The nature of global financial and economic crises

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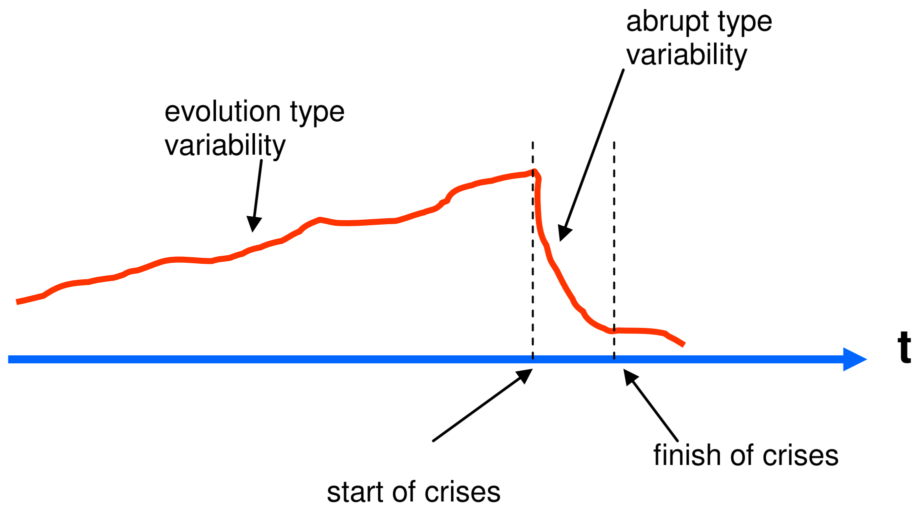
My brief report is devoted to some ideas to the world finance and economic crises model.

First of all - what is crises in our understanding?

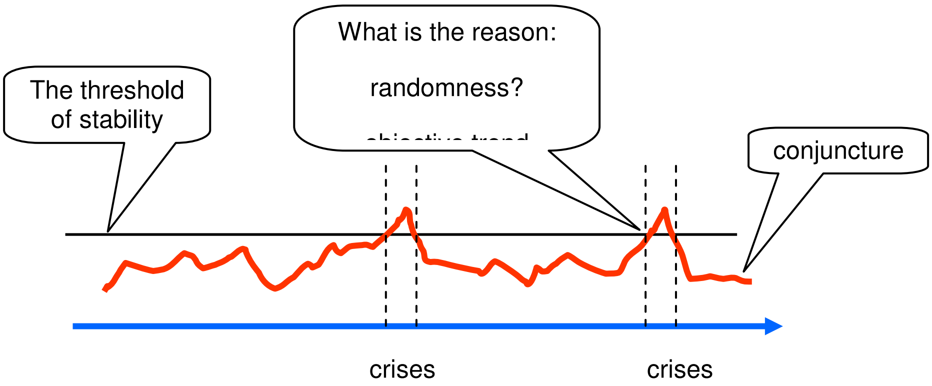


Slide 1. To the basic definishion of crises/

Let us consider briefly the basic theoretically possible models of global crises.

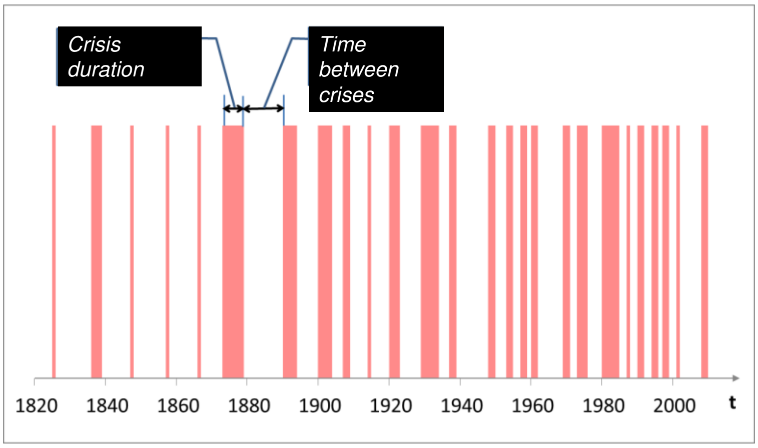
They are:

