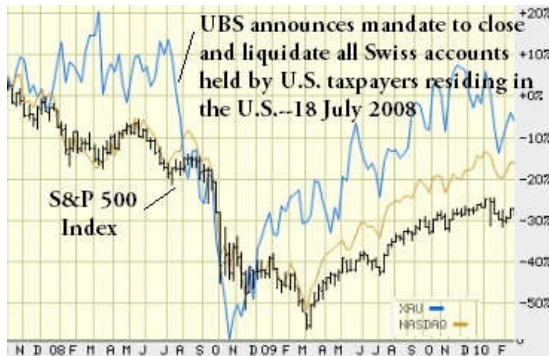


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The Genesis of 2008 Financial Markets Meltdown



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Did you ever think of what it was precisely that precipitated the financial markets meltdown in 2008?

The following is an excerpt of a letter, dated 9 November 2010, I drafted and sent to a Swiss law firm (Swiss Advocate--Advokatur Fischer & Partner) to register my complaint

about the causes and effects of the most recent financial markets meltdown:

We simply never anticipated that UBS and the Swiss government would be substantially responsible for the demise of the offshore banking world.

So what did UBS and the Swiss government, more importantly, accomplish by knuckling under the U.S. government's demands to enforce taxation transparency after UBS was caught red-handed assisting American citizens domiciled in the U.S. to set up fraudulent corporate entities to facilitate income tax evasion? Without question, UBS's public announcement of the resultant U.S. client termination policy created a liquidity crisis of epic proportions in the offshore banking world for the obvious reasons; obvious because it set off an atomic chain reaction on the part of offshore investors worldwide who rightly perceived the end of offshore banking was nigh at hand.

Soon thereafter, the fuse having been lit by the announcement, the crisis spread throughout the world and ended, as we all know all too well, first with an explosion that initially disintegrated toxic American-made and U.S. government approved derivative investments (an irony in that fact is of no small proportions). That explosion caused a panic conflagration that ravaged worldwide stock and bond markets over the ensuing months. Trillions of dollars of financial wealth vaporized all around the globe during that period. Tragically, too, previously viable and robust offshore companies were similarly affected by financial markets crash as well as the clear signal UBS issued as to demise of the offshore banking world and its integrity as a firm.

Well, you may say, the financial market crash might have occurred anyway. Toxic derivative pools were just waiting to explode like a railroad carload full of dynamite detonation for another unforeseen reason. I would counter, however, warnings about the potential calamity derivative pools represented were everywhere, especially in academia, many years prior to the event. The situation could have been properly managed but wasn't due to the lack of foresight by corporate and governmental leaders alike. If they would have asked for my opinion, even I would have counseled a much more than cautious approach to the matter.

And what about the U.S. government's part in the situation it created? Was it worth the effort to gain several billions of potential tax revenue and bring about the calamitous destruction of worldwide personal and corporate financial wealth that the effort caused nearly at the same time? I think it wasn't by any stretch of the imagination. Did U.S. government politicians and lawyers involved, not to mention the OECD, anticipate this result? Clearly, they had no inkling whatsoever of the potential danger involved with the brutal treatment they brought to bear on delicate financial markets. Clearly, too, they were like proverbial bulls and in a china shop yet again in this instance. Today, as another tragic result, Far Eastern financial markets top the combined American and European capital formation markets in capital formation ventures. Obviously, they had no idea that they were sitting on the financial powder keg they themselves would later detonate.

In actuality, the quixotic effort on the part of the U.S. government and OECD abysmally failed to achieve the primary expected result: that is, repatriation of U.S. investors' wealth back to the U.S. Instead, they opted to invest in offshore real estate in the main. The I.R.S. even recently stated the effort was ill-conceived and a failure from a cost/benefit standpoint, at least in the short-run.

As to the long-run, all I can say is offshore capital was exceptionally well-managed and really harmed no one, especially the U.S. government. People forget too that America is a tax haven itself of more than considerable proportions. Clearly, the attempt to maintain U.S. capital hegemony in the financial markets world backfired on the firebrands involved. It's just too bad that misguided quarters like that have the time, inclination and freedom to wreak such havoc on the world only to be rewarded later by being given yet another opportunity to right the wrong they themselves created in the first place.

At the time I had successfully managed an investment portfolio for my firm through an offshore banking account. My letter essentially petitioned Swiss Advocate to include my firm as a class member in the class-action law suit the law firm initiated against UBS and the

THE WRITING OF STEVEN WOOD COLLINS - AUTHOR OF "PURAMORE - THE LUTE OF PYTHAGORAS"

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Swiss government.

You know, or perhaps you don't, I was an active participant in the stock market crash of 19

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eyes on a computer screen in a real time setting in which you are inextricably involved. Yet that experience and others with which I contended during my career always supported my outlook that sooner or later markets would mend themselves and flourish again. However, given the profound depth of the last financial markets' meltdown and its lingering effects, I'm not so certain that this will be the case any time soon.

In my mind, the markets have experienced a dramatic sea change to such an extent that the old money economy may never again return to a vigorous state of health. Believe me, that's a serious assessment on my part that I don't proffer capriciously--one that rubs against my grain, so to speak, as an American. Nevertheless, I can't tell you how disappointed that I am that American enterprise will obviously suffer as a result of this incompetency committed on their behalf.

At any rate, as a clear example of beginner's luck, those involved unwittingly achieved what the geniuses of the old Soviet Union failed to accomplish, that is, bringing the free-world economy to its knees. In all fairness, though, I must add that some market mavens still maintain the stock market crash of 19 October 1987 was caused by Soviet stock and bond market tampering. Whether that's a red herring or not, thanks to the installation of market circuit-breaker programs afterward, we avoided a similar one-day experience(s) during the second-half of 2008.

Sometimes the simplest effective approaches in dealing with issues are oft times ignored. In this instance, had the U.S. government elected to eliminate capital gains taxes altogether, everyone would have gained--even the offshore financial markets. Ah, but that would have been too simple and wouldn't have qualified anyone to receive the coveted Rube Goldberg award after the fact (which I'm actually thinking about establishing for the benefit of posterity).

But really what does all of that failing portend? It could very well be, to paraphrase the old English nursery rhyme, that "all the king's horses and all the king's men, may never put our Humpty Dumpty back together again." Moreover, we may never know since the result of this debacle is, as John Maynard Keynes so aptly and often put to our everlasting dread, "...We're all dead in the long-run." All we know for sure is our financial wealth and current economic prosperity suffered in no small measure due to the 2008 financial markets meltdown--that's not even a polemic in my estimation.

In conclusion of this post, if there ever was a public policy debacle to the extreme in the modern era, this affair involving conflicted interests (in this instance, the Swiss government actually owned more than a 50% stake in UBS AG at the time) and ill-conceived purposes certainly should be cited as an unambiguous example of the economic baby being thrown out with the political bathwater.

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