Gretchen Morgensten, claimed the collapse of Bear Stearns stock price proved that the rumours were true, which was a circular argument. In a nut-shell, perceptions are used as a basis for a company's value because value is arrived at through the financial 'community' agreeing on the worth of assets, debts and other financial claims. This agreement is reached through constant exchanges that occur throughout the political economy, such as deal-making, data-processing, media interpretation and risk management (Nitzan & Bichler 2009; Thompson 2010b). Therefore, the survival of a firm is dependent on faith in its future earnings capacity. Faith, it turns out, is integral to the functioning of the financial system as it is based on credit, which implies a trust that 'borrowers' will 'repay' the 'loans.' The business of lending then is

belief-dependent, in that a bank or financial institution will only extend credit if it has confidence in the 'borrower' paying the principal and interest. When trust is broken, a 'crisis' occurs.

[219] References for news reports that mentioned Bear Stearns refusal to bailout LTCM are as follows: Curran 2008, March 11; Eavis & Reilly 2008, March 15; Irwin & Tse 2008, March 15; Kelly, et al. 2008, March 13; Morgenson 2008, March 16; Petruno 2008, March 11.

[220] News report references for Lehman's apparent stinginess in the 'rescue' of LTCM are as follows: *AP* 2008, March 17; Eavis & Reilly 2008, March 15; Kelly, Ng & Strasburg 2008 March 13; Landon 2008, March 15; Sorkin 2008, March 17; Strasburg 2008, March 15; Westbrook 2008, March 18.

[221] These loans were packaged into mortgage-backed securities and were often recombined with a plethora of other credit derivatives products (Prins 2009; Tett 2010).

[222] Although the anger of Bear Stearns' employees was predictable, the oligarchs and elites behind the takeover-bailout did not anticipate this contractual crisis for JPMorgan Chase & Co. Two documents, a Guarantee Agreement and a Merger Agreement, written up by the law firm Wachtell, Lipton, Rosen and Katz, had been unclear regarding JPMorgan's position if Bear Stearns' shareholders voted against the merger. Some of Bear Stearns' people had worked out that the agreements meant that JPMorgan Chase had conferred a one-year guarantee to Bear Stearns' for "trading and counterparty liabilities … [and] all of Bear's long term debt" (Cohan 2009: 150). The implications were huge for JPMorgan Chase, since it made the giant bank holding company vulnerable. As one of William Cohan's anonymous sources for his book *House of Cards* revealed, Bear Stearns' CEO Alan Schwartz reasoned that if Bank of America were to come along and offer $50 per share, JPMorgan Chase would have been forced to pay $51 per share (2009: 153). More to the point, if this unexpected crisis for JPMorgan Chase's was not quickly resolved, its part in the take-down of Bear Stearns could quickly backfire if the market perceived it was insolvent.

[223] Earlier, Dimon had spoken to Bear's brokers in a conference call and he claimed he had "broker's blood in his veins" (Cohan 2009: 156).

[224] Conspicuously, Bear Stearns borrowed $1 billion the day the Term Securities Lending Facility opened – three days after the company was signed over to JPMorgan – and then returned for another billion-dollar helping on April 10 (Board of Governors of the Federal Reserve System 2010b). In fact, during its 'wind-down' Bear Stearns loaned a cumulative sum of $960 billion from the Federal Reserve's Primary Dealer Credit Facility in 69 transactions between March 17 and June 23 2008 (Board of Governors of the Federal Reserve System 2010a). As such, the actions taken by the US monetary authorities revealed a very selective use of the 'moral hazard' concept. And because the financial oligarchy remained invisible, their cartel would be selective again.

[225] Notably, Federal Reserve chairman Ben Bernanke predictably "chafed" at the suggestion that the Federal Reserve bailed out Bear Stearns (Irwin & Merie 2008, April 3). While it was true that Bear Stearns itself was not bailed out, he deflected from the fact that US taxpayers financed JPMorgan's acquisition and the firm was wound-down using Treasury securities (Board of Governors of the Federal Reserve System 2010b).

[226] On April 4, *The New Yok Times* published an analysis piece headlined "The regulatory failure behind the Bear Stearns debacle," but this article failed to investigate the regulatory capture and the use of ideology to mask systemic collusion (Norris, 2008, April 4).

[227] A clear exception was a report in the business section of *The New York Times* headlined "Bear Stearns in the Committee Room" in which the reporter added colourful descriptions after having been in the room (Thomas 2008, April 4). This included an admission from a lawyer that such hearings were ritualistic. The hearing was attended by numerous news photographers.

[228] Around this time *Fortune* published a superficial account of Bear Stearns demise entitled "The last days of Bear Stearns," which failed to investigate the aggressive trading, the role of the financial authorities and *CNBC*'s participation in spreading rumours (Boyd 2008: 56-58). Indeed, *Fortune*'s April 14 edition also included a valorization piece of *CNBC*, including a mention of its coverage of Bear Stearns' last days (Hempel 2008: 62-66).

[229] According to David Wessell, in his book *In Fed We Trust*, the inspiration for the plan's title "Break the Glass" was a question raised in a meeting that took place in late 2007 between Bush administration officials regarding the possibility of tax appropriations to revitalize the economy. The questioner, Keith Hennessey, mused, "How big is the ax behind the glass" (2009: 177). FIRE stands for finance, insurance and real estate (Bichler & Nitzan 2009a; Foster & Magdoff 2009: 128). The date of the "Break the Glass" meeting was symbolic too, since April 15 is the deadline for Americans to file their tax returns (McKinnon 2008, September 25: 6; "Transcript: President Bush's Speech…" 2008, September 24).

[230] On September 18 2008, Treasury's assistant secretary for legislative affairs Kevin Fromer would say, in a similar phrasing to Paulson prior to the Treasury secretary's meeting with congressional leaders, that one needed to 'sell' the bailout (as mentioned in chapter 2). On that later occasion, Fromer told Paulson, "It's just a question of optics" (Sorkin 2009: 437).

[231] Indeed, Neel Kashkari had frequently stated that, "The next president is going to bring the hostages home" (Wessell 2009: 176-177). By this statement, Kashkari attributed the end of the Iran hostage crisis to the inauguration of Republican president Ronald Reagan, thereby signalling that America's "next president" would be coerced to authorize a vast bailout. In effect, such coercion is by definition a coup d' état (*Collins English Dictionary* 1991: 366). Ironically, "the hostages" in this case were 'the American people' cast as taxpayers and "home" referred to the Wall St-Washington Complex.

[232] On March 10 2008, *Barron*'s magazine cover story asked in its title, "Is Fannie Mae toast?" (Laing, 2008, March 10). *Barron's* was owned by The Dow Jones Company, whose parent company is News Corporation (Arsenault & Castells 2008: 715; *Mondo Times* 2012b).

[233] GSE is an acronym for government-sponsored enterprise.

[234] Despite official pledges that the two companies were financially sound, markets saw a proposed sale of more debt by Freddie Mac that morning as a negative proxy sign. In a July 11 *New York Times* story headlined "U.S weighs takeover plan for two mortgage giants," the views given by officials from the Federal Reserve, the Treasury, Congress and Freddie Mac were designed to encourage investors not to sell their existing stakes in the GSEs. This lack of critical contextualization obscured the reporters' deployment of the 'neutral bystander' posture.

[235] References for these news reports on the GSE's capital are as follows: Hamilton & Reynolds 2008, July 11; Labaton & Weisman 2008, July 11; Politi, Sholtes & White 2008, July 11; Shellock 2008, July 11.

[236] *Bloomberg*'s article explained that, "fair value measures a company's net worth if it had to liquidate all of its assets to repay liabilities" (Kopecki 2008, July 10).

[237] Under testy questioning Paulson was asked where the money would come from and he replied "the government" and then, in answer to the question, "And who is the government?" the Treasury secretary said, "the taxpayer" (Labaton & Herszenhorn 2008, July 16, C1).

[238] Aptly, one of those meetings involved a grilling from "the entire House Republican Conference" which occurred in a room in the Capitol's basement. Paulson related that this "meeting … had been set up to let members blow off steam" (Paulson 2011: 152). Not surprisingly, this meeting was not reported in the news coverage.

[239] References for news reports that obscured the purpose of the Housing and Economic Recovery Act are as follows: Anonymous 2008, July 25; Bawden 2008, July 24; Crittenden & Paletta 2008, July 23; Hill 2008, July 23; Lengell 2008, July 24; Montgomerey 2008, July 24; Montgomery & Kane 2008, July 27; Politi 2008, July 24.

[240] In his speech, Paulson unintentionally referenced the casino nature of the US financial cartel when he claimed that, "I would rather not be in the position of asking for extraordinary authorities to support the GSEs. But I am playing the hand that I have been dealt" (Crittenden & Paletta 2008, July 23). The Paulson-led 'shadow-bailout' proved what his preferred strategy was.

[241] References for news reports that mentioned the national debt limit or the $800 billion appropriation of tax funds are as follows: Boyd & Shenn 2008, August 7; Dickson 2008, July 31; Herszenhorn 2008a, July 23; Herszenhorn 2008b, July 27; Crittenden & Paletta 2008, July 23; Montgomery 2008, July 24.

[242] The chairman of the Federal Reserve's Board of Governors, Ben Bernanke signalled that emergency methods ought to be replaced with a "systemwide approach to supervisory oversight," which would need to include a "statutory resolution regime" (Bernanke 2008). In other words, he envisaged an integrated regulatory regime with the powers to takeover and wind-down financial firms that posed a systemic risk to the financial system as was foreshadowed in a Treasury report entitled *Department of the Treasury blueprint for a modernized financial regulatory structure*, published on March 31 2008 (United States Department of the Treasury 2008). The 'Blueprint' report argued that financial institutions uncontrolled by the Federal Reserve, such as money market funds and buy-out firms, should come under its regulatory system (United States Department of the Treasury 2008a: 14-15; 2008b). Bernanke was signalling to those present who were either privy to their strategy or smart enough to know that bankers, economists and financiers are schooled in game theory, that they were managing the 'crisis' to get the new regime they wanted (Bech 2008; Goodhart 1994; Manz 2009; Markose 1998; Markose, Giansante & Gatkowski 2009; Ueda 2010). Indeed, this plan to concentrate power in the Federal Reserve was envisaged in 1977, in a research paper entitled "A FINE study," which argued that the legal and regulatory regime was stuck in "New Deal legislation of the 1930s" (Pierce 1977: 605). (The title was an acronym for Financial Institutions in the Nation's Economy). The paper proposed consolidating the Federal Reserve (its regulatory and supervisory functions only) by creating one agency that would absorb the Federal Home Loan Bank Board, the Federal Deposit Incorporation (FDIC), the Comptroller of the Currency and the National Credit Union Administration.

In their reports on Jackson Hole, the *Financial Times*, *The Economist*, *The Wall Street Journal, The New York Times* and *The Washington Post* failed to challenge Bernanke. References for reports on Bernanke's speech at Jackson Hole from these news outlets are as follows: Guha 2008, August 23; "Jackson Hole: The credit crisis" 2008; Reddy 2008, August 23;

Irwin 2008, August 23; Uchitelle 2008, August 23. The Treasury 'Blueprint' report also suggested the idea of a single regulator for the United States' financial system, as was the case in the United Kingdom (2008a: 13). The lead authors of this report were Henry M. Paulson, Robert K. Steel (who was the undersecretary for domestic finance) and the assistant secretary of financial institutions, David G. Nason. Not surpisingly then, the 'Blueprint' report omitted to explain that the Federal Reserve System was a jointly-owned cartel of twelve regional bank corporations that were in turn owned by state and nationally chartered commercial banks and bank holding companies (Board of Governors of the Federal Reserve System 2008a: 374; Brown, 2008: 24, 127; Griffin 2008: 17-20).

[243] The paper that Blinder co-wrote with Bernanke titled, "The Federal Funds Rate and the Channels of Monetary Transmission" explored adjustments to the Federal Reserve's funds-rate, which is the wholesale interest rate that the central bank charges its member banks (Bernanke & Blinder 1992). These adjustments they termed 'policy shocks' by which they meant the tightening of money supply by increasing the federal funds rate or loosening it by reducing the rate (p.902). Bernanke & Blinder found that "the brunt of tight money is felt on loans," induced by the Federal Reserve raising its federal funds rate, "as banks terminate old loans and refuse to make new ones" (p.920). They also found that unemployment rose, with a lag of about two to three financial quarters following a funds rate shock, since loans were vital to funding the so-called 'real economy' (p.919).

[244] When Timothy Geithner met with Paul Volcker on Saturday March 15 – during the Bear Stearn's crisis weekend – for a private meeting at the former Federal Reserve chairman's apartment, he was teased with the question, "How's your finger?" By this Volcker signalled the tale of the little Dutch Boy (Wessell 2009: 165).

[245] The first version represented the 'free market' enthusiasts' worldview that 'natural' forces of 'the market' should be left to their course. (This was not what Buiter was arguing). In other words, the first version referenced the back-story of the first two phases of the shadow banking system's apparent 'demise' – the collapse of home mortgage lenders between 2006 and 2007, and the collapse of structured investments vehicles (SIVs) in mid-to-late 2007. However, the Federal Reserve knew the financial oligarchs needed time to get to safety in order to exploit the inevitable 'financial tsunami' – because the central bank officials were well aware that the contagion would spread. Ironically, several major Dutch banks – Fortis, ING Bank N.V. and SNS Bank N.V. had exposure to Lehman Brothers and required state bailouts to stay operating (Neven 2009: 61-62).

[246] A 'financial tsunami' was coming and the Federal Reserve, playing the re-worked 'little Dutch Boy,' planned to retrieve his metaphorical finger from the dike at the 'right time' and move to higher ground, where the oligarchs lived in their mansions.

[247] Blinder's 'rebuttal,' which his audience of "central bankers, academics and Wall Street economists" found "entertaining," conformed to the fallacies of 'attacking the strawman' and of 'diversion' (Damer 2009: 204, 210). Blinder created a strawman argument because he inferred that Buiter's paper was about letting ordinary people 'drown,' when in fact he was arguing that the Federal Reserve's actions were rescuing bankers and other financial institutions who really did know better. Blinder's resort to ridicule therefore diverted attention from Buiter's core argument, which was that the Federal Reserve was engaging in 'moral hazard' and fostering collusion (Buiter 2008). As Paul 't Hart argued, ruling elites will deploy manipulative arguments as part of an effort to construct 'discourse coalitions' (1993: 41).

[248] To put this sum in perspective, the value of the two GSEs residential-backed securities came to $4.7 trillion, which amounted to 32 per cent of total American mortgage credit, (which was $14.3 trillion); and 33 per cent of US GDP, as at June 2008 (Farhi & Cintra 2009: 7; Financial Crisis Inquiry Commission 2011: 309, 320; Fratianni and Marchionne 2010: 8; GAO 2011: 149; Prins & Ugrin 2011: 3).

[249] But, Paulson's answer to a question on *CNBC* on the Monday morning of September 8 about how much the bill was going to cost taxpayers was not widely reported. Paulson answered, "We didn't sit down there and figure this out with calculators" (Sorkin 2008, September 9).

[250] In "Hank the Great? Paulson Copies Frederick with Bonds," *Bloomberg* reporters Sebastian Boyd and Jody Shenn (2008, August 7) point out that large banks had turned to the Federal Home Loans System when the "structured finance market" collapsed around July 2007.

[251] *Bloomberg* reported that "13 'major' dealers" in credit default swaps reached a consensus as to what the Treasury's move to take the GSEs into conservatorship meant (Biggadike & Harrington 2008, September 8). The "13 'major' dealers" agreed it constituted a credit event, which had the implication that transactions related to Fannie and Freddie's bonds required settlement. The report failed to investigate whether the "13 'major' dealers" had colluded with one another and with Treasury and the Federal Reserve officials to bet on the likelihood that the two GSEs would default on its debt. The media also failed at the time to uncover a private lunch between Henry Paulson and numerous hedge funds and investment firm heads that took place in the offices of Eton Park Capital Management on July 21 2008 (Teitelbaum 2011, November 30). At this meeting, which was attended by several former Goldman Sachs executives, Paulson disclosed that the American monetary officials intended to place Fannie and Freddie into "conservatorship" (so-called nationalization) and in the process, according to *Bloomberg* reporter Richard Teitelbaum, common stockholders "would be wiped out." Conspicuously, Paulson failed to disclose this meeting in his book *On the Brink* (2011).

[252] One important reason for the Treasury takeover of Freddie Mac and Fannie Mae was hinted at in the last two paragraphs of an article that appeared in *The New York Times* on September 7 2008. Journalists Stephen Labaton and Edmund Andrews wrote that Alan Greenspan – the former chairman of the Federal Reserve, and Lawrence Summers, the former deputy secretary of the Treasury, along with others, had long been critical of the fact that the two giant GSEs had used their economies of scale to supply mortgage finance at lower interest rates than their competitors (Labaton & Andrews 2008, September 7). In other words, the Wall Street-Washington Complex did not like a rival cartel undercutting them to gain more market share. But this point too was missed or avoided. In their updated report published the next day (on September 8), *The New York Times*' reporters Stephen Labaton and Edmund Andrews repeated the explanation regarding Alan Greenspan and Lawrence Summers longheld criticisms of the two giant GSEs under the same headline: "In rescue to stabilize lending, U.S. takes over mortgage finance titans" (Labaton & Andrews 2008, September 8).

[253] A *Wall Street Journal* column article on Wednesday September 10 reported that the price of credit default swaps contracts against Lehman's debt had spiked the previous day, which the reporter Peter Eavis deduced as a sign that the market was betting that the firm would go into default (Eavis 2008, September 10). References for other stories that reported on eroding confidence in Lehman are as follows: Anderson & White 2008, September 10; Gray 2008, September 12; Hamilton 2008, September 10; La Monica 2008, September 10; Norris 2008, September 12; Sorkin 2008, September 13; Story 2008, September 10.