1. Random instability of the global market.
2. Cyclical ripple effect.
3. Managed crisis.

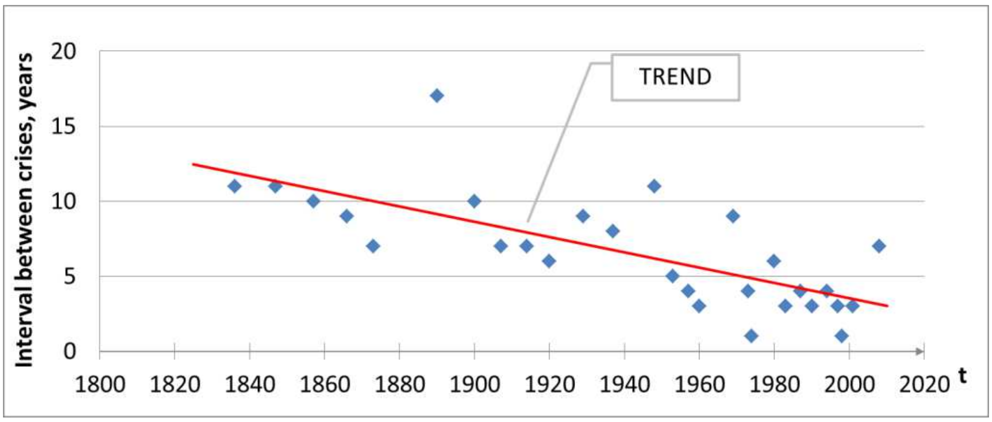


Slide 2. There are three principal global crisis models

1.Model of the random instability



International Financial Crises: Causes, Prevention, and Cures by Lawrence H. Summers // American Economic Review Vol 90 № 2, 2 May 2000.
Robert J. Barro and Jose F. Ursua Macroeconomic Crises since 1870 // Bookings Papers on Economic Activity, Spring 2008
National Bureau of Economic Research URL: http://www.nber.org/cycles/cyclesmain.html 5

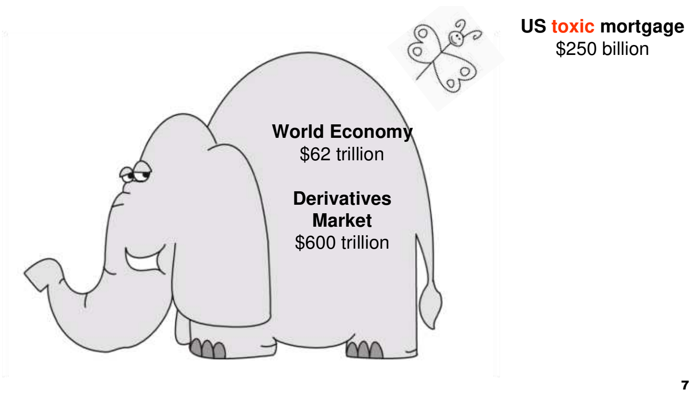


Slide 3. Evidence against the regularity of global crises

This slide shows crises from 1820 to the present. It is clear that there are laws at work which indicates that crises have a unified nature.

Therefore the all-too-definite explanation for the crisis of 2008 (that of chain reaction and meltdown) does not hold up when applied to the many previous ones. So we are missing a part of the puzzle.

But there is another question inconvenient to this explanation. Could such a tiny fluctuation really lead to a global crisis? The overall (marginal) market capitalization of U.S. mortgages according to the IMF stands at between 1.2-1.5 trillion USD with 250 billion USD in bad mortgages written down by banks[1]. The size of the derivatives market is estimated at 600 trillion USD. This should be considered against the CIA's assessment (considered to be a conservative one) of the global economy which stands at about $ 62 trillion dollars. Figuratively speaking, the impact of the collapse of the entire U.S. mortgage system on the total world financial system is like a butterfly flying off the back of an elephant. Such a fluctuation amounts to less than 0.4% of the whole.



SLIDE 4. US bank writedowns owing to mortgage-related securities are negligible compared to global finance

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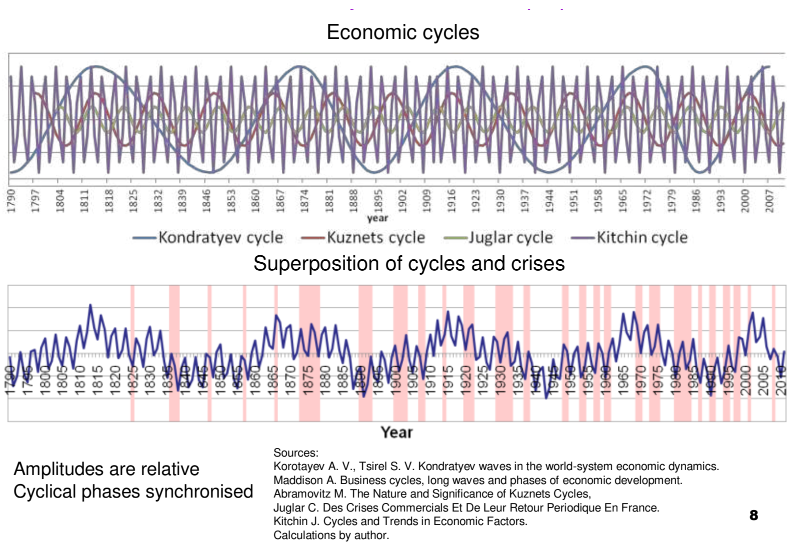
[1] International Monetary Fund. Global Financial Stability Report// http://www.imf.org/External/Pubs/FT/GFSR/2007/02/index.htm

