

The Financial Crisis 2008

My friends know me as a paranoiac who prefers writing about conspiracies behind warfare and terror acts, occasionally also medical subjects. With this subject, I am obviously 'in the wrong film,' it seems. But hold on, I am going to bend this into the usual template. Besides, the current crisis, regardless if it is an attempt to steal money on an unprecedented scale or not, may have a great influence on the World's population (thereby also upon you and me) larger than that of the neo-cons previously induced misery.

Throughout a year, the financial World was marred by what was then only termed immobile crisis. House owners had borrowed money for more than the value of the house, which was given as security. This mismatch was deteriorated by the decreasing prices on the housing market, again at least partially caused by the social deterioration of the Bush regime in Washington. In California, e.g., the house prices decreased 38% in one year [1]. This borrowing effect was augmented by a credit card malpractice: completely without security, customers were allowed a large credit on their card. That may be bad news for the American banks, but how did it come to topple World economy?

Speculation on the bourse includes not only shares in firms but also speculation in the development of the courses through hedge foundations. This speculative business was stopped in mid-November, but only for one month. This is a topic where my lacking competence stops my understanding. Let us jump to the consequences.

Iceland's Experience

Iceland is a country which was hit particularly hard (and early) by the crisis. On Oct. 15, Welt [no ref.] On Nov. 23, it was reported that it was 'saved' by a credit of 10 billion \$ [2], which corresponds to 30,000 \$ for each inhabitant, small and big. Good to know what you are working for, but some of the new slaves, this was reason for a small rebellion directed against their parliament and national bank [3]. The people did not achieve anything. Perhaps it should be a warning, what may await us non-Icelanders? At least, illustrates why this is not something to be trusted entirely upon bankers and politicians. The ones to pay are the ones to be asked.

The Anti Robin Hood Measure

Arguing that this was the only way to prevent a recession, the American government decided to invest 1 trillion \$ – later reduced to 700 billion \$. Do you think this is the result of an exact calculation? "It's not based on any particular data point," a Treasury spokeswoman told Forbes.com. "We just wanted to choose a really large number" [4]. Besides, if it does not suffice, the law supplies: "The Secretary's authority to purchase mortgage-related assets under this Act shall be limited to \$700,000,000,000 outstanding at any one time" [5]. Mike Rivero informed: "This is a disaster for Americans. The immediate cost is ~\$3,200.00 for every man, woman, and child living in the United States, but since large segments of the population do not pay taxes, the actual burden on taxpayers will be far higher" [6]. A more recent estimation assumes that rescue of the financial system assumes more than seven times that amount. This is nine times the cost of the war in Iraq and more than half the annual gross domestic product [7].

Also other nations, e.g. EU (€ 500 billion [8]) and even China (\$ 586 billion [9]) are pouring immense sums into the black hole created at the bourses, which react indecisive

¹ <http://www.latimes.com/business/la-fi-sfhomes19-2008dec19,0,1933808.story>

² <http://www.heise.de/tp/blogs/8/119297>

³ <http://www.bazonline.ch/ausland/europa/Zornige-Islaender-laufen-Sturm-gegen-die-Nationalbank/story/2337052>

⁴ <http://latimesblogs.latimes.com/washington/2008/09/bailout-plan.html>

⁵ <http://georgewashington2.blogspot.com/2008/09/bailout-is-not-limited-to-700-billion.html>

⁶ <http://whatreallyhappened.com/WRHARTICLES/sayno.php>

⁷ <http://www.bazonline.ch/wirtschaft/unternehmen-und-konjunktur/Rettung-des-Finanzsystems-kostet-Washington-neunmal-so-viel-wie-der-Irakkrieg/story/29616975>

⁸ <http://www.heise.de/tp/r4/artikel/29/29097/1.html>

to the aid. How is the money use? Certain are that some banks and investment or insurance companies have been nationalized. Certain is also that one investment firm, 'Lehman Brothers,' was left to collapse [10]. It was then decided to come to the aid of the unfortunate investors, leading to the comment that "*Profit is private and individual. Loss is public and social*" [11].