[254] *BusinessWeek*'s September 22 2008 edition went to press prior to the Lehman Brothers crisis weekend of September 12-14 2008. The magazine's coverage that scapegoated Lehman Brothers was: "The Business Week: Fannie, Freddie…Lehman?" (Maurer & Lindblad 2008: 4-5); "Hank Paulson on the housing bailout and what's ahead" (Bartiromo 2008a: 19-20); and "Lehman's Hail Mary pass" (Goldstein & Henry 2008: 28).

[255] The industrial metaphor was inspired by a book entitled *The Subprime Solution*, wherein the author and economist Robert Shiller argued that the financial system was "running bullet trains on ancient track." By this, Shiller meant regulatory and financial institutions needed to be reformed to serve the "technologically sophisticated" trains or financial products that the industry was using (Shiller 2008: 16). Shiller had recently assisted the Chicago Merchantile Exchange "launch securities" known as "house price futures and options," which he claimed would give "skeptical speculators" the tools to puncture house price bubbles. Additionally, Shiller had recently developed a house price index called the S&P/Case-Shiller index with another economist, Karl Case, which was sponsored by Standard & Poor's (Fox 2008: 25).

[256] References for news articles that undermined Lehman Brothers are as follows: Anderson & White 2008, September 10; Eavis 2008, September 10; Karnitschnig et al. 2008, September 12; La Monica 2008, September 10; Tennille 2008, September 10; White 2008a, September 11. As the week progressed, Richard Fuld was also depicted as someone who was too hard to negotiate a buy-out deal with and as a person in denial (Anderson & White 2008, September 10; Sender 2008, September 8; Norris 2008, September 12). These accounts, which read like obituaries, did not acknowledge the aggressive alpha personality trait of top bankers and financial executives. This trait has been explored in the documentaries by Charles Ferguson, *Inside Job* (2010), and Danny Schechter; *Plunder: Crime of Our Time* (2009). Instead, Fuld and his "beleaguered," "stricken" and "scrappy" bank were set-up as scapegoats for de-stabilizing the markets after the Wall St-Washington Complex's 'rescue' of the GSE's the previous weekend (Anderson & White 2008, September 10; Gray 2008, September 12; Hamilton 2008, September 10; White 2008a, September 11).

[257] The Primary Dealer Lending Facility was a temporary lending program to bailout qualifying financial institutions, in all 19 institutions (Felkerson 2011: 12; 18-19). The 'discount window' is a permanent lending mechanism for members of its cartel wherein commercial banks and bank holding companies borrow at 'wholesale' interest rates called the federal funds rate (Griffin 2008: 477-480; Johnson & Kwak 2010: 146). As noted in chapter two, the Federal Reserve also set up the Term Securities Lending Facility in late March, which Bear Stearns was able to borrow from, but only in order to wind-down the business (Board of Governors of the Federal Reserve System 2010a,b). In a *Washington Post* article headlined "Lehman retools in bid for recovery" Heather Landy incorrectly claimed that Lehman Brothers had not needed to borrow from the 'discount window' (2008, September 11). In fact, it had borrowed from the Primary Dealer Lending Facility, but interestingly nowhere near as much as the firm that would come to acquire parts of its business, Barclays.

[258] References for reports that referred to financial 'crisis' by various terms are as follows: Anderson & White 2008, September 10; Backed into a bailout 2008, September 9; Craig 2008, September 11; Guerrera, Larsen, Farrell & Sender 2008, September 10, Hilsenrath, Enrich & Solomon 2008, September 12; Mollencamp & Whitehouse 2008, September 8.

[259] References for news reports about Lehman's efforts to entice a buyer are as follows: Anderson, Sorkin & White 2008, September 12; Craig 2008, September 11; Gray 2008, September 12; Landy 2008, September 11; Quinn 2008, September 12; Story 2008, September 10; White 2008, September 11.

[260] A *Washington Post* front-page report headlined "U.S. helps Lehman go up for sale" was one of the few that expressed an opinion that the drop in Lehman's stock value and creditworthiness was driven by perceptions rather than careful analysis of financial data. This information however appeared at the end of the story (Cho, Landy & Irwin 2008, September 12: A1).

[261] References for news reports in which reporters failed to gain a clear understanding on the US financial authorities bailout stance are as follows: Anderson, Sorkin & White 2008 September 12; Goldstein & Henry 2008 September 12; Hilsenrath, Enrich & Solomon 2008, September 12; Spence 2008, September 12. *The Washington Post* came close to stating that the US monetary authorities would not bailout Lehman Brothers (Cho, Landy & Irwin 2008, September 12). CNN reported that on Friday a source told the network that Paulson was "adamant" there would be no bailout for Lehman Brothers (Ellis 2008, September 14).

[262] The 13 bankers or banks that were named by *The Wall Street Journal* to have attended the "emergency meeting" at the New York Fed are as follows: JPMorgan Chase (Jamie Dimon, CEO; Steve Black investment bank co-head); Goldman Sachs (Lloyd Blankfein, CEO; Gary Cohn, Co-president); Morgan Stanley (John Mack, CEO; Colm Kelleher, CFO); Merrill Lynch (John Thain, CEO); Citigroup (Vikram Pandit, CEO; Gary Crittenden, CFO); Credit Suisse (Brady Dougan, CEO); UBS AG (Thomas Daula, Chief Risk Officer); the Royal Bank of Scotland and the Bank of New York Mellon (Mollenkamp et al. 2008, September 13; Prins 2009: 21; Sorkin 2009: 301-305; Tett 2010: 273).

[263] An exemplary example of observing a 'respectful distance' occurred in a September 13 *Wall Street Journal* online article headlined, "Lehman deal could come soon as high-level talks continue" (Mollenkamp et al. 2008, September 13). The use of the phrase "high-level talks" in the headline, together with the description that the meeting was an "emergency" one, created a distance between the newspapers' audience and the bankers, and thus, the reporters were excused from not observing the meeting.

[264] Some insiders did get to make trades on Sunday afternoon as the International Swaps and Derivatives Association held a special "netting trading session" between 2 and 6p.m. The idea was to allow counterparties to Lehman's derivatives to get out of those contracts. While few trades were made and those that did were contingent on Lehmans' filing for bankruptcy before the stroke of midnight, Lehman's did not file until 1:45 AM (Mollenkamp, Craig, Ng & Lucchetti 2008, September 15, *WSJ*; Sorkin 2009: 373). Lehman Brothers was ranked in 10th place as a counterparty to credit default swaps, with an estimated notional value of $3.5 trillion at the time of its collapse (Markose, Giansante & Gatkowski 2009: 5, fn 9).

[265] US Treasury secretary Henry Paulson was also reported to have said, "Everybody is exposed" (Solomon et al. 2008, September 15).

[266] As the crisis weekend progressed, the news media accounts generally ran like this: Despite the best efforts of the American monetary officials to "restore confidence," "[a]t every turn" – the crisis had worsened (Sorkin 2008, September 13). But because the politicians and the public had balked at the escalating bailouts and the about-face 'rescue' decisions thus far, the Federal Reserve and the Treasury had little choice but to insist that the major banks cooperate with one another. They were obliged to either buy up parts of Lehman Brothers, or guarantee its obligations and manage an orderly unwinding of its shakier investments (Dash 2008, September 13; Landy & Irwin 2008, September 13; Mollenkamp et al. 2008, September 13). But, one difficulty with this account was the open concern that a bankruptcy of Lehman Brothers would cause a major meltdown in the American or global financial system. Some reports claimed that investment banks and investors had sufficient "time to prepare" for all likely eventualities (Paletta et al. 2008, September 13; Solomon, et al. 2008, September 15), while others reported that those who worked on Wall Street expected "a mess" if Lehman were allowed to fail (Hilsenrath Perry & Reddy 2008, September 14; Landy & Irwin 2008, September 13). Ironically, it was only once the marathon 'crisis' meeting had commenced that the news media began to seriously contemplate the fate of the insurance giant AIG, Washington Mutual and Merrill Lynch (Shrivastava & Verghese 2008, September 13; Paletta et al. 2008, September 13; Smith, Rappaport, & Pleven 2008, September 13; Sorkin 2008, September 13).

[267] The world's central bankers appeared to have opted for a 'let the market decide' remedial strategy, when they conferred in a conference call on Sunday September 14, just as regime theory predicts (Cowhey 1990: 197). However, the financial oligarchy had wagered they could successfully coerce governments for systemwide bailouts, amid the panic in 'the markets.' Consequently, the central bankers opted to prepare some more - *if* Lehman filed for bankruptcy (Hilsenrath et al. 2008, September 14).

[268] These inconsistencies in media treatment are a clear demonstration of 'paired examples,' wherein the media's contrasting treatment of like-events from the same period can be comparatively tested to help clarify the motives of the powerful interests with which they are aligned (Herman & Chomsky 2008; Klaehn 2002: 307).

Chapter 5

[269] Discursive power here means those private discussions and communications that remain largely invisible to the public, or even to most participants in financial markets, that reshape a regime (Fuchs & Graf 2010: 8).

[270] Eastern Standard Time (EST) corresponds with events in New York and Washington.

[271] The New York Federal Reserve occupies an entire city block, and its vaults are embedded in the bedrock of Manhattan Island, below sea level (Sorkin 2009: 301; New York Architecture Images 2005). By being there 'live' outside the "fortress-like" headquarters, the daily newspapers' reporters performed a standard ritual of crisis journalism, then dutifully provided

dramatized accounts of the "frantic around the clock-negotiations" wherein bankers allegedly "huddled" (Sorkin 2008, September 15, A1, *NYT*; White & Anderson 2008, September 15, C1, *NYT*).

[272] References for news stories that failed to contextualize the ritual displays of power over the Lehman Brothers crisis weekend are: Appelbaum & Goldfarb 2008, September 15: A1, *WP*; Farrell, Guerrera & Guha 2008, September 15: 1, *FT*; Hilsenrath & Reddy 2008, September 15: A18, *WSJ*; Irwin & Cho 2008, September 15, A1, *WP*; Jagger 2008, September 15: 3, *T*; Karnitschnig, Mollenkamp, & Fitzpatrick 2008, September 15: A1, *WSJ*; Landy, & Irwin 2008, September 15: A1, *WP*; Mollenkamp, Craig, Ng & Lucchetti 2008, September 15: A1, *WSJ*; Norris & Bajaj, 2008, September 15: A1, *NYT*; Solomon, Berman & Craig et al. 2008, September 15: A1, *WSJ*; Sorkin 2008, September 15: A1, *NYT*; White & Anderson 2008, September 15: C1, *NYT*.

[273] Just as *The Washington Post* had termed Bear Stearns as a "venerable" Wall Street financial institution on March 15, it used the same adjective in an article headlined "Troubled Investment Bank To File for Bankruptcy," to describe Lehman Brothers (Landy & Irwin, 2008, September 15, A1). The article gave a brief obituary-like history of the 158-year old firm. This account was in marked contrast with the treatment of Merrill Lynch in "Weekend Merger Struck With Bank of America" (Appelbaum & Goldfarb, 2008, September 15, A1). The word "venerable" became like a descriptor for Lehman Brothers, Merrill Lynch and AIG throughout coverage in *The Washington Post* (Anonymous, 2008e, September 16, A20; Pearlstein, 2008a, September 16, A1), *The New York Time*s (Koppell, 2008, September 17, p27.; White & Grynbaum, 2008, September 16) and *The Wall Street Journal* (Dale, 2008, September 23; Langley, Solomon & Karnitschnig 2008, September 18: A1; Solomon & Paletta, 2008a September 19, A1). Evidently, Lehman Brothers was on a path toward corporate canonization. Amid these journalistic eulogies, the news media failed to investigate the implications of the numerous off-the-record private meetings, phone conversations and other communications involving government officials over the Lehman Brothers crisis weekend. These not only included the discussions that took place at the privately-owned Federal Reserve Bank of New York, but also the numerous phone conversations that Treasury secretary Paulson made from his room in the Waldorf-Astoria hotel (Cho & Irwin 2008, September 16, A1, *WP*; Dash & Sorkin 2008, September 16, A1, *NYT*). The news media continued to submit to this pattern of off-the-record discussions throughout the rest of the coverage examined in this study.

[274] References to news accounts of the Lehman Brothers crisis weekend that used rationalist justifications or relied on metaphors in place of clear explanations are as follows: Farrell, Guerrera & Guha 2008, September 15: 1, *FT*; Irwin & Cho 2008, September 15: A1, *WP*; Jagger 2008, September 15: 3, *T*; Landy & Irwin 2008, September 15: A1, *WP*; Mollenkamp, Craig, Ng & Lucchetti 2008, September 15: A1, *WSJ*; Norris & Bajaj 2008, September 15: A1, *NYT*; Solomon, Berman & Craig et al. 2008, September 15: A1, *WSJ*; Sorkin 2008, September 15, A1, *NYT*; White & Anderson 2008, September 15, C1, *NYT*.

[275] Henry Paulson himself deployed this pyrological metaphor in his book *On the Brink* to downplay the collusion of the American monetary officials (2011: 237).

[276] Whereas, the *Financial Times*' US & Canada online article entitled "World's banks to back $70bn liquidity pool" named *eleven* banks – "Bank of America, Barclays, Citigroup, Credit Suisse, Deutsche Bank, Goldman Sachs, JP Morgan Chase, Merrill Lynch, Morgan Stanley, RBS and UBS" (Scholtes & Guha 2008, September 15), rather than the ten that were widely reported (Farrell, Guerrera & Guha 2008, September 15: 1, *FT*; Guha 2008, September 15, *FT*; Landy & Irwin 2008, September 15, A1, *WP*; Mollenkamp et al. 2008, September 15: A1, *WSJ*; Sorkin 2008h, September 15, A1, *NYT*). The 11th bank omitted by all the newspapers was the Royal Bank of Scotland (RBS).

[277] *The Wall Street Journal*, for example, claimed that federal regulators "drew a line in the sand" (Craig et al. 2008, September 16: A2). Other important rationalizations were as follows: *The Washington Post* asserted that Paulson ended a "too entangled to fail" doctrine (Mallaby 2008, September 16: A21); *The New York Times* editorialized "Mr. Paulson concluded that the financial system could survive the collapse of Lehman" (Labaton 2008, September 16: A24). Similarly, the *Financial Times* stated "Fed and US Treasury officials" told the CEO of Merrill Lynch, John Thain that on Friday September 12 "once Lehman failed" that the market would take down his bank next unless he merged with Bank of America (Guerrera et al. 2008, September 16: 1); and *The Times* proclaimed "[t]he free ride was over" to infer that "30 of the world's most powerful [limousine-chauferred] financiers" would be reigned in by government regulators (Jagger 2008, September 16: 4).

[278] Corporations and institutional investors find the anonymity that dark pools provide very attractive because it is a mechanism to make large block share trades, supposedly without causing market volatility, and were invented as way to facilitate after-hours trading (Buti, Rindi & Werner 2010).

[279] The BIDS trading consortium was created by twelve firms: Goldman Sachs, J.P. Morgan & Chase Co, Morgan Stanley, Bank of America, Citigroup, Merrill Lynch, Lehman Brothers, Deutsche Bank, Credit Suisse Group, UBS, Knight Capital Group and NYSE Euronext (*Dark pools: BIDS trading* 2008). Barclays was the new addition, since it was about to buy up some of Lehman's assets. Importantly, some news reports on Tuesday September 16 stated that a special trading session that took place on Sunday September 14 to resolve derivatives contracts had not gone well (Mollenkamp et al. 2008a, September 15, A1, *WSJ*). This was despite the fact that the Federal Reserve had urged Wall Street to construct a clearing house for the $62 trillion credit default swaps market system three years prior (Hilzenrath & Reddy 2008, September 15: A18, *WSJ*; Bernanke 2008: 3). This evidently left the major banks and their preferred clients in a bind.

[280] The loss of $700 million endured by this money market fund reflected the Primary Reserve Fund's exposure to Lehman Brothers. What went unreported was that in the 24 hours immediately following Lehman's collapse, investors attempted to redeem $24.6 billion from the Reserve Primary Fund, which had total assets of $62.3 billion (Wessel 2009: 206).

[281] *New York Times*' Andrew Sorkin finished his article "Merrill is sold; Failing to find a buyer, Lehman Bros is set to wind down," stating that "outside the public eye" Federal Reserve officials had gained a lot of data about the financial contracts held by the market, but "in the end, both Wall Street and the Fed blinked" (2008h, September 15, A19). But, because this information was the end of the report, Sorkin was off-the-hook to investigate for the possible collusion it suggested.

[282] For instance, *The Wall Street Journal's* September 16 lead story headlined, "AIG, Lehman Shock Hits World Markets," the reporters quite subtly stated "a wave of selling hit" during the last hour of business, which was provoked by "the fate of AIG" (Craig et al. 2008, September 16, A1). But this report omitted to state that the three ratings agencies had all downgraded AIG's credit creditworthiness. References for news reports that scapegoated AIG by failing to investigate the root causes of the financial 'crisis' are as follows: Craig, McCracken, Hilsenrath & Solomon 2008, September 16: A1, *WSJ*; Kessler & Hilzenrath 2008, September 16: A1, *WP*; Labaton 2008, September 16: A1, *NYT*; Macintosh, Farrell, Guerrera & Tett 2008, September 15: A1, *FT*; MacKenzie, van Duyn, Guha, & Guerrera 2008, September 16: 1 *FT*; Mollenkamp et al. 2008a, September 15, A1, *WSJ*; Sorkin 2008, September 15: A1, *NYT*; Walsh & de la Merced 2008 September 16: C1, *NYT*.