2. Model of cyclical ripple effect

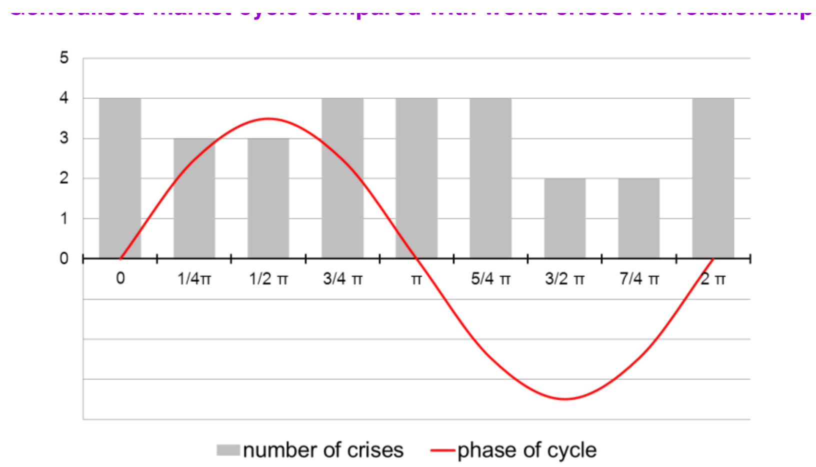
This model sees the world market (including finance) as mass of interactions between a statistically large number of businesses. Under this view, the stability of a large complex system is determined by its intrinsic properties amongst which a breakdown of stability may occur leading to a respective crisis. Cycles are produced by an accumulation of short-term market conditions which periodically exceed what can be sustained.

Russian academic Nikolai Kondratiev in the early 20th century proposed a theory of markets which was then developed by Kuznets, Zhyuglyar, Kitchin and many others. They argued that it was due to properties inherent in the market and that rising waves of market opportunity alternated with falling ones. And that the cycles themselves were of various durations. The model goes on to suggest that the variability of market conditions at a certain point in a phase of cyclical development may cause a breakdown of sustainability, thus leading to a crisis. Cyclical wave resonance in this case means that the critical condition for instability occurs, and occurs while under the confluence of cycles of varying durations which together form a “perfect storm”. It also postulates that, since the situation is cyclical (repeatable), this condition will reoccur given the same set of circumstances and, it follows, crises themselves must be cyclical in nature.



Slide 5. Global economic cycles and their superposition

If the wave model is correct, the crises marked by vertical shading should coincide with **a clearly discernable stage** in the "standard" market cycle. Crises should cluster around a certain point in the standard cycle. By introducing general cycle conditions, we can overlay the whole succession of crises observed over the period to see whether this is so. So in simple terms, we have taken the theories of cycles proposed by prominent scientists and calculated a unified position.



Slide 6. Generalized cycle market comparison with world crises: no relationship.

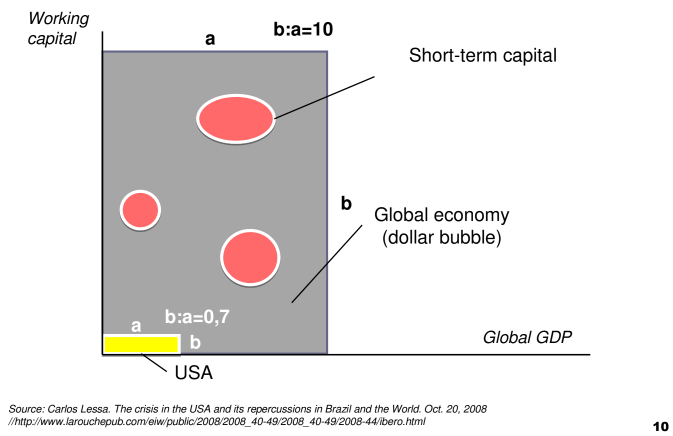
Taking this unified position, we charted the number of crises against a single phase of the cycle.

We see here that there is no connection between the phases of a crisis and cyclical market conditions. Whether it be a bull market, a bear market or a transition phase, they are spread statistically evenly.

This means that Kondratiev and other scientists's model of explanations for crises could be wrong. The market possibly does not contain within in the implicit cause of the breakdown of stability.