Wall Street's five biggest firms paid >\$3 billion in the last 5 years to their top executives, while they presided over the packaging and sale of loans that helped bring down the investment-banking system [12]. A tremendous abuse of the bail-out can also be found: Citigroup received in the end of November a credit of up to 300 billion \$ [13]. A week later, it went shopping with the money and bought a Spanish firm [14]. Also the Bank of America did similar. To prevent more scandals of this type, The Federal Reserve mid-December bluntly refused a request by a major US financial news service to disclose the recipients of more than \$2 trillion of emergency loans, using the bizarre argument that they did so to protect 'trade secrets.' Several banks are planning to pay billions of \$ in year-end bonuses from the bailout funds they received [15]. Hedge funds will be allowed to borrow from the Federal Reserve for the first time under a landmark \$200bn programme intended to support consumer credit [16]. And how is the bail-out used? Any bank would demand to know before handing you out a loan: Where's the money going? But after receiving billions in aid from U.S. taxpayers, the nation's largest banks say they can't track exactly how they're spending the money or they simply refuse to discuss it [17].

The winners: Many banks were sold to better situated competitors, leaving three giant 'super banks' with an unprecedented concentration of market power: Bank of America, JPMorgan Chase and Wells Fargo [18] – and of course the federal reserve along with the other national banks worldwide. That demands an explanation (a longer explanation is given in the video 'How much "MONEY" exists on Earth?' [19]): the trick is that there is no real money in the system, no goods that they provide, only debts with compounded interest - chargeable to the 'dumb goyim' US taxpayers [20]. If necessary, money can be printed, but the money you owe to your bank is written on other papers.

Alternatives to bail-out?

The uncontrolled reaction to the system crisis of capitalism by its most devoted servants has met uncertainty and resistance. The "**what if**" can be seen already, as described by the shameless abuse (let us hope this is only a minor phenomenon). The governments are called for reducing taxes (to the benefit of the rich who have already profited from the Bush regime). This is only possible with a combination of further social de... and increasing state-loans. Not surprising, only 7% of U.S. voters back bailouts [21].

The "**what if not**" is thereby not easy to foresee. More banks and other firms will go broke, increased unemployment will result and recession prevail. Since a recession is anyhow going to occur, it is only a question if this can be ameliorated.

An alternative may be to use the money so generously granted not for bankers exactly for business and employment. The previous use of the bail-out had no convincing effect on the bourses. Also the reduction of various central bank's interest of close to zero (when will we be rewarded for borrowing money?) shows no effect but high costs.

⁹ <http://www.msnbc.msn.com/id/27624897/>

¹⁰ <http://www.bazonline.ch/wirtschaft/unternehmen-und-konjunktur/Notverkauf-von-Merrill-Lynch-Lehman-Brothers-am-Ende/story/12545536>

¹¹ <http://georgewashington2.blogspot.com/2008/09/fascist-economics-state-pays-for.html>

¹² http://www.huffingtonpost.com/2008/09/27/top-wall-street-executive_n_129874.html

¹³ <http://www.welt.de/wirtschaft/article2771504/US-Regierung-buergt-fuer-Citigroup-mit-300-Milliarden.html>

¹⁴ <http://www.heise.de/tp/blogs/8/119720>

¹⁵ http://blogs.moneycentral.msn.com/topstocks/archive/tags/Goldman+Sachs/default.aspx?Sort=most_comments&PageIndex=1&SortOrder=Descending

¹⁶ http://www.ft.com/cms/s/0/989db158-ce30-11dd-8b30-000077b07658.html?nclick_check=1

¹⁷ http://news.yahoo.com/s/ap/20081222/ap_on_bi_ge/meltdown_secrets

¹⁸ <http://www.msnbc.msn.com/id/27441147/>

¹⁹ <http://video.google.com/videoplay?docid=-9050474362583451279&hl=en>

²⁰ <http://www.realjewnews.com/?p=288>

²¹ <http://www.bizjournals.com/phoenix/stories/2008/09/15/daily63.html>

The Madoff fraud

On December 11, Bernard Madoff was arrested on a securities fraud charge, accused of running a fraudulent investment business that lost at least \$50 billion. The culprit is a Jewish Zionist and a former NASDAQ stock market chairman [22]. His enormous success (and the corresponding enormous loss, the biggest fraud in history) was based on the promise of 10-13% interest rates, which was paid out from the investments of other clients. Mr. Madoff was discharged to nightly house arrest on a bail of 10 million \$ (0.02% of the assumed cheated volume). Only after nine days was the house arrest extended to 24 hours a day.

The fraud could have been averted if the Securities and Exchange Commission (SEC) had acted on numerous warnings about Madoff's financial impropriety ten years ago [23]. Indeed, numerous investors and banks across Wall Street refused to deal with Madoff for several years before his ultimate arrest on fraud charges, amid widespread rumours of suspect activity at his broking and fund management business [24]. But then it was reported that Madoff and his clients were the largest bank account holders listed on a computer disk leaked by a Swiss bank worker regarding US persons with hidden Swiss bank accounts [25]; and individual investors who lost money may be able to recover some of their money by seeking U.S. tax refunds (the US government's financial fraud protection scheme) [26].