[283] One of the few articles that did report the spike to 'insure' AIG's debt, headlined "AIG Faces Cash Crisis as Stocks Dive 61%" in *The Wall Street Journal*, erroneously claimed this information was "a sliver of optimism" (Karnitschnig, Pleven & Ng 2008, September 16, A1, A8).

[284] For example, in their Wednesday September 17 report, "U.S. Seizes Control of AIG," *Washington Post* reporters David Hilzenrath and Glenn Kessler masked the 'rescue' of AIG with the justification that the authorities and the private sector had been "drawing up contingency plans" to limit the "collateral damage" in the event of a collapse of Lehman Brothers – "since the demise of Bear Stearns" (Hilzenrath & Kessler 2008, September 17, A1). This information was reported without asking who was involved in the "government and private firms" that drew up the "contingency plans." Instead, Hilzenrath and Kessler's report emphasized the 'emergency' feature of the 'rescue' frame by claiming that the government officials had "scrambled on a rescue plan" for AIG on Tuesday. References for other news reports that failed to investigate discrepancies between 'letting' Lehman Brothers fail and 'rescuing' AIG were as follows: Andrews, de la Merced & Walsh 2008, September 17, A1, *NYT*; Guha, van Duyn, Mackenzie & Guerrera 2008, September 17: 1, *FT* ;Hosking & Kennedy 2008, September 17: 1, *T*; Karnitschnig, Solomon, Pleven Hilsenrath 2008, September 17, A1, *WSJ*; Langley, Solomon & Karnitschnig 2008, September 18: A1, *WSJ*.

[285] In an opinion piece entitled "Governments cannot promise to wash their hands of a financial breakdown" one of *The Financial Times*' senior writers, Martin Wolf argued for government intervention in financial markets (Wolf 2008, September 17: 15). This argument promoted the idea that big Anglo-American financial businesses and government were separate and ignored the fact the secret jurisdictions exist because the Anglo-American financial oligarchy controls the state apparatus. Such ideological arguments were important since the collapse of Lehman Brothers had exposed major banks in the UK and continental Europe to losses (Markose et al 2009: p. 5, fn 10).

[286] Like the former Federal Reserve chairman, Paul A. Volcker, the former secretary of the U.S. Treasury from 1988-1993, Nicholas F. Brady is also member of the Council on Foreign Relations. Eugene A. Ludwig is a former Comptroller of the Currency, from 1993 to 1998 (Brady et al. 2008, September 17: A27). *The Wall Street Journal* disclosed their previous monetary authority posts, but not Brady and Volcker's membership with the Council on Foreign Relations or Volcker's past attendance at the Bilderberg Foundation conferences (Membership Roster 2009; Estulin 2009).

[287] The guest columnists used a "get a head of it" phrase to naturalize the financial contagion as though it were a pandemic (Brady et al 2008, September 17: A27, *WSJ*). This treatment echoed Bernanke's remarks to Jamie Dimon on Tuesday 9 September 2008, when the Federal Reserve chairman said, "We're working on a number of initiatives. We're just trying to stay ahead of this thing" (Sorkin 2009: 240).

[288] Brady, Ludwig and Volcker asserted that this solution would create "a risk to the taxpayer" but since it would be "administered by professionals" then taxpayers stood potentially to benefit too (2008, September 17, A27, *WSJ*).

[289] References for these are as follows: Bajaj 2008, September 18: A1, *NYT*; White & Dash, 2008 September 18: A1, *NYT*; Irwin & Cho 2008, September 18: A1, *WP*; Lauricella, Rappaport & Lobb, Annelena, 2008, September 18: A1, *WSJ*.

[290] Furthermore, reporters Patrick Hosking and Siobhan Kennedy used the emotive claims of an unnamed source, described as "[o]ne shell-shocked senior banker in London," who stated "[t]he market is puking all over the place," that there was "no capital left in the world" and this evidently meant the global financial system was "on the brink" (2008, September 18: 1).

[291] *The Times* reporters created the impression that "the storm pulverising the financial markets" had been the genesis of the deal-making (Kennedy & Hosking 2008, September 18: 4).

[292] Citigroup's decision to play host was symbolic, since it effectively lent its name as a symbol of the City's financial power. The contrivance of a cocktail party for financial elites, who are clustered in the financial district (owned by the City of London Corporation), communicated their dominance among capitalists, since the party's location in Mayfair was where hedge funds were clustered (Wigton 2008, September 19: 6, *T*). That 'deal sketching' impression was part of the perceptual distortion necessary for British financial officials, political elites and bankers to justify the application of pragmatism. The ruse relied on the spectre of a financial abyss that *The Times* and the *Financial Times* were complicit in creating, particularly as they reported the Special Liquidity Scheme was expiring in October (Croft 2008, September 17: 1, *FT*; Croft, Larsen, Burgess, Parker 2008, September 18: 1, *FT*; Parker & Giles 2008, September 20: 3, *FT*).

[293] References for stories that reported the September 18 meeting with congressional leaders are as follows: Andrews 2008, September 20, A1, *NYT*; Appelbaum & Montgomery 2008, September 19, A1, *WP*; Hulse & Herszenhorn 2008, September 20, C5, *NYT*; Montgomery, Irwin & Cho 2008, September 20, A1, *WP*; Solomon & Paletta 2008, September 19, A1, *WSJ*; Solomon, Rappaport, Paletta & Hilsenrath 2008, September 20, A1, *WSJ*; Weisman, Cho & Kane 2008, October 4, A1, *WP*.

[294] Furthermore, *The Washington Post* made little of the coercion inherent to Bernanke and Paulson's presentation. Instead, its journalists sought to justify them. At the end of "A Joint Decision to Act…" the reporters stated that those who participated in the 'Present the Bill' ritual meeting "agreed" that since there were television and newspaper reporters waiting just beyond a podium, they would stand in solidarity to meet the press (Montgomery, Irwin & Cho 2008, September 20, A1, *WP*).

[295] References for news reports that either reported on the 'contingency plans' or that the monetary authorities were hesitant to go to Congress are as follows: Be It Resolved 2008, September 19, *WSJ*; Guha et al. 2008, September 19: 1, *FT*; Montgomery, Irwin & Cho 2008, September 20, A1, *WP*; Solomon & Paletta 2008, September 19, A1, *WSJ*; Solomon, Rappaport, Paletta & Hilsenrath 2008, September 20, A1, *WSJ*.

[296] Furthermore, there is also evidence of behind the scenes planning by the Financial Services Roundtable, a powerful lobby group for US finance; it had already written draft legislation (Williamson 2008, September, 19, *WSJ*). This information implies that drafting of the law began well before the Lehman Brothers crisis weekend by both industry lobbyists and government officials. Significantly, members of The Financial Services Roundtable included: BlackRock Inc., J.P. Morgan Chase, Citigroup, Bank of America, Barclay Capital, Bank of New York Mellon, and UBS (The Financial Services Roundtable n.d). Key players from these institutions were involved either in the Lehman Brothers' collapse, the bailout-takeover of Merrill Lynch and AIG, or all three of these events (Johnson & Kwak 2010; Sorkin 2009). As such, this evidence of planning contradicts the 'rescue' frames' central theme that the escalation of the financial crisis was an unanticipated emergency and that the US monetary officials had only put forward 'ad hoc' responses.

[297] References for news reports that reported on the monetary officials' "Present the Bill' ritual are as follows: Andrews 2008, September 20: A1, *NYT*; Appelbaum & Montgomery 2008, September 19: A1, *WP*; Hulse & Herszenhorn 2008, September 20: C5, *NYT*; Montgomery, Irwin & Cho 2008, September 20: A1, *WP*; Solomon & Paletta 2008, September 19: A1, *WSJ*; Solomon, Rappaport, Paletta & Hilsenrath 2008, September 20: A1, *WSJ*; Weisman, Cho & Kane 2008, October 4: A1, *WP*.

[298] References for these news articles in order of appearance are as follows: Solomon & Paletta 2008, September 19: A1, *WSJ*; Solomon, Rappaport, Paletta & Hilsenrath 2008, September 20: A1, *WSJ*; Wessel 2008, September 20, A1, *WSJ*; Andrews 2008a, September 19: A1, *NYT*; Appelbaum & Montgomery 2008, September 19: A1; Guha, Mackenzie & Atkins 2008, September 19: 1, *FT*.

[299] The Saturday September 20 edition of *The Times* featured a large photo of a stock market trading floor on its the front-page that captured a moment of "[r]elief and jubilation" as traders cheered with their arms raised from the previous day. The lead article headlined "To hell and back," reported that a surge in stock prices in London had followed news that the US financial authorities were planning bailout legislation (Hosking 2008, September 20: 1).

[300] This image was a similar moment to the one that appeared on the front-page page of *The New York Times* on Tuesday September 16. The use of FTSE 100 index was self-referential since the stock-trading index of 100 top companies was owned by The Financial Times Group.

[301] This *New York Times* report neglected to mention that BlackRock Inc., was already managing the assets of Bear Stearns, Freddie Mac and Fannie Mae and was in line for asset management of AIG Financial (Andrews 2010, *VF*; Burrough, 2008, *VF*; GAO 2011: 153, 177, 184).

[302] An editorial entitled "What the Candidates Can Do," published in *The Washington Post* the morning after 'Present the Bill' ritual, conveyed a similar solution framing to that conveyed in *The Wall Street Journal* article headlined "In turmoil, capitalism in U.S. sets new course," of September 20 (Hubbard 2008, September 19: A19, *WP*; Wessel 2008, September 20: A1, *WSJ*). Guest columnist R. Glenn Hubbard, who was the dean of Columbia University's Business School, used a maritime metaphor in his piece "What the Candidates Can Do," to explain that the way to right "Wall Street's ship" was with a "structural fix." By this solution, he meant recapitalizing financial firms with "taxpayer funds." Echoing Texas Christian University economic historian Stephen Quinn in *The Wall Street Journal* piece entitled "Resurrect the Resolution Trust" (Brady et al. 2008, September 17: A27), Hubbard, called for "smarter regulation" and advocated further capital gains and

corporate tax cuts. By inference, the funding of the bailouts would come mostly from the middle class and the working poor - a measure he described as a "potent tonic" (Hubbard 2008, September 19, A19). Significantly, at the beginning of the Bush administration, Robert Glenn Hubbard wrote legislation that cut taxes for America's richest citizens, but *The Washington Post* did not disclose this (Ferguson 2011). *The Washington Post* also failed to disclose that Hubbard was a life-member of the Council on Foreign Relations; that he was also an economic advisor to the Federal Reserve Bank of New York from 1993 to 2001 and that from 2007 to the present and he had professional ties to several financial firms (Ferguson 2011; Robert Glenn Hubbard n.d.: 2; Membership Roster 2009).

[303] In *The Guardian Weekly*'s lead story headlined "US bank collapse sends shock waves" for September 19, the reporters claimed the Bank of England had "pumped £10bn" into the UK financial sector in order to support the banks, and attributed the increased borrowing costs to a "desire of institutions to hoard their money rather than lend it" ("US bank collapse" 2008: 1). This reporting inferred that UK banks, operating as they were in a top-tier oligopoly market, had simply adopted an innocent defensive foetal-like posture rather than contextualizing it as evidence of collusive oligarchic wealth defence. The article also stated that the Bank of Japan had "put $26 bn" into Japan's financial system because it expected market turmoil following Lehman's bankruptcy and the takeover of Merrill Lynch (p.2). This detail ought to have provoked questions about what the motives of the US monetary authorities were, since it was obvious not only to the Bank of Japan, but to everyone that the bankruptcy of Lehman Brothers could only have triggered a panic (Ferguson 2011; Johnson & Kwak 2010). Ironically, *The Guardian* reporters use of remarks by the chief economist from Standard Chartered banking group, Gerard Lyons, served as a time capsule for a week in which the 'crisis' narrative changed so much. Lyons asserted that, "[t]he most significant event is the fact the US authorities signalled that they are not going to step in and protect firms that do not pose a systemic risk" (p.2). Whereas Lyons stated in *The Times* on Saturday September 20 (after the bailout proposal of the US financial system was announced), that a global financial "meltdown" and a worldwide economic downturn was a certainty if "[a] do nothing scenario" had persisted (Hosking 2008, September 20: 8). *The Guardian* reporters did not look behind Lyons' opinion, since it inferred a 'Scapegoat' ritual from which those that 'qualified' as "a systemic risk" would be the early receivers of systemwide bailouts. In particular, the reporters failed to investigate the decision to make Lehman Brothers fail, and did not address the UK authorities communications with US authorities over the Lehman 'crisis' weekend. The article also omitted mention of the power relations within London's banking cartel, including its internal rivalries and collusive practices.

[304] *Fortune*, *The Economist*, *Time* and *BusinessWeek* achieved this by failing to investigate the Federal Reserve's advancing of $70 billion in federal credit on Sunday September 14 and Monday September 15, while at the same time the consortium of banks claimed they were funding their own $70 billion liquidity pool. Furthermore, *The Economist*, *Time* and *BusinessWeek* justified the saving of AIG from bankruptcy on Tuesday afternoon. In doing so, they failed to investigate the pattern of the three rating agencies – Standard and Poor's, Moody's and Fitch – downgrading AIG on Monday afternoon.

[305] *The Economist*, *Time* and *BusinessWeek* also failed to investigate patterns occurring in the City with regard to the take-down of Halifax Bank of Scotland and the credit downgrade by two major ratings agencies on Tuesday September 16. These three magazines reported that such booms and busts were not new. Indeed, true to their affectation as 'neutral bystanders,' they blithely informed readers there were patterns. *BusinessWeek* and *The Economist* sought to influence its elite readers to practise wealth defence by warning them of the urges to reign in finance while *Time* sought to pacify its mass audience by informing them of the inevitably of booms, busts and bailouts, without explicitly revealing the calculation behind the pattern (Barrett 2008: 28-32; "Saving Wall Street: The last resort" 2008: 82; Serwer & Sloan 2008: 32-37; What Next? 2008b: 13-14).

[306] *Time* magazine's online version of this article entitled "How financial madness overtook Wall Street" was published on September 18 2008 (Sloan 2008).

[307] Indeed, the writers stated in a summary of "government" bailouts thus far, "Although Hank Paulson makes a high-noon play over Lehman, telling the Street that Uncle Sam is not its rich uncle, he caves in the face of the looming catastrophe that is AIG" (Serwer & Sloan 2008: 35). At the time this article went to press, AIG had just been 'rescued,' but the system-wide bailout had not been announced. The images that form a backdrop behind Paulson as Uncle Sam included a digital 'ticker tape' graphic display of AIG and Merrill Lynch's stock market prices, and various buildings including the Dow Jones, Lehman Brothers and the turreted New York Federal Reserve, above which loomed a foreclosed house. By casting Paulson as Uncle Sam, the effect of this image (taken at a White House press conference on Monday September 15) was a propagandist one as it subtly referenced the World War I US Army recruitment posters and ads that were provocatively intended to get American men to enlist (Capozzola 2008: 5; Engdahl 2009: 73).

[308] As a narrative device, this clumsy aside resembled a moment that could have been from an episode of *Scooby Doo*. In *The New Scooby Doo Mysteries*, Scooby Doo and his friends would find themselves in a variation of the same formulaic plot each week. Early on in the plot, they would learn of a 'mystery' involving a scary supernatural creature such as a zombie, a ghost or a monster that always turned out to be a crook that had created a costume to mask a criminal plan. *Time*'s guest writers stated that Wall Street periodically "suffers a blow," but the pattern of greed overtaking its apparent counter-emotion – fear – was typically "quickly forgotten" (Serwer & Sloan 2008: 34). Breathlessly, the editors 'forgot' to mention that they were complicit in this 'forgetting'; a phenomenon that essentially mimicked 'Zombie Apocalypse' plot formulas. In Zombie Apocalypse movies and novels, the circumstances out of which the zombies are produced usually remain a mystery since their back-stories are "purposely vague and inconsistent," or are depicted as a novel event (Munz, Hudea & Imad et al.

2009:134). As such, *Times*' 'The Price of Greed' lacked a 'back-story' necessary for its mass audience to place the key players in context of the 'crisis,' just as Munz, Hudea, Imad and Smith described this pattern as evident in Zombie Apocalypse stories (in their mathematical modelling of zombie infection, "When Zombies Attack!") (2009: 134). Instead, Serwer and Sloan vaguely attributed some of the responsibility to "hedge funds operators, leveraged-buyout boys … and whiz-kid quants" – the last of these dudes were said to be the financial engineers who created the new financial products, which they likened to a "financial Frankenstein" (Serwer & Sloan 2008: 2008: 32). Also deemed responsible was a twin 'belief' that house prices would not decline and that selling derivatives on a global scale was spreading the risk so thin, it was decreed to be negligible.

[309] Indeed, the layout of photos, market data graphics and sub-headings, which resembled a school-textbook, was designed to convey the idea that *Time*'s "average folk" readers would be bestowed with expert powers (Serwer & Sloan 2008: 32-37). The other framing devices were images of market data, close-up shots of presidential candidates John McCain and Barack Obama appearing to stare down one another across the pages, and the corporate branding of AIG and Lehman Brothers on their buildings. This school text-book layout also included photos of a few prominent faces supported by 'grades' and comments on their role in the crisis. Their names were accompanied by reality TV-like media labels such as Bank of America's CEO Ken Lewis as "The Strategic Shopper" who scored a "B"; former Federal Reserve chairman Alan Greenspan, "Mr. Laissez-Faire" who earned a "C"; and Lehman Brothers' CEO "Dick Fuld" gained the title "The Biggest Loser," and unsurprisingly got an "F" (Serwer & Sloan 2008: 36-37).