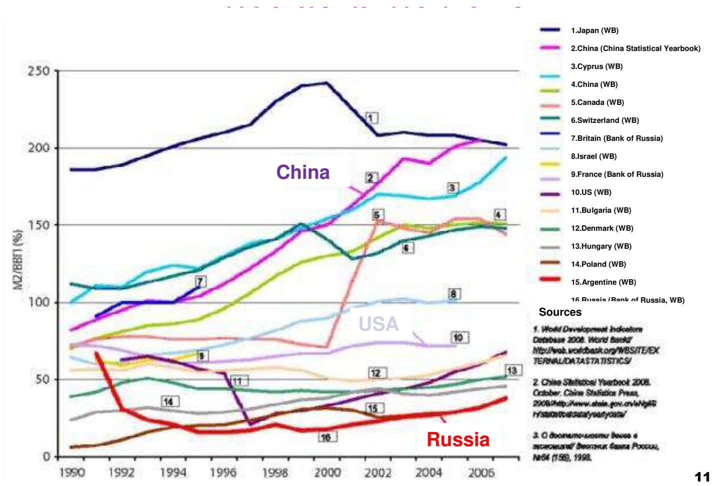
If this is correct, then it is reasonable to suspect that something external is driving crises: an individual *will* or *confluence of interests*.

3. Model of a managed crisis



Slide 7. Ratios of U.S. GDP, global GDP and related financial capital

A discrepancy here will give rise to a crisis. Some may attach no importance to this and see it as part and parcel of modern economic life. But let's take a look at the ratio of money and the GDP of nation states before making any firm conclusions.



Slide 8. Ratio of cash to national GDP

Responsible governments relate the issue of their national currency to real GDP. Why then on a global level does this not happen? We see that the world lacks a control mechanism at the level of both country of issue, and that of the world community at large. The needed institutions simply do not exist.

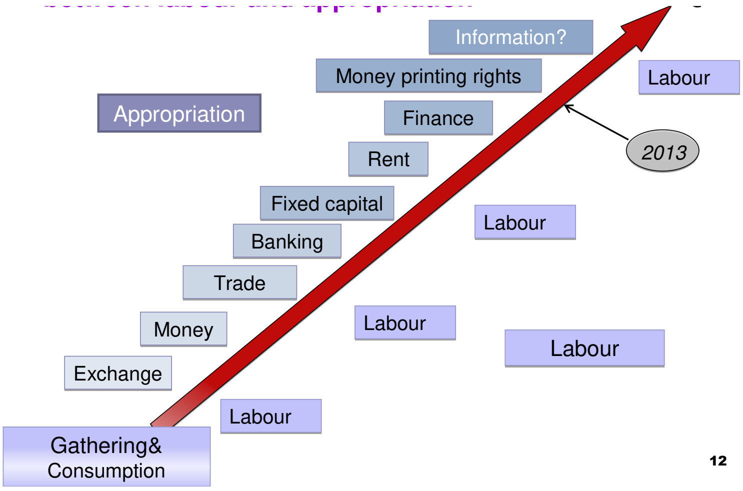
If your government or mine found a gang of criminals counterfeiting our national currency, we would prosecute them to the full extent of the law. And rightly so. My question is: how does the issuance of uncontrolled volumes of dollars backed by nothing and sold at unreasonable rates of interest differ from the case I just mentioned?

The majority of life's complexities have quite simple causes. And on this question – that of the simple causes for most of life's mysteries – the world is split in two camps. The French say *cherchez la femme*. Everyone else says: *follow the money*.

The theory of managed crises seems to us to merit serious investigation, since someone is making a lot of money out them.

Labour versus appropriation

The system into which I was born and under which I lived until the momentous events of recent world history made much of the question of labour. Labour was valued above all. Labour – and its product – were the only real wealth. And while that question may be debated, what is beyond debate is the fact that counterfeit money is a form of theft of the labour and product of others. It is a “civilised” form of robbery. The core engine of global history is the conflict between those who work, produce, generate – and those who steal, appropriate.



Slide 9. Evolution of the conflict between labor and appropriation.

The important thing to note is that “civilised” appropriation was born with the appearance of formalised methods of exchange. Historically, it has intensified abruptly with:

- The appearance of money;

- The conversion of money into the paper (no real value);

- The birth of non-cash money;