Conclusion

I dare not make any recommendations – this is a dangerous field for experiments. However, also the unprecedented bail-out must be considered an experiment, and not a very promising one. Could it be a tremendous attack on economy, carried out by the central banks (which are generally private institutions), earning money lending the phoney bail-out and receiving some of it again by the rather incidental investments? If so, my fellow slaves, we have been conquered by sombre forces. This time, a war was not even necessary (or may follow soon).

December 21, 2008

Addition 2009

It is really hard stuff for a retired physician to understand, and as the former American Federal Reserve chief, Allan Greenspan, the single person most responsible for the crisis, claimed, the matter is too complex even for him, so why try?

This crisis is as important as any major conflict (and perhaps inviting to one), that it is sort of an obligation to try to understand some of its background. To some extent, it is indeed also possible. Hold on, we are about to uncover the biggest economical crime in history, but the damage done seems impossible to cover. The American dollar will turn worthless and it is time to disintegrate other currencies to prevent their additional collapse.

The **Glass-Steagal Act** was an American law, introduced in 1930 in order to prevent monopoly in the banking world. With its removal in 1999 (during Bill Clinton's presidency), it was made possible for banks to merge and, worse, leave their traditional banking trade. That was abused to create a new business background, the **securization**: in order to minimize the effect of unpaid loans, these were bundled in huge packages. That had, however, the effect of making the widespread fraud even more difficult to disclose.

In USA, not only houses but virtually anything could be used as security for credits. The interest rate is usually variable, that is: paid interest may be very low, but the rest is added to the debt. The agent who arranges such a loan is given a certain bonus, independent of the status of the creditor. A large part of these loans have been paid out

²² <http://finance.yahoo.com/news/ExNasdaq-chair-arrested-on-apf-13813639.html>

²³ http://business.timesonline.co.uk/tol/business/industry_sectors/banking_and_finance/article5356348.ece

²⁴ <http://www.independent.co.uk/news/business/news/wall-street-insiders-had-shunned-madoff-for-years-1203850.html>

²⁵ <http://www.rense.com/general84/mado.htm>

²⁶ http://taxprof.typepad.com/taxprof_blog/2008/12/tax-law-to-provide-50b-bailout-to-madoffs-victimes.html

to clients with less security, who have given incorrect information of income and values possessed (**NINA** = No Income, No Assets), to which comes the effect of overvalued houses. These are the so-called **subprime assets**, as opposed to the primary assets. The sharks gaining a signature under these contracts (normally short lending and variable interests) received the same bonus as for the well-secured assets. This was just some of the stimuli for the financial market in the United States going wild. Globalisation then made the crisis – according to the first part of its name – even global. Money flowed in from abroad to a large extent.

The bundling of thousands of loans in packages should reduce the risk, associated with the failure of 'just a few of them' never be paid. As the bubble started to collapse, however, prices for housing descended, leading to an accelerated amount of foreclosures (forced sale), again further reducing prices of houses and illustrating their lacking security for bank loans.

In the meantime, the bank had probably already sold the bundle, which was considered a valued paper in itself. Its credibility had already been evaluated by a kind of insurance firm. As the bubble erupted, it turned out that these firms only gave *recommendations*, nothing they could be held liable for.

This is what I so far understood (or failed to understand) about the current financial crisis. The wisdom behind the **bail-out**, the huge official investment to large banks, is difficult to grasp. Perhaps it was necessary to save the system, but why are the ones, who created the crisis, rewarded while the victims may be innocent? The abuse of the bail-out is, as described above, heavy and still it is kept secret, how many billions are presented to Goldman Sachs, Merrill Lynch, J. P. Morgan, Citigroup and Wells Fargo, just to mention the biggest NY Banks, which are obviously not just **TBTF** (too big to fail) but also, shall we abbreviate it **TBTP** (too big to punish). The American bail-out now approaches 80% of the inland product, money which we and our children owe to the bankers. Paranoia seems justified.

Incredible is also the lack of consequences, precipitated by this crisis. The hedge funds, e.g., are back at the stage and proudly announced billions of earnings while the Dow Jones and similar indices lost approximately half of their value.

Since the topic is difficult for me to understand, I shall be grateful for any editing of this paper.

24.5.2009