[310] On the American continent, the English colonizers got around the law of *terra nullus* by invoking another doctrine *vacuum domicilium*, claiming that because the "savages" ranged rather than inhabited the "unmanned" wild country and as 'god' intended the land to be cultivated and farmed with livestock, land grabs were justified (Wilson 1999: 93-94).

[311] Given that the architecture of the Wall Street-Washington City Tax-secrecy Haven Complex follows the idea of asymmetric wealth accumulation and tax burden practiced by the oligarchs of the Roman Empire, the pattern of the number thirteen associated with financial events, such as 13 bankers, is intriguing. Curiously, in Romans 13 of the New International Version of the *Holy Bible*, it preaches the apparent importance of respecting rulers. Evidently, among their number there were some worth respecting. Apparently, now the authorities are doing God's work, too. Under the subheading, "Submission to the Authorities," Romans 13 states, "Everyone must submit himself to the authorities" and claims that they "have been established by God" and therefore anyone "who rebels … is rebelling against God" (Zondervan 2002: 1766). Evidently, the Treasury departments and civil servants of the world are also doing God's work, because Bible believers are told that paying taxes are necessary to pay for "God's servants" (p.1767). The number thirteen in financial events may also correlate to the 13 arrows held in the talons of the American eagle (and the 13 stars above the eagle's head) that appears on much federal heraldry, such as on the Seal of the President of the United States and the Great Seal of the United States (U.S. Department of States Bureau of Public Affairs 2003; The Institute of Heraldry n.d.). Thirteen stars also appears on the Seal of United States Department of the Treasury (U.S. Department of the Treasury 2010). In others words, the number 13 appears to have a unifying symbolism among elites and oligarchs to maintain their authority.

[312] *Fortune* used a criminal metaphor in its September 29 issue, to make it seem like Lehman's was simply led awry by a law-breaking faction (Sloan & Boyd 2008: 65). This treatment deflected responsibility from the Wall Street-Washington Complex from which the scapegoated Lehman Brothers had just been ejected. A primal-survival metaphor in *BusinessWeek* was used with an illustration of a hunting expedition to suggest that the survival of Wall Street (now cast as a buffalo bull) was threatened (Barrett 2008: 28-32). This depiction naturalized the financial 'crisis' with a primal metaphor that linked an article entitled "Wall Street Staggers" with an accompanying painting that depicted a spear-wounded buffalo bull staggering (Barrett 2008: 28-29).

[313] *The Economist* does not publish the names of its writers or editors. This is an exemplary example of 'buying out' because the media personnel themselves 'disappear' into anonymity. While a list of its staff appear on the media directory page of *The Economist*'s website, this does not tell the readers – if they know this directory exists – who wrote what (*The Economist* 2012). Presumably, *The Economist*'s London editor-in-chief John Micklethwait wrote this editorial.

[314] The deployment of austerity measures is calculated. As journalist Greg Palast has reported, the IMF has a four-step programme of implementation, that includes an unofficial "step three-and-a-half." This step is referred to by insiders as the "IMF riot[s]," which ensue after "Step Three: market-based pricing," or price hikes on essential goods and services, has been implemented. After a period of "social unrest" or coercion, "Step Four" is implemented, 'free trade' or open markets for transational corporations (Palast 2001a, b).

[315] Where *The Washington Post*, *The New York Times* and the *Financial Times* at least acknowledged one or both of the conference calls, *Wall Street Journal* reporters Aaron Lucchetti and Jenny Strasburg avoided mentioning these events directly (Lucchetti & Strasburg 2008, September 17: C3). Instead, they employed the phrasing strategies, "Goldman Sachs … was asked Tuesday" and in reference to Morgan Stanley's chief financial officer, "Mr. Kelleher told analysts."

[316] Robert Steel and John Mack's common connection to Duke University was inserted to make their crossed-paths look like a public service to education rather than elite networking for the purpose to influence the university's courses to suit oligarchic interests. The article also omitted to say that Robert Steel became undersecretary at the US Treasury in October

2006 before leaving to manage Wachovia in July 2008 and that he had in common with Henry Paulson a three-decade long career at Goldman Sachs (Executive Profile: Robert K. Steel n.d.; Massey 2010, June 22). An accompanying photo of Paulson in conversation on his cell phone tacitly communicated that, *meanwhile*, the Treasury secretary was working his entwined connections with Wall Street.

[317] Only two articles, one apiece in the *Financial Times* and *The Wall Street Journal*, mentioned the amounts of money involved in the spiked costs of credit default swaps for Morgan Stanley's debt (Baer et al. 2008, September 18: 21, *FT*; Ng 2008, September 19: C3, *WSJ*). The *Financial Times* report stated that the cost of credit default swaps had spiked with an up-front fee of $1.5 million to insure $10 million worth of Morgan Stanley's debt for five years (and an additional $500,000 annual payment), while *The Wall Street Journal* reported that 'investors' were paying $900,000 per annum for the same credit default insurance to cover $10 million worth of Morgan Stanley's debt. The newspapers omitted the cost of credit default swaps for Goldman Sachs' debt.

[318] Crucially, *The Wall Street Journal* story "Worst crisis since '30's…" noted that 'investors' were said to be concerned about the market dominance of the biggest financial firms trading in credit default swaps because if one of those major institutions failed, a contagion of losses would ensue (Hilsenrath et al. 2008, September 18: A1). But, because reporter Serena Ng was actively keeping the identities of her sources hidden, this excercise of the 'buying-out' news filter meant she was off-the-hook to examine the intent of their strategies. Furthermore, all the newspapers failed to analyze the role of CDS data providers, such as Markit and CMA Data Vision (Baer et al. 2008, September 18: 21, *FT*; Landy 2008, September 17: D1, *WP*; Landy 2008, September 18: D1, *WP*; Lauricella, Rappaport & Lobb 2008, September 18: A1, *WSJ*; Lucchetti & Strasburg 2008, September 17: C3, *WSJ*; Story 2008, September 17: C1, *NYT*, White & Dash 2008, September 18: A1, *NYT*). In the *Financial Times*' US edition, an article entitled "Morgan Stanley and Goldman head new list of concerns" the reporter stated that "bullish observers argued" that credit default swaps had caused share prices to drop. Despite not fully explaining what was occurring, the journalist paraphrased an equities manager at Payden & Rygel, Chris Orndorff who stated that there were few buyers and sellers of the contracts, and that their effect could be amplified (Gray 2008, September 18).

[319] Even though this article headlined "Worst crisis since '30's, with no end yet in sight" stated that one of AIG's subsidiaries, AIG Financial Products, had generated $446 billion worth of CDSs, the reporters failed to investigate why exactly the investors/speculators who comprised "jittery global markets" were worried (Hilsenrath et al. 2008, September 18, A1-A2, *WSJ*). On September 18, *The Washington Post* article "Could the end be near for the big Wall Street brokerage?" did explain that "derivatives" were a measure of the probability that a firm would default on its debt, but the report did not investigate the use of credit default swaps as aggressive bets (Landy 2008, September 18).

[320] References for news articles that failed to investigate the rivalries underpinning Morgan Stanley and Goldman Sachs' financial data were as follows: Baer et al. 2008, September 18: 1, *FT*; Gray 2008, September 18, *FT*; Landy 2008, September 18: D1, *WP*; Lauricella, Rappaport & Lobb 2008, September 18: A1, *WSJ*; Lucchetti & Strasburg 2008, September 17: C3, *WSJ* ; Ng 2008, September 19: C3, *WSJ*; White & Dash 2008, September 18: A1, *NYT*.

[321] References for articles that used metaphors which naturalized the financial turmoil are as follows: Baer, Farrell, Sender, Bullock & MacIntosh 2008, September 18: 21, *FT*; Lauricella, Rappaport & Lobb 2008, September 18: A1, *WSJ*; White & Dash 2008, September 18: A1, *NYT*.

[322] To buttress my argument that the financial 'crisis' was constructed in a certain way, establishment experts were sourced for event cluster two also. Unsurprisingly, they all failed to mention the collusion inherent to the 'too big to fail' public policy. This failure could not have occurred without the complicity of the heads of the major news outlets, who "set the tone," as Starkman put it (2009a: 25). An exemplary example appeared in *The Washington Post* wherein reporters Jill Drew, Cecilia Kang and Nancy Trejosin editorialized that government officials failed to appreciate "the gathering storm" and were thus "hobbled by balkanized oversight and gaps in disclosure rules" (2008, September 21: A12) To back up this ideological claim in their article, headlined "Cultural and structural shifts rise out of risk-taking Titans' hard fall," the *Washington Post* reporters interviewed Mark Gertler, an economics professor from New York University who had co-written two papers with Ben Bernanke in the mid-1990s (Drew, Kang & Trejosin 2008, September 21: A1, A12). Gertler claimed that regulators could not scrutinize investment banks to the same degree that they could with commercial banks. Gertler, who had worked as a consultant to the New York Federal Reserve between 1994 and 1997, and was a research associate at a policy research think-tank, the National Bureau of Economic Research since 1990, would have known that standard constructions of the "transparency" issue belied the complicity of regulators (Curriculum Vitae, Mark Gertler n.d.; Johnson & Kwak 2010). Gertler himself symbolized the fusion between academia, think-tanks, the Federal Reserve System and the financial oligarchy and the special 'trust' that binds them.

The Washington Post's editors 'set the tone' by carefully positioning the role of financial elites, whose names could be used to lend the events symbolic meaning. In place of descriptions that could have revealed the political-economic entwinements between Wall Street and Washington, *The Washington Post* quoted elite experts such as Roger Leeds from John Hopkins University, who was director at the Center for International Business and Public Policy and Ray Hill, a finance professor from Emory University (Drew, Kang & Trejosin 2008, September 21: A1, A12). Leeds' opinion *led* the article when he stated that, "The competitive landscape of finance is changing before our eyes and the losers are the investment banks" (A1). Ironically,

given his directorship, he failed to account for the Wall St-Washington Complex's collusion inherent to their globally-spread 'too big to fail' public policy (Ferguson 2011; Johnson & Kwak 2010; Litan 1999: 70). Ray Hill reflected the naïve *outlook* that the investment banks lacked "a good appreciation of the risks they were taking," which in effect meant that they had been working hard at the 'mill.'

[323] References for news reports that claimed that as new bank holding companies, Goldman Sachs and Morgan Stanley would be better regulated are as follows: Enrich & Paletta 2008, September 23: A6, *WSJ*; Hilsenrath, Paletta & Lucchetti 2008, September 22: A1, *WSJ*; Irwin & Appelbaum 2008, September 22: A1, *WP*; Reddy 2008, September 23: A8, *WSJ*; Sorkin, 2008i, September 21, *NYT*; Sorkin & Bajaj 2008, September 22: A1, *NYT*; White & Story 2008, September 23: C1. *NYT.*

[324] The American and British newspapers failed to investigate the power relations between key players, especially given that *The Wall Street Journal* had reported that one of the Federal Reserve's governors, Kevin Warsh had been an executive at Morgan Stanley and was involved in transitioning both investment banks into bank holding companies (Hilsenrath, Paletta & Lucchetti 2008, September 22: A1, A6, *WSJ*; Sorkin 2009: 414). Since it was also widely known that Henry Paulson was a former Goldman Sachs CEO, the major media outlets lack of interest into investigating collusion is telling. Indeed, it turned out that the American monetary officials had attempted to merge Wachovia with Goldman Sachs over the weekend of September 20 and 21, but withdrew after Warren Buffett pointed out that a deal between the firms was not feasible from a public legitimacy perspective. According to Andrew Sorkin's book *Too Big to Fail*, Buffett alluded to the fact that Wachovia's CEO had been Paulson's deputy secretary of the Treasury and a former vice chairman of Goldman Sachs (Sorkin 2009: 467-478). More pointedly, Buffett owned the most shares in Wells Fargo (which subsequently took over Wachovia) and had "emerged as the go-to-financier" during the financial turmoil, according to *The New York Times* (Chossudovsky 2010a: 6; Dash & White 2008, October 3, *NYT*; Subramanian & Sharma 2010b: 7).

[325] References for dramatic accounts of the investment banks becoming bank holding companies are as follows: The End of Wall Street 2008, September 23: A28, *WSJ*; Enrich & Paletta 2008, September 23: A6, *WSJ*; Hilsenrath, Paletta & Lucchetti 2008, September 22: A1, *WSJ*; Irwin & Appelbaum 2008, September 22: A1, *WP*; Sorkin & Bajaj 2008, September 22: A1, *NYT*.

[326] These reports also implied that the regulatory authorities had governance interests that were independent of Wall Street, even though federal monetary authorities are influenced by the financial oligarchy and many rely on Wall Street for fees (Ferguson 2011; Johnson & Kwak 2010). As such, the widespread industry practice of 'regulatory arbitrage' or 'jurisdiction shopping,' in which financial institutions threatened and bargained with regulators for favourable rules, was omitted. Furthermore, claims that the banks would be better supervised obscured the fact that the Federal Reserve knew that Goldman Sachs and Morgan Stanley had entities within their organizational hierarchies that were registered in financial secrecy havens (National Information Centre 2008a,b). Goldman Sachs Group Inc had a vast corporate hierarchy comprising of 7354 entities, while Morgan Stanley's was 5627 entities, as at 30 September 2008 (National Information Center 2008a,b). Goldman Sachs Group had numerous subsidiaries in tax havens such as: London, the British Virgin Islands, the Cayman Islands, Delaware, Mauritius, Hong Kong, Ireland, Amsterdam, Luxembourg, Switzerland, Guernsey and the Malaysian city of Labuan (National Information Center 2008a; Murphy 2008: 25, 29; Palan et al. 2010: 41-44). Morgan Stanley's presence in numerous tax havens included: the Cayman Islands, Barbados, Ireland, London, Singapore, Hong Kong, Labuan, Mauritius, Jersey, Luxembourg, Amsterdam, Switzerland (National Information Center 2008b). This data comes from reports archived at the Federal Reserve System's National Information Center, which is a database provided by the Federal Financial Institutions Examination Council (FFIEC); a body that reports to numerous US financial regulators (Federal Financial Institutions Examination Council 2008a). Therefore, this data shows official endorsement of the worldwide tax haven network from American financial authorities.

[327] For example, in a *Financial Times* report headlined "Fed acts to protect Goldman, M Stanley," reporter Krishna Guha deployed a biblical metaphor when he described the Federal Reserve's actions as like a "shepherd" (2008, September 23: 23). In effect, this article played on the mythological 'Saviour' metaphor attributed to the legendary 'Christ' figure. In Christian mythology, the 'shepherd mythological metaphor' is used to liken 'God' and 'Christ,' as a unified entity, to a shepherd guarding over the 'Christian flock' and is encapsulated by the mantra, "The Lord is my shepherd" (*Holy Bible Illustrated* n.d.: 539; Martin 2006: 105). The deployment of this metaphor is fascinating given the pervasive belief that credit is the money of savers 'loaned' out to 'borrowers.' This conventional wisdom, which persists among 'borrowers' captured by the reach of capitalism, is comparable to the indoctrination required to believe in 'extra-terrestrial envoys,' as Nitzan and Bichler refer to 'Messiah' figures (2009: 35). Like the scapegoat ritual of the alleged crucifixion (Novak 2005: 200-207: Schackner 2008: 9), the stigmatization of the 'big five' investment banks and the casting out of Lehman Brothers, led to the week-long 'Redemption' rituals. These "Redemption' rituals were followed by the 'Resurrection' ritual of the two biggest – and most revered – investment banks (as bank holding companies). They encapsulated the hope of 'Salvation' for investors.

[328] The news coverage also omitted to point out that the "independent brokerage firms" were not exactly independent. The story conveyed the idea that by becoming bank holding companies, Morgan Stanley and Goldman Sachs would be able to acquire commercial banking businesses. Goldman Sachs and Morgan Stanley already had entities within their corporate hierarchies that were commercial banks, as *The New York Times* reported (White & Story 2008, September 23: C1). The

Federal Deposit Insurance Corporation's "Top 50 Commercial Banks and Savings Institutions" as at June 30th 2008 showed that Goldman Sachs Bank USA, and Morgan Stanley Bank were both registered in Salt Lake City Utah, with deposits of $22.896 billion and $29.771 billion, respectively (Federal Deposit Insurance Corporation 2008a.b). This meant that Morgan Stanley Bank and Goldman Sachs Bank USA were in the bank charter class category of Federal Reserve Non-member and their primary regulator was the Federal Deposit Insurance Corporation. By comparison, the domestic deposit size of Bank of America was $701.485 billion, Wachovia Bank was $422 billion and JPMorgan Chase & Co. was $497.215 billion (Federal Deposit Insurance Corporation 2008e).

329 Downplayed also in the news coverage was the consolidation of power taking place, not only for the two banks, but also for the Federal Reserve System. Goldman Sachs and Morgan Stanley's decision to become bank holding companies was a shrewd one in anticipation of system-wide bailouts. Bank holding company status not only meant they could now dump their junk and 'hard-to-trade' securities for Treasury securities, they could use the new lines of cheap credit to orchestrate hostile takeovers of retail banks weakened by a crisis that the two investment banks played no small part in creating. Meanwhile, the Federal Reserve stood to consolidate its power because the system-wide bailouts would create strong incentives for more financial firms to buy banking operations in order to qualify as bank holding companies (Johnson & Kwak 2010; Prins 2009). Therefore, Goldman Sachs and Morgan Stanley's simultaneous move to become bank holding companies signalled to savvy market players that game theoretic collusion was essential to the survival of even to the most prestigious cartel members.