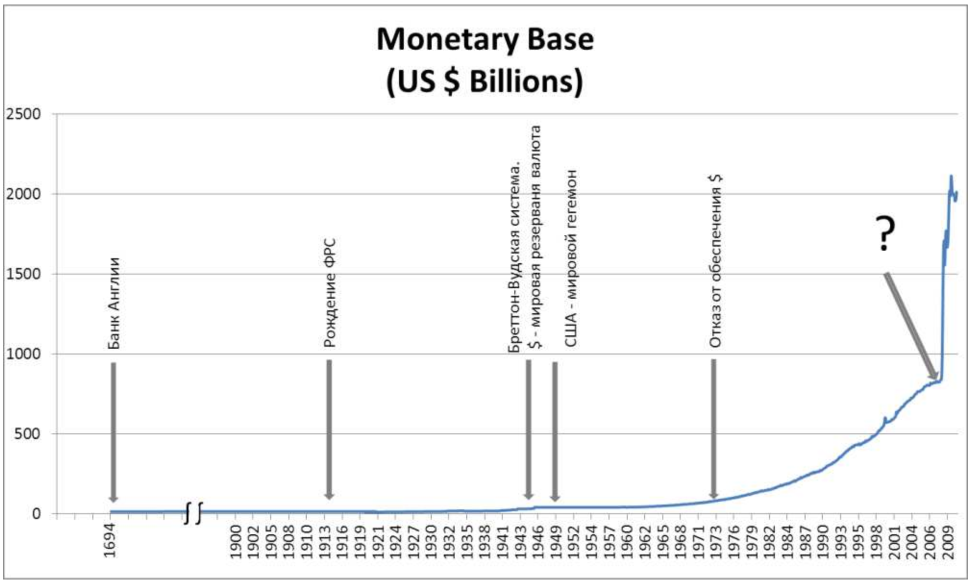
- The birth of unsecured money;

- The loss of the right to issue by the society and its falling into private hands;

- The birth of electronic money;

- The birth of quasi-money: securities (receipts).

It is easy to correlate these phases with specific historical periods. The last four steps of appropriation are taking place now, in our lifetimes.

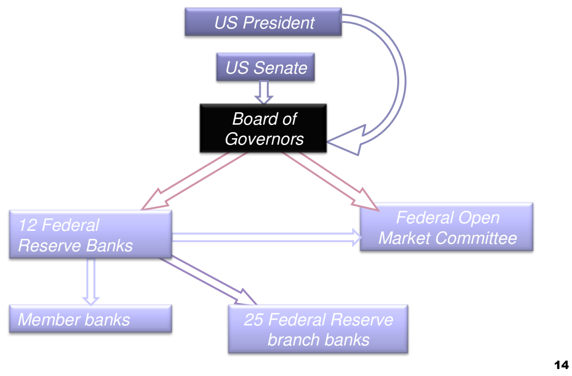


Slide 10: Growth and surges of money supply

Now let us look at the growth curve of money supply worldwide for the future (remember, this is the increase of money as a commodity with no real labour or product to back it and therefore tantamount to appropriation – a nice word for theft).

Here, the central bank should be acting as a regulator, but in reality it does not. If we look to history, the first conflict between private capital and the government on the question of the establishment of a private central bank occurred in England and lasted the whole of the 19th and the first decade of the 20th century. As soon as the world's economic centre shifted to the United States – and Britain as a world empire lost its economic power – the problem became more urgent. Major American businessmen who had amassed vast capital, John D. Rockefeller and JP Morgan, were particularly active.

They were supported by representatives of the European equity bankers Warburg and Schiff, both closely related to the Rothschilds. In 1913 they had succeeded in creating the U.S. central bank - the Federal Reserve System.



Slide 11: The structure of the Federal Reserve

Most people think that the Federal Reserve is a state-run organisation. It sounds like one. However, if you look it up in the phone book you won't find it in the government section next to the Federal Bureau of Investigation. You will find it in the private commercial section not far from companies such as Federal Express. What is true is that the state has a definite influence over it. The Board of Governors of the Federal Reserve is an independent government agency (its status is similar to the status of the CIA and NASA). All seven of its members are appointed by the president and confirmed by the Senate. Moreover, the right of the President to dismiss the Federal Reserve Chairman is fixed in law. The Board of Governors of the Federal Reserve reports annually to the House of Representatives. The U.S. Government Accountability Office has the right to audit the activities of the Federal Reserve. Profits earned by the Federal Reserve as the financial and issuance centre of the

U.S. are fully transferred to the Ministry of Finance, except for the amount that goes to pay dividends to the System's member banks.

However, here government influence over the U.S. central bank ends.

The Federal Reserve is made up of 12 reserve banks through which an infusion of dollars is issued into the global economy, as well as the buying and selling of securities which are private organizations, a fact which has been established in open court.[2] Only one third of the members of their boards of directors are appointed with indirect state involvement via the Board of Governors of the Federal Reserve. Two thirds are elected directly by their shareholders. This means that the Federal Reserve is, in fact, a joint stock company.

Key decisions concerning the issuance of dollars or the buying and selling of securities are not made by a governmental agency – the Board of Governors – but by the Federal Open Market Committee where, along with members of the Governing Council five directors of Federal Reserve Banks sit. Once a year, the Federal Reserve Chairman reports to Congress, but this procedure is largely a formality. The Fed's activities are largely opaque. The U.S. Government Accountability Office has a formal right to an audit, however in key decision-making (the Fed's international activities and its financial policy), the Governing Council and Federal Open Market Committee are virtually unaccountable. Nobody, not even the President has right of veto over the Federal Reserve's decisions.

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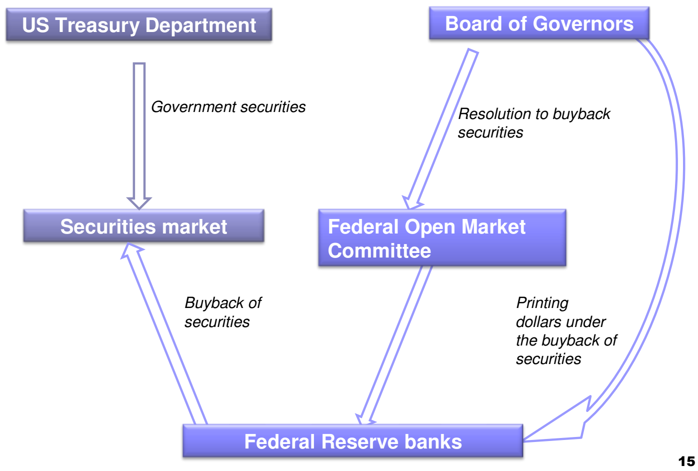
[2] Kennedy C. Scott v. Federal Reserve Bank of Kansas City, et al., 406 F.3d 532.



Slide 12: US Federal Reserve dollar printing system

The Fed regulates the amounts in which dollars are issued, making decisions about the release of cash for the purchase of government securities, thus lending it to the U.S. government in the form of printed money. Interest payments on the bonds received by the Fed run into the hundreds of billions of dollars and do not appear on any report. To be able to pay the interest, the U.S. government issues additional bonds and sells them to the very same Federal Reserve. Thus, what we have is nothing more than a traditional pyramid scheme. And it is the United States – itself in debt to its own central bank – which is under threat of its imminent collapse.

A natural response at this point is to ask: if this model is correct, who are the beneficiaries behind the Federal Reserve who this model sees as essentially the masters of the U.S. and thence the world?

This is a natural response, but may be an emotional one. The first question, we suggest, should be not *who?* at all. But rather: can we prove at all that such a mechanism of appropriation – no matter who may be behind it – is really responsible for the world's financial and economic crises? For us to accept the thesis, the following would need to be demonstrated:

a) one and the same mechanism of controlled cyclical crisis has been in operation over a substantial period of time;

b) by understanding the mechanism of crisis management (the beneficiaries and their actions) we can predict when new crises will happen;

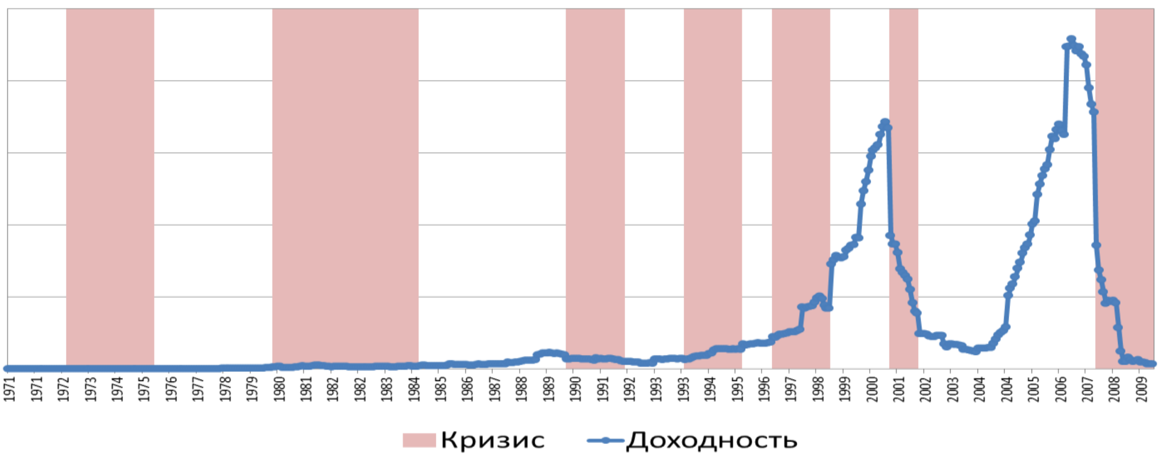
Moreover, such a claim would have to be answered in a methodical and logical way. One approach which seems to us to be both methodical and logical is the following:

1. To look at financial crisis's standard cycle and define its statistical "footprint."

2. To reveal connections between interdependent events over long periods of time.

3. To establish existence of a definable entity with both sustained and permanent motive and opportunity to cause crises to occur.

Let us start with motive.