330 Morgan Stanley, Goldman Sachs and Merrill Lynch borrowed billions in short-term credit from the Federal Reserve prior to the passing of the bailout bill on October 3, 2008 (along with other major banks), as mentioned in chapter two. Ironically, at the time of Merrill Lynch's merger with Bank of America, this amalgamation was touted as an example of a private market solution to the 'crisis' by Henry Paulson (among others) (Appelbaum & Goldfarb 2008, September 15: A1, *WP*; Hilsenrath & Reddy 2008, September 15: A18, *WSJ*; Mollenkamp, Craig, Ng & Lucchetti 2008, September 15: A1, *WSJ*; Norris & Bajaj 2008, September 15: A1, *WP*; Sorkin 2009; Tett 2010). None of the news outlets bothered to investigate how successful Merrill Lynch's merger with Bank of America actually was. They could have followed the paper trail starting with the press release of Sunday September 21 available on the Federal Reserve's Board of Governors' website (Board of Governors of the Federal Reserve System 2008, September 21). In effect, the development that Merrill Lynch had also been granted wider access to federal credit meant that the banking conglomerate was just as desperate to stay solvent as Morgan Stanley and Goldman Sachs. Furthermore, the information in the press release meant that the Federal Reserve had been duplicitous because of its part in the collusive arrangement to let Bank of America merge with Merrill Lynch, while Lehman Brothers was allowed to collapse. In doing so, the Federal Reserve and the US Treasury let the public think that Bank of America had taken care of Merrill Lynch through the merger deal.

331 In his book *Too Big to Fail*, Andrew Sorkin revealed that Paulson's point-man David Nason, Treasury's assistant secretary of financial institutions, discussed Lehman's situation in the early northern summer of 2008 with the associate director of the Securities and Exchange Commission (SEC), Michael A. Macchiaroli (Sorkin 2009: 217-218). In this meeting, Macchiaroli made it clear that because half of Lehman Brothers derivatives contracts were on its London trading unit's books, and its counterparties were therefore beyond US jurisdiction. The SEC's associate director claimed the SEC could not prevent the parent company from going bankrupt. Macchiaroli suggested that a netting trading session could be used to settle Lehman's derivatives contracts. According to Sorkin, Nason replied, "That would be a mess" (p.218).

332 References to news articles that reported on the new investments in Goldman Sachs and/or Morgan Stanley are as follows: Craig, Karnitschnig & Lucchetti 2008, September 24: A1, *WSJ*; Currie & Beales 2008, September 25: A2; Farrell & Guerrera 2008, September 24: 18, *FT*; Hosking & Lewis 2008, September 25: 43, *T*; Landy & Heath 2008, September 25: D1, *WP*; Larsen & Guerrera 2008, September 27: 15, *FT*; Pulliam, Kelly & Karnitshnig 2008, September 25: A1, *WSJ*; White, 2008, September 24: A1, *NYT*. *The New York Times* and *The Wall Street Journal* returned *The Washington Post*'s wry deployment of expert opinion from people whose names were used to lend the events symbolic meaning (Drew et al. 2008, September 21: A1, A12, *WP*). *The New York Times* deployed a pithy interview from an analyst called Brad Hintz, who evidently took Buffet's investment as a hint to the market that he was "confident" (White 2008, September 24: A1, *NYT*). A *Wall Street Journal* article quoted a finance professor from Georgetown University – James Angel. The reporter played on Christian mythology when he stated Angel interpreted Buffet's investment as "a *sign* of confidence" (Craig, Karnitschnig & Lucchetti 2008, September 24: A1, *WSJ*. Emphasis added).

333 *The Washington Post* and *The New York Times* noted that Buffett had stated on *CNBC* that his investment in Goldman Sachs was made on the belief that the bailout bill would be passed by Congress under urgency (Landy & Heath 2008, September 25: D1, *WP*; White 2008, September 24: A25, *NYT*). Indeed, Buffett asserted that the financial 'crisis' was an "economic Pearl Harbor" which on the surface conjured the popular cultural memory that America had been the victim of an unprovoked, surprise attack by the Japanese military. The American newspapers made no attempt to critically analyze the intentions of Buffett and *CNBC*. Their coverage took a benign view that Buffett was merely showing his confidence that Goldman Sachs (and by inference the American financial authorities and Wall Street) could act together to resolve the 'crisis.' Trust among investors had collapsed once they were faced with the prospect that their financial claims could or had turned from gains to losses. Thus, Buffett was tacitly communicating that collective action had been agreed upon, particularly

since Berkshire Hathaway was a member of the powerful lobby group, the Financial Services Roundtable (Ferguson 2011; Financial Services Roundtable n.d.).

[334] References for news articles that used metaphors which obscured the vested interests involved in the investment deals with Goldman Sachs and Morgan Stanley were as follows: Currie & Beales 2008, September 25: A2, *NYT*; Farrell & Guerrera 2008, September 24: 18, *FT*; Guha 2008, September 23: 27, *FT*; Irwin & Appelbaum 2008, September 22: A1, *WP*; Pulliam et al. 2008, September 25: A1, *WSJ*; White 2008, September 24: A1, *NYT*.

[335] A report headlined "Buffett's pitch at Goldman Sachs wins $647m return," which appeared in *The Times* on September 25, was one of the few articles reporting that Goldman Sachs had evidently also raised $5 billion by selling new shares publicly. However, the reporters failed to ask who had bought Goldman's new shares at $123 apiece (Hosking & Lewis 2008, September 25: 43). Ironically, Goldman Sachs had begun borrowing short-term credit from the Federal Reserve's Primary Dealer Credit Facility starting at $2.5 billion on September 15, 16 and 17, $5 billion on September 18 and 19, $10 billion on September 22, 23 and 24 and so on (Board of Governors of the Federal Reserve System 2010a). Goldman was also a member of the BIDS dark pool consortium – the stock trading mechanism that merged primary dealers (as sources of liquidity) with the New York Stock Exchange. Thus, the sums that Goldman Sachs was borrowing from the Primary Dealer Credit Facility raise questions about whether Goldman's share float was financed with federal credit (Board of Governors of the Federal Reserve System 2010a). Goldman Sachs share float was also mentioned near the end of a *Wall Street Journal* lead story "Buffett drove hard bargain with Goldman" (Pulliam et al. 2008, September 25: A2).

[336] Many of the newspaper stories about the investment banks were not on the front-pages, which meant that usually no imagery turned up in searches on *Factiva*. However, all the stories in part relied on imagery that appeared on the newspapers' front-pages. This imagery as a whole created the sense of a 'financial abyss' that served to justify not only the bailout, but also the move to make the investment banks into bank holding companies. Thus, market data graphics, emotion-laden images from trading floors and photos of key players served as a backdrop of financial turmoil to obscure the collusion involved.

[337] The 'invisible hand' metaphor was first used by an 18th century economist Adam Smith, who wrote *An Inquiry into the Nature and Causes of the Wealth of Nations*. According to Keith Rankin, Smith's metaphor described an unconscious moral guidance underpinning the decisions of capitalists to benefit their respective societies (1998). Smith observed that capitalists invested in national industries, rather than pursuing higher profits in foreign countries because they intuitively understood that if capital abandoned the domestic industries, the resultant economic hardship would destabilize their respective societies (Rankin 1998). While this may be true of individual capitalists, capitalism as a private political system has been brutal, exploitative and plundering since its beginning (Hartmann 1998; Silver et al. 2003). Indeed, under neoliberalism, Smith's 'invisible hand' metaphor was reworked to signify collusion and conspiracy, wherein high international capital mobility across tax-secrecy jurisdictions (facilitated by the state) would become a hidden mechanism to undermine domestic industries and therefore the stability of societies.

[338] The sub-title, "What the death of the investment bank means for Wall Street" together with the illustration, which appropriated imagery from building demolitions and nature, were used to construct a recovery-oriented market reinvestment frame. The writers viewed the investment banks' new bank holding company classification as a means to acquire "regional lenders" by which they meant smaller commercial banks with representation in several states, rather than national banking conglomerates like Bank of America. Accordingly, these smaller commercial banks could be acquired "cheaply and easily" due to precarious financial circumstances (American finance: And then there were none 2008: 79).

[339] These "golden years" were said to have occurred between 2003 and 2006 (American finance 2008, September 27: 75).

[340] As James Williams pointed out in the aftermath of Enron's collapse, news frames were deployed to depict certain activities "as a deviation or aberration from normal market functioning" (2008: 478).

[341] While Taleb was critical of finances' reliance on game theoretic risk models, his argument did not address the historical continuity of power structures and their capacity to shape 'unexpected' events. Indeed, because the editors had slyly placed their black swan reference at the end of the article, they let themselves 'off-the-hook' to provide a *retrospective analysis* of oligarchic power plays from which the probable goals of Anglo-American financial oligarchy could be *extrapolated*. Taleb omitted any mention of the financial oligarchy from his discussion, despite the fact that during his career he had worked at CS First Boston, UBS, BNP Paribas and the Chicago Merchantile Exchange (Patterson, 2007, July 13). Crucially, *The Economist* had insider access to the global policy-shaping group The Bilderberg Foundation, whose meeting in June 2008 was attended by two of its reporters, Vendeline von Bredow and Adrian Wooldridge. The US contingent at the Bilderberg meeting was Ben Bernanke, chairman of the Federal Reserve System; Henry Paulson, US Treasury secretary; Timothy Geithner, president of the New York Federal Reserve; Lawrence Summers, dean of Harvard Business School; Martin Feldstein, president of the National Bureau of Economic Research; David Rockefeller, former chairman of the Chase Manhattan Bank and the Council on Foreign Relations; Henry Kissinger, former US secretary of state and national security advisor; Condoleezza Rice, US secretary of state; James Wolfsensohn, former Salomon and Schroder's banker; Paul Wolfowitz, visiting scholar at the American Enterprise Institute and founding member of the Project for a New American Century; Richard Perle, resident fellow at the American Enterprise Institute and founding member of the Project for a New

American Century; and Robert Zoellick, president of the World Bank. The UK contingent included shadow chancellor of the exchequer, George Osborne; John Kerr, House of Lords; and Kenneth Clark, MP. This meant the magazine worked with the oligarchs and political elites to mask the underpinnings of crisis narrative by reproducing the atmosphere of surprise (Bermas 2010; Estulin 2009: ix-xi; Jarecki 2006).

[342] This photo of Warren Buffett served to integrate ordinary people with the interests of the oligarch, and therefore the financial oligarchy, since the powerful doing ordinary things is a common story-telling hook (Frensham 1996: 112).

[343] References for articles that reported Paulson's television appearances are as follows: Herszenhorn, Labaton & Landler 2008, September 22: A1, *NYT*; Hitt, Paletta & Solomon 2008, September 22: A1, *WSJ*; Jagger & Baldwin, 2008, September 22: 8, *T*; Montgomery & Cho 2008, September 22: A1, *WP*.

[344] Paulson's rhetoric included justifications for including foreign-owned financial firms in the proposed bailout. Paulson rationalized that because the financial system was global in scale, it required an intervention that matched that reality (Schwartz & Dougherty 2008, September 22: C1, *NYT*). However, this was a fallacy because the argument presumed that foreign-based banks were no different from US-based banks (because they invested in similar assets and had large American workforces). This circular reasoning omitted the fact that foreign-bank profits were more likely to be repatriated overseas, even though the bailout was to be financed by US-based taxpayers. Also omitted was the culpability of both the government apparatus and Wall Street in fomenting the conditions for the 'crisis' (through their shared commitment to a 'too big to fail' stance in relation to investment and commercial banks).

[345] Indeed, Paulson's "better than the alternative" rhetoric was actually a fallacy of false alternatives, which T. Edward Damer defines as, "[r]estricting too severely the number of proposed alternatives responses to a problem or situation and assuming that one of the suggested alternatives must be the true or the right one" (2009: 143). Paulson's justification that the bailout proposal was "better than the alternative" relied on fear to bypass critical thinking processes, since it inferred economic collapse. Thus, his actions were much like travelling Christian missionaries who indoctrinated native populations by invoking fear of an eternal abyss, in order to assimilate them into the expanding power regime – capitalism (Hartmann 1999; Silver et al. 2003).

[346] At this point, the brand of the presidency was exploited to buttress the 'better than the alternative' rhetoric with the phrase "doing nothing." For instance, *The New York Times* quoted president George W. Bush's circular argument in which he self-referentially linked the public and the crisis to himself, as he too promoted a fallacy of false alternatives. Bush stated, "This is a big package because it is a big problem. I will tell our citizens and continue to remind them that the risk of doing nothing far outweighs the risk of the package, and that, over time we're going to get a lot of the money back" (Herszenhorn 2008, September 21: A1).

[347] References for articles that reported political dissent to the bailout plan and the time pressure involved are as follows: Herszenhorn 2008b, September 23: A1, *NYT*; Hitt, Paletta & Solomon 2008, September 22: A1, *WSJ*; Hitt, Solomon & Phillips 2008, September 23: A3, *WSJ*; Montgomery & Kane 2008b, September 23: A1, *WP*.

[348] Since members of Congress were in the midst of campaigning for re-election they were particularly sensitive to public opinion. Thus, criticisms of monetary authorities, Wall Street and the financial situation generally, became more evident than in previous stories (Hitt, Reddy, & Solomon 2008, September 24: A3, *WSJ*; Landler & Herszenhorn 2008, September 24: A1; Lohr 2008, September 24: A1, *NYT*; McKinnon 2008, September 24: A4, *WSJ*; Montgomery, Kane & Irwin 2008, September 24: A1, *WP*). For instance, *The Wall Street Journal* gave a sense of the ructions that followed a private meeting that took place on Tuesday September 23 between Republicans and vice president Dick Cheney and Josh Bolten, the White House chief of staff. A Republican Joe Barton tersely stated, "I do not appreciate being told that I have to vote for something in one week, with no limitations … to solve a problem that the average constituent in my district has never heard of" (Hitt, Reddy, & Solomon 2008, September 24: A3). The above quote should be seen in context of elite-elite audience communication, wherein they reflected genuine frustrations amid sophisticated propagandist strategies replete with contradictions. References for articles that contained criticism about the lack of alternatives were as follows: Faiola & Cho 2008, September 24: A1, *WP*; Goodman 2008, September 23: A1, *NYT*; Hitt, Paletta & Solomon 2008, September 22: A1, *WSJ*; Hitt, Solomon & Phillips 2008, September 23: A3, *WSJ*; Montgomery & Cho 2008, September 22: A1, *WP*.

[349] Working Class and Middle America were merely referred to in passing, in relation to politicians in the midst of election campaigning, elite economists mentioning the plight of mortgages amidst a 'credit freeze' and monetary officials deploying sympathetic crisis management statements. When the American public's rational criticisms of Wall Street, the US monetary officials and the political elite were referenced or sourced for opinion, they were either framed as emotional, uninformed reactions; or were restricted to newspapers' letters to the editor pages (Achenbach 2008, September 22, A1, *WP*; Herszenhorn 2008, September 23, A20, *NYT*; The Crisis on Wall Street; and Main Street 2008 September 22, A14, *WP*). None of the coverage highlighted these framings as exclusionary. References for news articles that relegated the public to an artefact and deferred to elite opinion when the rank and file politicians returned to Congress were as follows: Goodman 2008, September 23: A1, *NYT*; Herszenhorn 2008b, September 23: A1, *NYT*; Hitt, Paletta & Solomon 2008, September 22: A1, *WSJ*; Montgomery & Cho 2008, September 22: A1; Montgomery & Kane 2008b, September 23: A1, *WP*; Weisman & Murray 2008, September 23: A1, *WP*.

[350] Tellingly, the *Wall Street Journal* reporters claimed there was a consensus on what "the big picture" looked like, which they elaborated in terms of "the need and the cost" (Hitt, Paletta & Solomon 2008, September 22: A2). Notwithstanding the 'elephant in the room' that none of the major news outlets would discuss – t hat the financial oligarchy *were* the big picture – the reporters 'failed' to investigate why "struggling financial firms" needed bailing out.

[351] First *New York Times* reporter David Herszenhorn introduced their statements with brief controlling sentences. The reporter emphasized that Paulson would "underscore the huge risks to everyday Americans" (Herszenhorn 2008, September 23, A1). To introduce Bernanke, the journalist stated that the Federal Reserve chairman "will implore Congress to act." Paulson was quoted thus, "When the financial system doesn't work as it should, Americans' personal savings, and the ability of consumers and business to finance spending, investment and job creation are threatened." Paulson's claims were not critiqued. The irony that the former CEO of Goldman Sachs was due to give testimony before a congressional committee about a crisis he helped create was predictably not pointed out in the report. Thus, the 'Saviour' mythology invoked by framing Bernanke and Paulson as "the architects" of the bailout was deployed to build trust prior to their appearance at the Senate Banking Committee. In this way, the rituals of 'Reassurance and Purification' phase was ushered in.

[352] Other officials who also gave testimony were: the chairman of the Securities and Exchange Commission Christopher Cox and the director of the Federal Housing Finance Agency James Lockhart. The news media focussed on Paulson and Bernanke's statements and the senators' exchanges with them (U.S. credit markets 2008; Committee on Banking, Housing, and Urban Affairs 2008). References for news articles that reported on the Senate Banking Committee meeting are as follows: Hitt, Reddy & Solomon 2008, September 24: A3, *WSJ*; Landler & Herszenhorn 2008, September 24: A1, *NYT*; Lohr 2008, September 24: A1, *NYT*; McKinnon 2008, September 24: A4, *WSJ*; Montgomery, Kane & Irwin 2008, September 24: A1, *WP*.