Slide 13: Changes in global issuer's yield

The dollar is a product and the Federal Reserve is the manufacturer and seller of that product. The main motivator for a manufacturer-seller is to maximize his profit.

Karl Marx – who, while not a supporter of capitalism, surely had a good understanding of its mechanisms – himself said: "A certain 10 percent will ensure its employment anywhere; 20 percent certain will produce eagerness; 50 percent positive audacity; 100 percent will make it ready to trample on all human laws; 300 percent., and there is not a crime at which it will scruple, nor a risk it will not run, even to the chance of its owner being hanged."

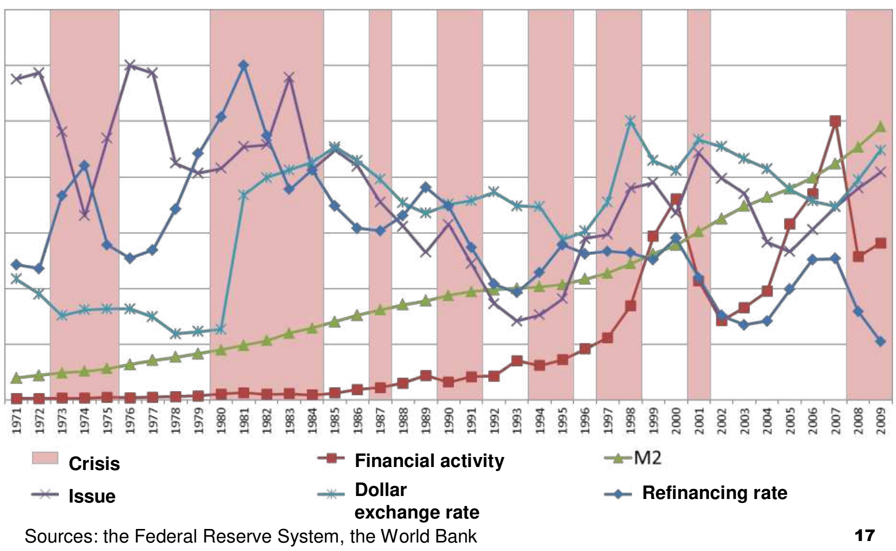
Ever since the abandonment of the gold standard, the US dollar has not been backed by any tangible value. And with the growth of US debt, you might say it's not worth the paper it's printed on. Ever since Bretton Woods other countries have had no choice but to keep their reserves in dollars because that is the internationally accepted reserve currency. Of course, those profiting from the production of dollars want to continue to promote this system even if they emperor has no clothes.

Another point worth noting is the regional dollar-exchange rate, which shows how many real benefits the manufacturer-seller of this green paper will receive. And here the real, active volume of money circulating on exchanges is also important.

Of course, the situation on the ground is much more complicated. However, **any scientific theory** is based on dominant ideas. The task is to isolate and prove them in conditions in which camouflaging factors, background noise and outright misinformation prevail. Again, we will follow the money.

Financial activity can be managed only by those who form the world's appropriate financial institutions and capital into one network by, say, the clan principle. The dollar exchange rate in the various parts of the world can only be managed politically (ruling disenfranchised governments around the world from without) or as demand is managed on the market. Bring in more goods: demand is satisfied. Make goods more expensive: demand falls. Less product (a created deficit) and demand grows. The price of this product-dash-dollar is the rate of refinancing. The volume of this product-dash-dollar is its issuance and financial activity on command. In other words, the issuer, as well as hidden club beneficiaries who always pop up from behind the scenes, one way or another can manage all these parameters. Those parameters which are controlled directly respond to "commands" immediately. Those which are controlled indirectly, will respond over time. And, again, if all this is true, then global financial statistics should reveal it.

Now we come to the topic of global cyclical financial crises.



Slide 14: Changes in global issuer's yield components

Again, the dollar a commodity, and the supplier of that commodity, the U.S. Federal Reserve – just like any seller of a product – has two objectives:

1. Sell as much of the product as possible .

2. Sell the product as expensively as possible.

However, given the special feature of this product (in that it can be exchanged for real benefits) the manufacturer-seller has a third concern: how to make the dollar as valuable as possible in terms of its commercial content so that one dollar should buy as much real wealth as possible.