[353] When HJR 192 was passed, the United States government switched Constitutional jurisdictions; from public federalism (based upon common law) to private federalism, a form of law derived from Roman private civil law (upon which admiralty and maritime law is derived) (Brobst 2003: 13; Brobst & Beddoe1991: 8, 12-13, 16-17, 28). At this point, the American people shifted to a commercial law jurisdiction of the U.S. Constitution. In commercial law, silence is taken as agreement because it is derived from international law, itself a derivative of Roman private civil law. Roman civil law was developed to protect oligarchical claims to wealth from the Roman land-based tax system (Glasman 2005). Therefore, Roman civil law was based on entrapment since its commercial advantage could only be gained through the collusive secret agreements (Brobst & Beddoe, 1991: 11-12; 2003: 4, fn 11). As such, entrapment underpinned HRJ192, wherein Americans functioned in a commercial law form of private federalism as "goods in commerce" or as "human resources" and, in effect, became the human capital compelled to service the Federal Reserve System's debt (Brobst & Beddoe 1991: 41).

[354] References for news reports of the Senate Banking Committee hearing that assumed the experiential evidence of the financial 'crisis' as a true picture of the need for the bailout were as follows: Hitt, Reddy & Solomon 2008, September 24: A3, *WSJ*; Landler & Herszenhorn 2008, September 24: A1, *NYT*; Lohr 2008, September 24: A1, *NYT*; McKinnon 2008, September 24: A4, *WSJ*; Montgomery et al. 2008, September 24: A1, *WP*.

[355] The news media's reportage on the Senate Banking Committee hearing passed over the significance of Bernanke's objection that the Treasury would own shares in firms so that it could potentially earn dividends. Bernanke was more concerned that such a measure would reduce the participation in the bailout and impede the facilitation of "a comprehensive market for the troubled securities" – as *The Wall Street Journal* reporters put it (Hitt et al. 2008, September 24: A3). Importantly, even this *Wall Street Journal* report headlined "The financial crisis: Bernanke, Paulson face sceptics on the hill despite dire warnings" omitted to say that if a major player in derivatives such as mortgage-backed securities refused to participate, it would be very difficult to unwind the interwoven trades. Indeed, a financial industry policy-shaping organization called the Counterparty Risk Management Policy Group, stated in its August 2008 report entitled "Containing Systemic Risk" that an auction mechanism had not yet been tested to settle a credit event such as one "in Europe" or one "involving a very large reference entity with a large number of outstanding obligations" (Corrigan & Flint 2008: 119). Hence, the subtext to Bernanke's position was that the bailout legislation needed to favour Wall Street otherwise the financial oligarchs would simply hold out and cause more calamity. Indeed, the issue of Treasury stakes in financial firms would later prove to be a major hurdle that the monetary officials were forced to confront on October 13 2008, as mentioned in chapter two.

[356] The same day, Wednesday September 24, the Republican presidential nominee John McCain announced a 'Go to Washington' move, ostensibly to help negotiate the bailout (Barnes 2008, September 25: A1, *WP*; Bumiller & Zeleny 2008, September 25: A1, *NYT*; Guha, Dombey, Politi & Mackenzie 2008, September 25: 1, *FT*; Meckler, Holmes & Cooper, 2008, September 25: A1, *WSJ*; Stolberg & Herszenhorn 2008, September 25: A1, *NYT*). Since the major newspapers were bound to the same financial rationale as Wall Street (profiting from debt-based finance), their task was to magnify surface events so that the anatomy of the financial crisis remained obscure. Thus, the Republican's campaign team's decision to postpone McCain's electioneering (so that he could return to Washington to support the bailout bill) became lead story headlines on Thursday September 25, such as "Financial crisis upends campaign" in *The Wall Street Journal* (Meckler, Holmes & Cooper, 2008, September 25, A1). Toward the end of this *Wall Street Journal* article, it was claimed that McCain had asked to meet with Wall Street bankers and financiers, including John Thain, CEO of Merrill Lynch; vice chairman of JPMorgan & Chase James Lee; and Henry Kravis co-founder of the buy-out firm Kohlberg Kravis & Roberts (KKR) (Meckler, Holmes & Cooper

2008, September 25: A17). The reporters stated that "[b]y Wednesday, the pressure to act had built," and quoted "one financial executive" who stated, "We urged John to get all over it, that this is a national security crisis." The reporters failed to consider the power relations behind the decision of McCain's campaign team to announce a return to Washington. One could reasonably infer from this that the financial oligarchs were using the presidential election campaign as a mechanism to gain high level political support for the bailout.

[357] *The New York Times* lead report "Bush to hold meeting on bailout; first debate up in air" also justified the White House's decision to have the president give a prime-time television speech entirely devoted to the state of the economy (Stolberg & Herszenhorn 2008, September 25: A1). Sheryl Stolberg and David Herszenhorn stated, "the White House gave careful thought to the timing." According to the president's "aides," the concern was how it would look if his televised address were perceived as a coercion of Congress to pass the bailout. Hence, the move was, in part, designed to persuade the public that the situation was so severe that impacts would be 'universal' without the bailout. This line of persuasion was aimed at 'rank and file' politicians who were expressing dissenting views. It was hoped that they would change their minds and vote for the bailout bill.

[358] "The financial crisis: Bush makes pitch for plan to the Nation" reported on the president's prime-time television address on page six (McKinnon 2008, September 25: A6, *WSJ*). The president's television address was also mentioned briefly in the leading front-page article headlined "Financial crisis upends campaign" (Meckler, Holmes & Cooper 2008, September 25: A1, *WSJ*).

[359] His appeal for support relied on the White House's construction of an 'aberration' wherein Bush claimed "these [were] not normal circumstances" (McKinnon 2008, September 25: 6, *WSJ*). Tacitly, this communicated a 'suspension' of 'free-market' strictures as a way to justify government intervention. The news reportage helped legitimize this intervention by uncritically reproducing Bush's manipulative threat that unless the US government committed $700 billion now, the remedies would become costlier. For example, a *Wall Street Journal* article headlined "The financial crisis: Bush makes pitch for plan to nation," reported the president's justification that inaction would simply "cost these Americans more later." The reporter quoted Bush's apparent empathy for his 'fellow citizens' when he referred to the "frustration of responsible Americans who pay their mortgages on time, file their tax returns every April 15 and are reluctant to pay the cost of excesses on Wall Street" (Bush as cited in McKinnon 2008, September 25: 6). The journalist did not however emphasize that Bush feigned this empathy immediately prior to manipulating them with fear about the cost being greater absent the swift passage of the bailout bill.

[360] Consequently, the front-page headlines of the three American newspapers gave a similar treatment of the White House 'Summit'. *The New York Times* led with "Days of chaos grips Washington; Fate of bailout plan unresolved;" *The Washington Post* with "Talks falter on bailout deal…" and *The Wall Street Journal* second story was headlined "Bailout negotiations in disarray" (Herszenhorn, Hulse & Stolberg 2008, September 26: A1, *NYT*; Hitt, Paletta & Solomon 2008, September 26: A1, *WSJ*; Kane & Montgomery 2008, September 26: A1, *WP*). The coverage of Friday September 26, gave few details, while accounts two days later were more substantial – albeit of varying quality (Baldwin 2008, September 27: 6, *T*; Beattie & Politi 2008, September 27: A7, *FT*; Herszenhorn, Hulse & Stolberg 2008, September 26: A1, *NYT*; Kane & Montgomery 2008, September 26: A1, *WP*; McKinnon, Meckler & Cooper 2008, September 27: A2, *FT*; Weisman 2008, September 27: A1, *WP*).

[361] *Times* journalist Tom Baldwin stated, "When the photographers had been dismissed" the president gave a summary of the seriousness of the situation. In the reporter's words, Bush had said, "the entire architecture of the global economy was at stake," not merely America's financial system (2008b, September 27). According to the report, the president told those assembled that the situation was so serious that central banks and wealthy investors might sell their stake in US Treasury debt. Such an occurrence would drive up interest rates on American credit and trigger capital flight from the US currency. Baldwin stated that a "dire prognosis" was described to him. According to his sources, during the meeting some of the politicians present noted that they had received comparable appraisals from economic advisors including Larry Summer [sic], whom the reporter stated had been, a Treasury secretary from Clinton's administration. Baldwin neglected to point out that he was also the Dean of Harvard and a member of the Council on Foreign Relations. Despite claiming that there was "no time to construct a different plan," the *Times* reporter, along with the rest of the news media, failed to investigate why the biggest economy in the world was so vulnerable, and why officials had left the use of its so-called 'contingency plan' until the situation was so dire that there really seemed to be no other choice.

[362] Also widely reported was an anecdote regarding an exchange between Paulson and House Speaker Nancy Pelosi after the meeting broke-up. These reports stated that the Treasury secretary "half-jokingly" knelt on one knee and beseeched the Democrats, with his hands formed in a praying gesture, to refrain from blowing up the bailout. Pelosi evidently joked, about this sudden 'revelation,' remarking she had not realized he was a Catholic (Beattie & Politi 2008, September 27: A7, *FT*; Herszenhorn et al. 2008, September 26: A22, *NYT*; Hitt, Paletta & Solomon 2008, September 26: A2, *WSJ*; Kane & Montgomery 2008, September 26: A1, *WP*; Weisman 2008, September 27: A1, *WP*). Their accounts of this exchange read like cheesy scenes made for a 'forty-eight hour film challenge' competition (in which the cast and crews have two days to script, shoot and edit a short film that usually contains three crucial elements). Had 'cantankerous reporters' been one of the three crucial elements, their accounts would then have read very differently. Instead, the rules of this contest required that the actors playing the roles of the news media had to be professional, observe a 'respectful distance' (by obediently waiting

outside), and at no time were they to breach the 'rescue' frame's boundaries. This means that the "bended knee" anecdote may have been an apocryphal tale, wherein the line between what is true and what is fiction is warped because it is recounted by several parties and taken as a truthful account (Mumby 1987: 122). In a couple of accounts, the reporters acknowledged the casual detached attitude that journalists and editors have toward staged political events. In a *Washington Post* article headlined "How McCain stirred a simmering pot" reporter Jonathan Weisman claimed that when the 'Summit' broke up with McCain leaving first, *alone*, his abrupt departure confused congressional staff (Weisman 2008, September 27: A1, *WP*). Weisman also stated that when "[t]he rest of the actors" emerged, they had not regained their composure. In the lobby the Democrats talked over whether to appear before the media, but as the reporter put it, Obama feared being seen as "using the White House as a backdrop." With a sense of the commotion they were creating, Obama apparently suggested they could use a room, and so they peeled off the Roosevelt Room. In a page six article in *The Times* headlined "Anger, fear and deadlock, then Bush sums it up: 'this sucker could go down,' reporter Tom Baldwin wrote "[i]t was supposed to be not much more than a photo opportunity" (2008, September 27: 6).

[363] As reporter Matt Taibbi (2010) put it, the presidential campaign is "a beautifully choreographed eighteen-month entertainment put on every four years" (p.9). Taibbi argued the "payoff" to this ritual is akin to the emotional engagement that a society develops when it has been sufficiently conditioned to follow sport as a form of escapist entertainment. The result is that the investment people have in an election is not of empowered citizens, but one that is "a rooting interest" (p.10).

[364] Despite this being a crucial time for economists of all persuasions to be on 'live' television formally debating the economy, *The Washington Post* failed to point out that they were not foregrounded or profiled by the major television networks. Ironically, on Friday September 26 a *Washington Post* front-page report headlined "Away from Wall Street, economists question basis of Paulson's plan" stated that a petition that opposed the bailout plan had the support of nearly "200 academic economists" (Irwin & Kang, 2008, September 26, A1). However, it was not until about three quarters of the way into this article that the reporters disclosed that the economists interviewed did not include any who had signed the petition.[364] Thus, the reporters deferred to financial elite sources favoured by the newspaper, instead of interviewing serious bailout critics.

[365] This rhetoric was subsequently repeated or implied by the news media without critical interpretation ("Bailout politics" 2008, September 27: A18, *WP*; Baker 2008, October 1: C5, *NYT*; Coy 2008, October 13: 21-22; Hitt & Paletta 2008, October 1: A1, *WSJ*; "A Main St rescue" 2008, September 29: A24, *WSJ*; "US Main Street" 2008, October 3: 1, *GW* ; "World on the edge" 2008, October 4: 11*).*

[366] References for reportage from the weekend political negotiations are as follows: Herszenhorn & Hulse 2008, September 28: A1, *NYT*; Montgomery & Kane 2008, September 28: A1, *WP*; Montgomery & Kane 2008, September 29: A1, *WP*; Solomon, Paletta & Hitt 2008, September 29: A1, *WSJ*. To make sure that the new norm of a brazen bailout was 'sufficiently consensual,' Bush performed a presidential ritual of reassurance in a regular radio speech on Saturday September 27. Bush claimed, "that the government will be able to recoup, much, if not all, of the original expenditure" since the collateral backing the securities evidently had considerable worth. This oversimplified the political economy of the 'rescue.' The president manipulatively appealed to the victims of the crisis – ordinary Americans – when he claimed, "The rescue effort we're negotiating is not aimed at Wall Street – it is aimed at your street" (Montgomery & Kane 2008, September 28: A19, *WP*). He also deployed fear knowing it would be widely reported. To this end, he said, without the 'rescue' the economy could be thrown into peril and the risk of a "deep and painful recession" was not unlikely.

[367] The ruckus occurred during a 3p.m. meeting in a conference room adjoining House speaker Nancy Pelosi's office between the prominent political negotiators. *The Washington Post* reported the shouting, but not the commotion involving television crews (Montgomery & Kane 2008, September 29: A1).

[368] But because the reporters had observed the crisis journalism stricture of keeping a 'respectful distance,' this meant they had not observed or sufficiently investigated the various meetings involving 'government' officials. Andrew Sorkin revealed Paulson's Treasury staff had met prior to the Saturday afternoon meeting that became a shouting match. At this Treasury staff meeting, Neel Kashkari stressed that, "We've got to scare the shit out of them" (2009: 492). Thus, one of the most important opinions expressed in the article was merely mentioned as though it were there to 'balance' the report, rather than trigger an investigation. A Democrat politician Marcy Kaptur stated, "Financial crimes have been committed. Now Congress is being asked to bailout the culprits" (Hulse & Herszenhorn 2008, September 29: A14, *NYT*).

[369] The three Treasury officials were Robert Hoyt, general counsel, Kevin Fromer, head of legislative affairs and Neel Kashkari, assistant secretary for international affairs. The American Bankers' Association were among the financial industry interests that had "bombarded Congress with emails" (Williamson 2008, September 30: A4, *WSJ*). Johnson and Kwak argue that Wall Street interests worked behind the scenes to insert provisions into the bill that became the Emergency Economic Stabilization Act of 2008 (2010: 192).

[370] Another *Wall Street Journal* report that downplayed the "ultimate tab" was "Financial Crisis: Ultimate cost of plan to take years to determine – Profits will depend on economic health during sale of assets" (Reddy 2008, September 29: A9). Tellingly, the reporter implied Ben Bernanke was a government official when he quoted the central banker. Bernanke claimed the bailout would help taxpayers because a more robust financial system would mean a prosperous economy and a greater tax take. Predictably, the reporter failed to state that the Federal Reserve is privately owned by its members' banks, who

operate as a cartel, and that its jurisdictions are tax-secrecy havens, which exist to create an unequal society of great wealth, poverty and asymmetric power distribution (Brobst 2003; Brobst & Beddoe 1991; Brown 2008; Griffin 2008; Still 2009).

[371] The frontpage reports for September 29 in American newspapers also exploited people's anxieties about savings, jobs and homes. An exemplarly example of this manipulation appeared in the same *Wall Street Journal* front-page article "Congress, Treasury sign off on bailout package" from September 29 (Solomon, Paletta & Hitt 2008, September 29: A1). The reporters gave a vague description of how the financial system and the economy worked. They repeated the widespread cliché that "credit markets" were "the lifeblood of the economy." Readers were told the bailout would help financial companies "restore their capital bases" and also regain "trust." This was apparently important because it was required for the financial firms in question to "borrow and lend." The implication was that in the absence of trust, the lifeblood would clot. For critical observers the meta-level meaning here was that "trust" among market insiders was a euphemism for collusion.

[372] References for news articles that failed to investigate the motives of key players are as follows: Baker 2008, September 29: 9, *T*; Guha, Dombey, Politi, Mackenzie & Burgess 2008, September 27-28: 1, *FT*; Hulse & Herszenhorn 2008, September 29: A1, *NYT*; A Main St rescue 2008, September 29: A24, *WSJ*; Montgomery & Kane 2008, September 29: A1, *WP*; Solomon, Paletta & Hitt 2008, September 29: A1, *WSJ*; Politi, Guha, Dombey & Morris: 2008, September 29: 1, *FT*.

[373] According to *Washington Post* journalists Jonathan Weisman, David Cho and Paul Kane, while the voting occurred, Paulson was in his office "too nervous to turn on his television" (2008, October 4: A1). Whereas, Sorkin claims in *Too Big To Fail*, that Paulson watched the vote on *C-SPAN*, the Congress' in-house television network (2009: 498-499).

[374] *The Wall Street Journal*'s September 30 front-page graphic noted that another steep drop occurred on the Dow Jones index just before the New York Stock Exchange closed at 4p.m. in an apparent rush of processing selling orders, as had happened the day AIG's credit ratings were downgraded on Monday September 15.

[375] References for articles that blamed politicians (or implied their responsibility) for the drop in stock markets are as follows: Guha, Larsen & Mackenzie 2008, September 30: 1, *FT*; Hulse & Herszenhorn 2008, September 30: A1, A22, *NYT*; Lueck, Paletta & Hitt 2008, September 30: A1, *WSJ*; Kane & Montgomery 2008, September 30: A1, *WP*. In the final minutes before voting was over, the Dow Jones Industrial Average stock index began to drop, then it plunged as the voting stopped and during the fifteen minutes before the vote closed (when appeals were made to politicians to change their minds). The stock index soared again after the gavel concluded the session, indicating that under the cover of 'the market' the financial oligarchy was acting as arbiter for investor proxy votes to coerce those politicians who were voting "no." Furthermore, the stock market surged again on September 30 (Chossudovsky 2010a: 5; Congleton 2009: 29)

[376] References for news reports that carried recriminations are as follows: Hulse & Herszenhorn 2008, September 30: A1, A22, *NYT*; Lueck, Paletta & Hitt 2008, September 30: A1, *WSJ*; Kane & Montgomery 2008, September 30: A1, *WP*.

[377] The September 30 front-page headlines were: "Stocks dive on bail-out rejection" in the *Financial Times*); "Defiant House rejects huge bailout; Stocks plunge; Next step is uncertain" in *The New York Yimes*); "Bailout plan rejected, markets plunge, forcing new scramble to solve crisis" in *The Wall Street Journal*); "The eye of the storm" in *The Times*); and "House rejects financial rescue, sending stocks plummeting" in *The Washington Post*). The references for the September 30 frontpages are, respectively: Guha, Larsen & Mackenzie 2008, September 30: 1; Hulse & Herszenhorn 2008, September 30: A1; Jagger & Hosking 2008, September 30: 1; Lueck, Paletta & Hitt 2008, September 30: A1; Weisman 2008, September 30: A1.

[378] *The New York Times*' reporters could have provided the depth that was missing from the front-page's surface. For 'balance,' the article did, however, include a couple of quotes from politicians who voted "no." One of these "holdouts," as House Republican leader John Boehner evidently called them, was Republican Paul Broun who colourfully stated, "This is a huge cow patty with a piece of marshmallow in the middle of it and I am not going to eat that cow patty" (Broun as quoted in Hulse & Herszenhorn 2008, September 30: A22). The frontpage articles across all the newspapers lacked a broader analysis of an economic system that was dependent on a financial system so ungrounded that it even had an index that measured market volatility. This was naturalized as a taken-for-granted gauge of market insecurity or euphoria. References for front-page articles that lacked depth regarding the power relations that underpinned the political economy of the Anglo-American financial systems are as follows: Bajaj & Grynbaum 2008, September 30: A1, *NYT*; Calmes 2008, September 30: A1, *NYT*; Cody & Jordan 2008 September 30: A1, *WP*; Guha, Larsen & Mackenzie 2008, September 30: 1, *FT*; Hulse & Herszenhorn 2008, September 30: A1, *NYT*; Jagger & Hosking 2008, September 30: 1, *T*; Kane & Montgomery 2008, September 30: A1, *WP*; Lueck, Paletta & Hitt 2008, September 30: A1, *WSJ*; Weisman 2008, September 30: A1, *WP*.

[379] Among those interviewed by the D.C. newspaper, which deployed 10 journalists to various locations around the US, was a parole officer outside the Annapolis courthouse, who was the only one in story with the time of day to listen to politicians who opposed Wall Street. The parole officer symbolized "the sympathetic character at the heart of the narrative" that the reporters claimed the 'crisis' story had thus far lacked. He therefore represented the threat to the political elite that had been anchored by the takedown of Eliot Spitzer in mid-March 2008, the New York governor who had been threatened with impeachment over his involvement in the prostitution ring. Another interviewee was a family man who looked at his "401(k) today" and changed his view that the crisis did not affect his family (Achenbach & Surdin 2008, September 30: A1). From the perspective of the financial elite, the sentiment expressed by the father with 401(k) investments was the promise. *The*

Washington Post was communicating that if Main Street America could be scared enough, reluctant politicians could be persuaded that there was sufficient consent for a bailout. Also interviewed was a researcher at the National Library of Medicine, who was apparently now too "skittish" to continue looking for a house and wondered if things might get so bad she would have to join friends who lived on the land. Since 'the heart of the crisis' was said to be toxic, mortgage-backed securities, the house-hunter who worked at the National Library of Medicine highlighted the ill-health of the economy. They also found a real estate agent who felt there should be indictments for Wall Street, which communicated to the Washington political elite that the easy option would be to pass the bailout, conduct a ritualistic inquiry and hope there would be no major public counter-movement forcing congressional members to challenge their major source of campaign funds. The reporting team also found an insurance agent who felt the bailout was outrageous, but surmised the situation was so dire little other choice was available.

[380] Conspicuously, the scene of this encounter was outside the Manassas Wachovia branch. At the time of the interview, Citigroup thought it had secured a deal to buy Wachovia bank, as the September 30 edition of *The Washington Post* reported in a front-page article headlined, "Wachovia is Sold as Depositors Flee" (Appelbaum 2008, September 30: A1). The town of Manassas was also the locality where one of the journalists, Joel Achenbach, who wrote "The backlash" report, had conducted a previous sentiment-finding mission. *The Washington Post*'s return to Manassas communicated to the government that they needed to fight hard, since it was site of two battles of the American Civil War; wherein the US government realized the war was going to be a long hard-fought one because their forces lost the first major battle between the two armies (CWSAC Battle Summaries: Manassas, First n.d.; CWSAC Battle Summaries: Manassas, Second, n.d.; Roberts, 2012). Importantly, *The Washington Post* report "Wachovia is Sold as Depositors Flee" stated that Robert Steel was at the time the head of Wachovia, and had been Henry Paulson's deputy at the Treasury. However, *The Washington Post*'s lack of concern with conflicts of interest was conspicuous given that it also stated that the government was encouraging agglomerations, which signalled the "public policy" of banking separation was over. Since in game theory, mergers among oligopoly rivals are indicative of collusion, another pattern is noteable. Steel was appointed as CEO in June 2008. There was a correlation between new CEO appointments and bank takeovers or federal 'rescues' (these included John Mack at Morgan Stanley, Alan Schwarz at Bear Stearns, John Thain at Merrill Lynch, and Robert Willumstad at AIG) (Sorkin 2009). As noted in chapter two, Wells Fargo gained the vast commercial bank four days later.

[381] This September 27 issue of *The Economist* appeared to go to press either late on September 24 or early September 25, 2008 (The doctors' bill 2008: 71).

[382] References to magazine articles that contained limited flak are as follows: Coy 2008, October 6: 30-34; "The doctor's bill" 2008: 71; Gunther 2008: 58; "I want your money" 2008, September 27: 15.

[383] *BusinessWeek* reporter Peter Coy interviewed Raghuram Rajan – a former IMF economist who warned the world's leading economists and central bankers at the Federal Reserve's 2005 annual conference at Jackson Hole, Wyoming, about the high level of systemic risk (2008: 30). Ironically, Raghuram Rajan. Rajan stated in the documentary *Inside Job* that former Treasury secretary Lawrence Summers was very aggressive toward him at the conference because he had dared to argue that the American financial authorities were allowing Wall Street to make more profit by systematically increasing risk. In effect, Rajan contested the widely promoted claims of the finance industry and the regulators themselves that they had reduced risk to the financial system (Ferguson 2011). Rather than bailout the banking system, Rajan argued in the *BusinessWeek* article that a better approach was to invest funds in well-capitalized or solvent firms. He warned that the bailout "may not refloat the system" (Coy 2008: 30). Hence, Rajan's quote worked with the illustration to communicate to the magazine's audience that the bailout seemed to be intended to re-inflate the asset holdings of a wealthy cliqué, while ignoring the 'gravity' of the situation that broader society would face. But the reporter failed to interview non-establishment experts that could articulate the track record of 'free-market' financial liberalizations since their 'field-testing' days in the early 1970s, which clearly shows the capacity of such regimes to plunder the wealth of society for the benefit of dominant capitalist coalitions (Chossudovsky 2003; Engdahl 2009; Klein 2007; 2008).

[384] In *The Washington Post*'s account entitled "With no Plan B…" two politicians were reported to have prayed (Weisman et al. 2008, October 4: A9). At face value, their decision to pray relied on looking for a sign that would communicate either endorsement or a repudiation of the choice at hand. The politicians may also have been irreverently mocking Cheney or manipulating Christians among the newspaper's audience to feel a sense of foreboding. In any case, Christian mythology was invoked in the absence of an informed analysis.

[385] Two days later, *The Washington Post* dutifully quoted Bush's statements prosaically without pointing out that the "voices" the president referred to were all vested interest ones. After his 'business leaders' meeting, Bush feigned concern, "This is an issue that's affecting hardworking people. They're worried about their savings, they're worried about their jobs, they're worried about their houses, they're worried about their small businesses" (Bush as cited in Montgomery & Eggen 2008, October 3: A1).

[386] References to newspaper articles that reported on the intensive lobbying effort of Main Street business elites, congressional politicians and the addition of 'sweetener' provisions are as follows: Andrews 2008, October 1: A1, *NYT*; Appelbaum & Johnson 2008, October 1: A1, *WP*; Guha, Morris, Politi & Davies 2008, October 1: 1, *FT*; Hitt & Lueck 2008,

October 2: A1, *WSJ*; Hitt & Paletta 2008, October 1: A1, *WSJ*; Hulse 2008a, October 2: A1, *NYT*; Hulse & Pear 2008, October 1: A1, *NYT*; Montgomery & Eggen 2008, October 3: A1, *WP*; Montgomery & Murray 2008, October 2: A1, *WP*. Indeed, after the bailout passed in the House on Friday October 3, *The Washington Post* reported that Barack Obama had contributed to the change in vote by calling numerous "no voters" and by persuading politicians identified as the "Black Caucus." According to this report, 13 of the so-called 'black caucus' changed their minds and voted 'yes' (Montgomery & Kane 2008, October 4: A1).

[387] Amid this lobbying, a new consensus evidently emerged to market the bailout in more sanitized ways. *New York Times* reporter Peter Baker argued that use of the word "bailout" was a branding issue and was the key reason why the public had not bought the idea it was for Main Street, not Wall Street (Baker 2008, October 1: A5). In his piece, headlined "Labeled as a bailout, plan was hard to sell to a sceptical public," Baker reconstructed the 'rescue' frame with the deployment of a Christian metaphor when he stated, "…if there was any broad agreement on Tuesday, a fractious, finger-pointing day in Washington, it was that the plan needed to be rebranded to have any hope of resurrection" (Baker 2008, October 1: A5). By this time, the American newspapers had already partially rebranded the bailout. *The New York Times* called it an "economic bailout plan," *The Washington* Post a "rescue plan," and *The Wall Street Journal* a "financial rescue plan" (Hulse 2008, October 2: A1; Murray & Kane 2008, October 1: A1; "What's news" 2008, October 1: A1). Baker's account was also revealing for its disclosure of elite consensus-shaping processes. He stated that the administration typically would rally "allies" to employ a given "vocabulary" to promote the proposal at hand. Apparently, because the bailout plan emerged at the end of a week (Thursday evening September 18), elite news sources, such as former Federal Reserve and Treasury officials, were not contacted until after the weekend (Baker 2008, October 1: A5). Evidently, the White House often commandeered two elite media figures whose opinions were persuasive with conservative politicians. According to Baker, one was a *CNBC* presenter and a syndicated columnist, Lawrence Kudlow and the other was Paul Gigot, an editor at *The Wall Street Journal*. Gigot attended the June 2008 meeting of the global policy-shaping group, the Bilderberg Foundation in Chantilly, Virginia and has in the past been a member of the New York-based think-tank, the Council on Foreign Relations (Ross 2002: 113; Estulin 2009: ix, x, 153, 332).

[388] A second *Washington Post* front-page story on the crisis headlined "A two-pronged push to aid ailing banks" was about so-called 'sweeteners' to the bill to gain more votes (Appelbaum & Johnson, 2008, October 1, A1). Another *Washington Post* report subheaded, "Campaign 2008" and headlined "Most voters worry about economy" stated in its opening paragraph that "[v]oters … overwhelmingly fear that the House's rejection of the measure on Monday could deepen the country's financial woes" (Balz & Cohen, 2008, October 1, A1). This claim had a quasi-scientific justification because it was based on a "Washington Post-ABC News Poll," but the report did not acknowledge the news media's role in helping to create the sense of fear.

[389] *The New York Times* used a 'bird's eye' view image of the New York Stock Exchange to remind its elite and mass audience of the market volatility (Hulse & Pear 2008, October 1: A1). This image worked with the headline "Adding sweeteners, Senate pushes bailout plan," to imply that stock market investments would only be safe if the bailout was passed. *The Wall Street Journal* tacitly coerced Congress in its leading article "U.S., Europe push to limit crisis: Senate plans vote on revised rescue package…" by revealing that "thirteen banks" had "failed this year" (an accompanying graphic tallied the bank takeovers). This was a threat since the tally, which listed the fallen bank's deposit size, signalled to politicians to pass the bailout, before the unlucky 13 banks were joined by far more (Hitt & Paletta 2008, October 1: A1). The 13 banks had retail deposits, so the investment banks – Bear Stearns, Lehman Brothers and Merrill Lynch – were not included. Wachovia was at this time in negotiations with Wells Fargo (Hitt & Paletta 2008, October 1: A1).

[390] References for newspaper articles that projected blame onto the political elite are as follows: "A test of leadership" 2008, October 1: A16, *WP*; Baker, 2008, October 1: A5, *NYT*; Hitt & Lueck 2008, October 2: A1, *WSJ*; Hitt & Paletta 2008, October 1: A1, *WSJ*; Hosking, Power & Webster 2008, October 1: 1, *T*; Murray & Kane 2008, October 1: A1, *WP*.

[391] References to newspaper articles that reported on communications from the public about the bailout are as follows: "A test of leadership" 2008, October 1: A16, *WP*; Baker 2008, October 1: A5, *NYT*; Hitt & Lueck 2008, October 2: A1, *WSJ*; Hitt & Paletta 2008, October 1: A1, *WSJ*; Montgomery & Eggen 2008, October 3: A1, *WP*; Murray & Kane 2008, October 1: A1, *WP*.

[392] *The Wall Street Journal* characterized "lawmakers" as having wasted time by "wrangling" and House politicians were chastized for delivering an "unexpected rejection" in defiance of superiors. It is this behaviour that *The Wall Street Journal* blamed for triggering "the market to sink" (Hitt & Lueck 2008, October 2: A1). *The New York Times*' lead story headlined, "Senate approves bailout proposal by a wide margin" deployed fear when it claimed, "The Senate margin was 74 to 25 in favor of the White House initiative to buy troubled securities in an effort to avoid economic catastrophe" (Hulse 2008, October 2: A1).

[393] Although the three American newspapers announced on Wednesday October 1 that the vote would take place in the Senate that day, they failed to track this aspect of the speed politics to get the bailout bill passed so quickly (Hitt & Paletta 2008, October 1: A1, *WSJ*; Hulse & Pear 2008, October 1: A1, *NYT*; Murray & Kane 2008, October 1: A1, *WP*). To fast-track the bill through the House of Representatives another bill - H.R. 3997 – that had been introduced to Congress in March 2007

was appropriated (The Library of Congress Thomas n.d.,a). This meant that the normal public submissions process could be circumvented. When this bill failed to pass in the House, yet another bill – also introduced in March 2007 was appropriated (H.R. 1424--110th Congress: Emergency Economic Stabilization Act of 2008 (2007); The Library of Congress Thomas n.d.,b). Indeed, it was not until after the bill was passed as the manipulatively titled Emergency Economic Stabilization Act of 2008, that *The Washington Post* revealed the bill was introduced "to a nearly empty Senate chamber" on Monday evening, September 29 by Democrat senator Harry Reid and Republican senator Mitch McConnell (Weisman, Cho & Kane 2008, October 4: A9). This was the only mention of the nearly empty Senate from coverage across the five daily newspapers surveyed. For the most part, the news outlets 'turned a blind eye' to this stealthy 'bipartisan' move. It would have been well known to Washington journalists that even one obstinate senator could block a bill before going to the voting stage (Johnson 2003: 9). A bill must be introduced in the House while it is in session and placed in a wooden box called a "hopper," wherein the bill is recorded by the House clerk. Congressional rules stipulate that if a senator objects, the bill's introduction is deferred to the next day (Johnson 2003: 9). Such a postponement would have risked the bill being rejected or deferred to a committee process.

[394] The *Financial Times*' report "Senate revives US bail-out" also quoted World Bank president Robert Zoellick who deployed an encoded threat to withhold the Bank's supply of credit. Zoellick stated, "The implications are important not only for the US but for the global financial system including the developing world" (Zoellick as cited in Guha, Barber, Tait & Hall 2008, October 2: A1). Zoellick's quote therefore added fear to the 'rescue' frame. The *Financial Times* omitted to reveal the World Bank Group's culpability for colluding with the International Monetary Fund (IMF) and major Wall Street banks to systematically impoverish the so-called 'developing world' (as outlined in chapter two) (Chossudovsky, 2003; Chossudovsky, 2010b: 153-172; Peet 2003; Perkins 2004; Klein 2007). The World Bank Group is owned by it members, which comprise 184 countries. It makes loans and stipulates policy for recipient countries in the so-called 'developing world' (also termed 'emerging economies'). But the World Bank's policy is biased to fund large, expensive infrastructural projects built predominantly by American corporations. Such projects were designed to be impossible for the 'Third World' countries to repay so that they would be vulnerable to the subsequent imposition of economic 'shock treatments.' In the context of the 'crisis' narrative, this meant that Zoellick was signaling that the global banking cartel was willing to inflict severe economic depression if governments did not provide more tax-payer 'capital' in the form of a bailout. This would interest investors reading the *Financial Times* who understood the World Bank's history.

[395] *The Times* joined in the rituals of animosity directed toward no-voting politicians that were on open display in the US newspapers. In its October 1 lead story headlined "Brown in struggle to shore up bank rescue," *The Times*' reporters stated Bush had made two "direct appeals to rebels in 24 hours" (Hosking, Power & Webster 2008, October 1: 1). The reporters quoted Bush who brazenly threatened the citizenry when he stated, "Millions of Americans were facing the real prospect of economic hardship" (Bush as cited in Hosking et al. 2008, October 1: 1). The journalists remained submissive to the 'rescue' frame and therefore merely reported his threat as though it were a benign warning.

[396] The Emergency Economic Stabilization Act of 2008 is widely cited as being 451 pages long (Arent Fox 2008, October 10; LaBrosse 2011: 60; Sidlow, Henschen, Gerston & Christensen 2011: 259). The Act is actually 169 pages (Public Law 110 – 343 n.d.). *The New York Times* first reported it as being over 450 pages (Hulse 2008, October 1; Hulse 2008, October 2, A29) and was subsequently reported to be over 400 pages (Hitt & Lueck 2008 October 1: A4, *WSJ*; Hitt & Lueck 2008 October 4: A4, *WSJ*; Montgomery & Kane 2008, October 4: A8, *WP*; Sorkin 2009: 504). The figure of 451 appears to have been a wry joke aimed at journalists, since it could be expected that not many – if any – would actually read the legislation. The symbolic value of 451 pages lays with the Act's genesis in the "Break the Glass" 'contingency plan' to 'rescue' the FIRE sector, and the figure's correlation to Ray Bradbury's dystopian novel *Fahrenheit 451*, in which paper is said to combust at this temperature (Bradbury 1976). Given that in the world of *Fahrenheit 451*, firemen do not fight fires, but instead they burn the homes of those caught breaching a law that bans books, there is a similarity to the criminogenic world of Wall-Street-Washington-City Complex, wherein the 'rescuers' of the financial system had worked to create the financial crisis (from which they expected to gain economically and politically). The 'rescuers' of the financial system could do their work confident that journalists would fail to follow the paper trail of the money, so to speak.

[397] On Friday October 3, the day the House passed the bailout bill, the American daily newspapers distracted their audiences with inane coverage of the televised vice-presidential debate from the previous evening. The underlying logic to the rhetoric between Democrat Joe Biden and Republican Sarah Palin was designed to win over Main Street voters by emphasizing how the 'rescue' of the financial system was positive for the economy (Barnes & Eilperin 2008, October 3, A1, *WP*; Healy 2008, October 3: A1, *NYT*; Meckler & Cooper 2008, October 3: A1, *WSJ*). The reports focussed on the drama, the gaffs and their contrasting speech styles, since the ritual lacked substance. Thus, by prioritizing this political theatre of the vice-presidential debate, the lead stories communicated that hope for Main Street America lay with the election, rather than in investigating financial wrongdoing and remedies for the macro-economy. This was in effect a 'Last Supper' ritual because it was a dinner-time discussion in which accusations flew (the subtext of which meant that a betrayal of the masses had occurred).

[398] Furthermore, their hand shake also symbolized a 'Grip of Death' ritual, since this gesture was ritually performed to seal loan deals in times past. As Michael Rowbotham (1998) points out in his book *The Grip of Death: A Study of Modern Money, Debt Slavery and Destructive Economics*, whole societies are subject to the 'grip of death' over 'their' houses, businesses and land because of the structural scarcity of cash and the abundance of private and public debt. Rowbotham explains that

the 'death grip' has its roots in medieval times and meant a 'dead pledge' (mortuum vadium) or mortgage. Dead pledges represented a security for a large loan, against the borrower's estate, that land owners made against their property when they were in "dire financial need" (Blackstone 2009 [1796]: 121; Rowbotham 1998: 31). Such loans were called 'dead pledges' because it was considered unlikely that the borrower would be able to repay the loan and would forfeit the land to the lender. Thus, the land would be "for ever dead and gone" from the borrower (Blackstone 2009 [1796]: 121). In sum, the 'Grip of Death' ritual between Paulson and Bush 'sealed the deal' of a bailout that was the 'solution' to a financial 'crisis' that involved a deliberately created housing repossession 'crisis.'

[399] Even after the bailout passed, the commentary in the news reports continued to have a sardonic tone toward politicians who disagreed with the bailout and therefore a cynical attitude about democratic participation was evident. An exemplary example appeared in *The Times* on October 4 in a page three report headlined "US Congress approves the $700bn bailout after a change of heart over market crisis" (Reid 2008, October 4: 3). Reporter Tim Reid stated that there had been a change in "sentiment" expressed by constituents during the week and that the "rebels" had "reversed course." The constituents listed were small business owners, bank managers and Chambers of Commerce, whom had reported they could not access credit. Importantly, the reporter Tim Reid did not question why the so-called 'richest nation on earth' needed credit, nor did he ask why there was so little cash. Reid constructed a 'rescue' frame in his report "US Congress approves the $700 bailout…" that contained a fear frame. Reid stated, "Having defeated the Bush Administration's plan in a stunning rebellion on Monday – a move that wiped $1.2 trillion off shares in less then [sic] two hours, chastened congressmen lined up yesterday to declare that they now understood that the entire US economy faced catastrophe without the rescue package" (Reid 2008, October 4: 3). Reid presented the possibility of financial catastrophe as self-evident. *The Times*' reporter also 'failed' to point out that the public was also excluded from the *private* meetings involving 'government' officials, elected representatives and vested interest lobbyists following the House rejection on Monday September 29. Therefore, it was easy for *The Times*' reporter to argue in a sardonic tone that the House politicians "understood" the imminent calamity for the American economy in the absence of the bailout.

[400] Similarly, *New York Times* reporter Carl Hulse quoted Republican Joe Barton who amusingly stated, "The bailout legislation that the Senate is sending back to the House is a fraternal twin to the one I voted against on Monday – meet the new bill, same as the old bill" (Barton as quoted in Hulse 2008, October 2: A29).

[401] The American monetary officials were well aware that AIG underwrote savings and investment plans (Paulson 2011: 233). The 401(K) plans had an in-built incentive that deterred American workers from exiting early from the scheme, because such stakes would then be liable for income tax (Ashman 2009: 109). AIG FP was one of several 'monoline insurers' that specialized in underwriting asset backed securities, including suprime-mortgage related securities (Engdahl 2009: 339; Jacobs 2010: 29). The most significant monoline insurers or sureties were: ACA Financial Guaranty Corporation, Ambac Financial Group, Assured Guaranty Corporation, Bluepoint Re Ltd, Financial Guaranty Insurance Company, Financial Security Assurance, MBIA Insurance Corporation, MGIC Investment, PMI Guaranty Co., Radian Asset Assurance Inc., RAM Reinsurance Company, and XL Capital.

[402] A semblance of skepticism also became more perceptable in the news reports after the bailout bill's passage. Also on October 4, a page three *Wall Street Journal* article headlined "The financial crisis: Paulson's stature takes a beating among lawmakers" explored the criticisms of the Treasury secretary (Solomon 2008, October 4: A3). Reporter Deborah Solomon claimed that "his defenders" said it was never his purpose to gain "unchecked powers" as the reporter worded it. Solomon recalled that Paulson had stated in committee testimony the previous week that he regarded presenting a more substantial proposal as "presumptuous" since it would undermine Congress' authority. Solomon neglected to seek the views of others without vested interests concerning these details. They could have pointed out that the Treasury routinely proposes vague bills without a definite sum in order that the politicians acquiesce in fear (instead of providing them with details, plans and supporting substantive evidence from which to judge its merits) (Sorkin 2009).

[403] An October 4 *New York Times*' front-page report, headlined "For Treasury Dept., Now comes the hard part," downplayed the speed politics involved in the Treasury programs even as it revealed some details (Landler & Andrews 2008, October 4: A1). The journalists stated that Treasury officials were designing the program and the plan was to "outsource" this work to asset management firms. These Treasury officials were: Neel Kashkari, Phillip Swagel, David Nason, Kevin Fromer, Peter McCarthy and Kenneth Carfine. Among the asset management firms named were BlackRock, Pacific Management Investment Company (Pimco) and Legg Mason. Three other Treasury officials, who were former senior Goldman executives named in the report were, Edward Frost, Kendrick Wilson and Dan Jester. They evidently did not have undue influence. The reporters recruited an 'outside source,' Alan Blinder, the former vice chairman of the Federal Reserve, who rationalized the inherent conflicts of interest, even as he expressed 'concern' about the matter. Blinder's rationalization was subtle because he claimed that unless there was someone "of the stature and honesty of a Paul Volcker running it, you need to worry a lot about conflicts of interest." Blinder's mention of Volcker was particularly ironic since he had been a key player in causing the world recession of 1982 while he was chairman of the Federal Reserve. Volcker, who was another David Rockefeller protégé, raised the federal reserve fund's rate in 1979 in order to serve the Anglo-American oligarchy's interests (as outlined in chapter two). By 1980, US banks were charging 20% for 'loans'. The Volcker policy shock, which copied the Thatcher monetarist revolution, helped drive the de-industrialization of the United States (Engdahl 2009: 272-279; 282-295). In other words, Blinder tacitly communicated there was no one in the United States with both the skill *and* integrity to run the bailout

programs. Thus, conflicts of interests were being constructed upon circumstantial evidence as public policy. Notably, it was Alan Blinder who disingenuously used the Saviour metaphor at the Jackson Hole central bankers conference in August 2008, when he cast the Federal Reserve as 'the little Dutch boy' saving a town from its 'own' folly of building on a flood plain, as mentioned in chapter four.

[404] The large photo on *The Guardian Weekly*'s front-page was of House speaker Nancy Pelosi speaking at a press conference after the bill's rejection on September 29, with Barney Frank, the chairman of the House Committee on Financial Services, standing beside her.

[405] The version that appeared in *The Washington Post* was called "They just don't get it" (Pearlstein 2008, September 30: D1).

[406] Pearlstein explained that the core reason underlying the House of Representatives rejection of the bailout bill was "that too many people don't understand the seriousness of the situation" (2008, October 3: 17).

[407] Apparently, there was just one course of action in a world where the new norm would be "less debt," and that was "to have governments globally borrow gobs of money and nationalise large swaths of the financial system" (Pearstein 2008, October 3: 17). Pearstein essentially argued a takeover option, wherein everyone (including governments) would eventually realize that state's would need to buy stakes in financial institutions, in order to recapitalize, restructure and make them profitable before they would be ready for private sector ownership again, as Johnson & Kwak argue in *13 Bankers* (2010).

[408] Also omitted was an explanation as to why the American governments' central bank could apparently print money, yet the government itself had to borrow money (which increased the public debt because its Treasury Department issued new debt as securities) (Brown 2008; Griffin 2008; Hudson 2010).

[409] *BusinessWeek*'s consumer investors and business people were connected with the report's expert sources on the 'credit freeze.' One expert was Laurence Fink, the CEO of an investment and asset management firm, BlackRock. Fink stated, "Cost of capital for corporations is increasing dramatically, and if we don't stabilize that market, it will be a catastrophe" (Coy 2008, October 13: 21- 22). This was because there were not enough investors willing to invest in money market funds (they in turn 'buy' commercial paper that companies issue to gain funds) (Coy 2008, October 13: 21-22). Ironically, BlackRock was also a money market fund, but this fact was omitted from the article (Henriques 2008, October 2). Coy used a medical-biological metaphor to vaguely explain that banking was in a state of ill-health and was thus relying on the Federal Reserve's "life support" system.

[410] *Fortune*'s October 13 edition was designed to distance its readers from America's middle class values, legitimize the bailout and obscure the goals underpinning the huge bank mergers (Easton 2008: 34; Tully 2008, 39). The cover page of this edition was a photo of five businesswomen from Silicon Valley, whom were all power-dressed in black suits.

[411] The word populism actually refers to the broader needs, aspirations and values of society that the investment class sought to limit. Indeed, the term populism has a history. It is derived from the Populist Movement of the 1890s who campaigned on the conviction that money should be produced as "a function of the government," rather than controlled by private banks (Bryan as cited in Brown 2008: 15; Still 2009).

[412] The economic hardship endured by America and much of the world from 1931 to 1939 is etched in cultural memories. At a deeper level, it symbolizes the power and callousness of Anglo-American financial oligarchs from this crisis-past to inflict such hardship, since Wall Street-Washington interests had engaged in a rivalrous financial battle with their British counterparts from the City during the 1920s and 1930s. The US 'Money Trust' interests were determined to become the dominant global financial power and this meant displacing the financial and military dominance of the British Empire. To achieve that required first winning the legal power to cast 'the American people' as taxpayers, obtained in 1933, so that they would become permanent underwriters and financiers of the debt-based monetary system; and second, another World War in order to emerge as the dominant military power (Brobst & Beddoe 1991; Engdahl 2004; 2009: 114-115; Griffin 2008; Still 2009). Thus, the increasingly frequent mention or suggestion of the Great Depression in the news coverage was intended to invoke fear in ordinary Americans and act as a control mechanism for financial and political elites who could see through the sanitized history of the Wall Street-Washington Complex (Brady et al. 2008, September 17: A27; Hilsenrath et al. 2008, September 18: A1, *WSJ*; Hilzenrath & Kessler, 2008 September 17: A1, *WP*; Irwin & Appelbaum 2008, September 22: A1, Irwin & Cho 2008, September 15: A1, *WP*, Kessler & Hilzenrath 2008 September 16: A1, *WP*).

[413] In his study of the formative role the US news media played in covering up systemic white-collar crime during the Enron era, James Williams (2008) referred to an 'imagined investor' that occupied a privileged place in the news media.

[414] In a *Washington Post* story headlined "Fresh signs of recovery…" from September 25, the reporters quoted David Rubenstein, the co-founder of a Washington-based buy-out firm – the Carlyle Group – who stated, "When history is written, this could be seen as the turning point." Rubenstein's claim regarding a 'turning point' belied the ongoing aggressive rivalry among the financial oligarchs (Landy & Heath 2008, September 25: D1). Indeed, the firm itself had undergone a 'turning point' once the Federal Reserve's new credit facilities became fully operational, following the takeover-bailout of Bear

Stearns (Brunnermeier 2009: 88). The Carlyle Group owned 15% of a hedge fund called Carlyle Capital that had been in default for $16.6 billion worth of loans in March 2008. Carlyle Capital's creditors had included Bear Stearns. Now, *The Washington Post* reported the Carlyle Group had "$40 billion in cash" (Currie & Beales, 2008 September 25: A2).

[415] Hence, Buffett's statements on *CNBC* that the financial crisis was an "economic Pearl Harbor" can be interpreted for its metalevel meaning that the financial oligarchy was prepared to be as callous and devious as need be to achieve their objectives (Landy & Heath 2008, September 25: D1, *WP*; White 2008, September 24: A25, *NYT*). Contrary to popular cultural memory, the Japanese attack on Pearl Harbor on December 7 1941 was neither unprovoked, nor a surprise, since a secret inner circle around president Roosevelt had conspired with the British and Dutch governments to cut off crucial supplies of oil, steel and aviation lubricants to Japan. This strategy, embarked upon in early 1941 after US military codebreakers successfully deciphered Japanese diplomatic *and* military encrypted communications in December 1940, was intended to draw the United States into another global war from which America's oligarchs wagered they would emerge as controllers of the world's dominant military and financial power (Churchill 1954: 341, 350, 459, 470, 473; Engdahl 2004; 2009; Gole 2003; Stinnet 2001: 61, 180-188, 261-263). Therefore, the metalevel meaning embedded in Buffett's reference to Pearl Harbor suggests a coup d'état by financial means.

[416] Indeed, according to *Bloomberg*, Paulson acknowledged this weak choice at a private lunch with numerous hedge fund and investment firm heads on July 21 2008, in the offices of Eton Park Capital Management (Teitelbaum 2011, November 30). At this meeting, which was attended by several former Goldman Sachs executives, Paulson stated that in his treatment of Bear Stearns shareholders, he had relented. Not surprisingly, Paulson omitted this information from his book *On the Brink* (2011).

[417] Various 'wealth' reports on the rich and super-rich reveal varying findings (Becerra et al. 2010; Capgemini & Merrill Lynch Wealth Management 2011; Deloitte Center for Financial Services 2011; Keating et al 2011; Knight Frank and Citi Private Bank 2012; Wealth-X 2011). The data is aggregated, which renders individuals 'invisible.' Data on individuals is expensive to obtain. None of the 'wealth' reports acknowledge that the use of tax-secrecy haven networks by the rich and super-rich occurs with the complicity of governments. Therefore, the difficulty and expense in determining their weath with precision occurs because oligarchs exert control over political and legal systems to ensure their fortunes are hard to track (Palan et al. 2010; Shaxson 2011; Winters 2011). Nor do they acknowledge that this wealth is based on privately created credit and speculative derivatives, public debt, exploitation and conquest, whether inherited or not (Chossudovsky, 2003; Engdahl, 2004; 2009; Jarecki 2006; Rowbotham 1998; 2000).

[418] The meeting of April 15 2008 between Treasury officials, including Henry Paulson, and the chairman of the Federal Reserve, Ben Bernanke, was a discussion of a proposal to recapitalize the banking system with cheap tax-funded federal credit (Sorkin 2009: 83, 90-92). Inherent to the "Break the Glass" plan was the idea to delay its implementation, as its title symbolized, to a time *when* – not if – circumstances would be so severe, that its urgent appoval by Congress would be more likely.