The Federal Reserve can do this. They need only raise rates, the volume of issuance or the amount of active money in the world, to achieve growth of the dollar in regional currencies.

$$Y \sim \underbrace{D \times (M + I)}_{A} \times \underbrace{F}_{B} \times \underbrace{R}_{C}$$

Y – yield
D – discount rate
M – circulation money volume
I – new issuing
F – financial activity
R – regional exchange rate of the dollar

A* – *available for issuer

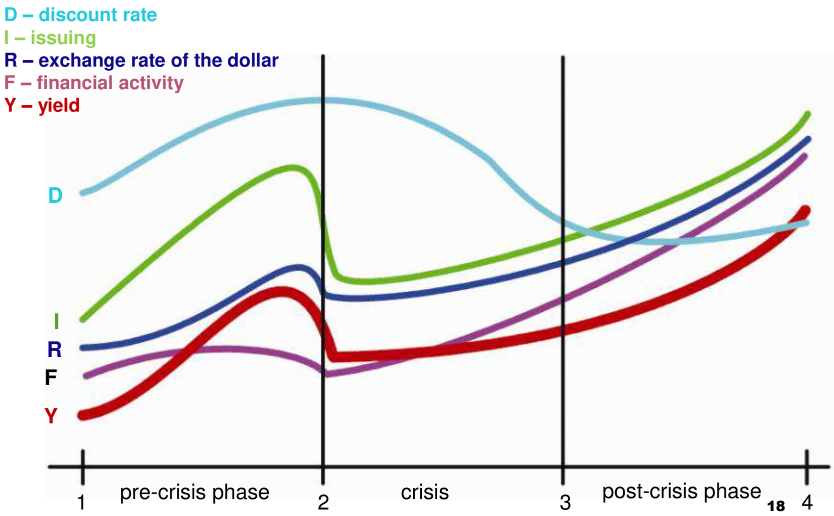
B* – *available indirectly

C* – *less or non- available

Slide 15: The principal yield of issuer

And if anything goes wrong, then there needs to be action – and that action should result in further benefit for the one who took it. And under this view of global crises, this is what a world financial crisis is: *action*.

But do events actually develop according to this model?



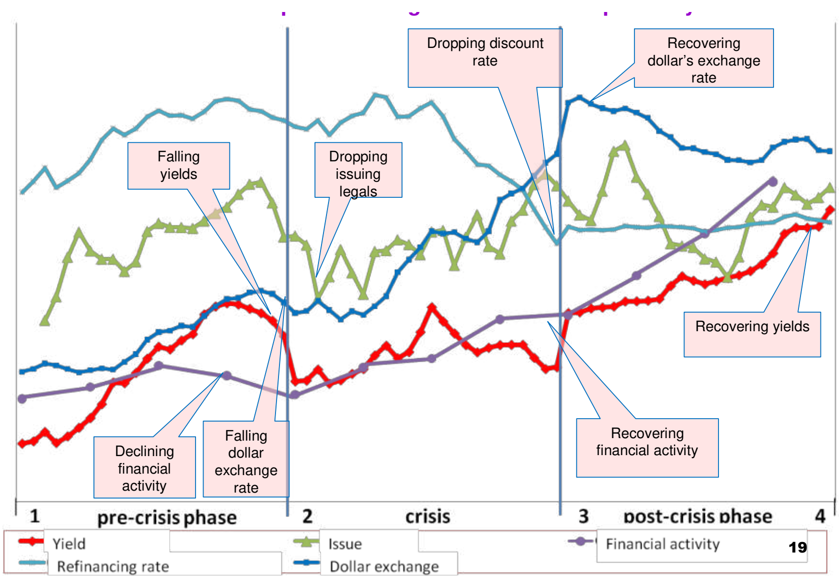
Slide 15: Three-phase crisis model

We consider the model of their behaviour in a specially formed three-phase timescale.

The first phase is *pre-crisis*. The second is *the crisis itself*, and the third phase is *post-crisis*. You will remember that a crisis is the sudden the shortage of working capital finance.

In the first phase of the issuer seeks to maximize profitability. It increases the rate of refinancing, the volume of issuance and, in general, tends to increase all the available factors which increase income yields at his disposal.

What does this lead to? Demand begins to fall for this expensive and overused product. The dollar rate falls as does financial activity with its use. Accordingly, income yields begin to fall. This is the process of overheating. The problem for the issuer and those who benefit by its actions is now: how to increase demand, the rate and financial activity? It is for this purpose that on the income-yield downslide a crisis is organized. In this phase:



Slide 16: Real statistical portrait of a global crisis three-phase cycle

1. Issuance is dropped sharply;

2. The command is give to organisations manipulating the financial institutions to reduce financial activity (increasing shortages of cash flow, i.e. reducing the effectiveness of M and, accordingly, of F). This is the beginning proper of the global crisis;

3. The refinancing rate for recovery of demand for this dollar-product is reduced.

In the second phase the actions taken take effect. The rate begins to increase along with financial activity. The drop in profitability is stopped. The recovery begins.

In the third, post-crisis phase, yields are restored. And the standard crisis cycle is ready to begin the process of building up yields under the same system all over again. Moreover, statistics show that these yields actually exceed the pre-crisis data.

If this is the case, then there is more motive and opportunity for the creation of financial crises than can be generated by even the most accommodating of coincidence theories.

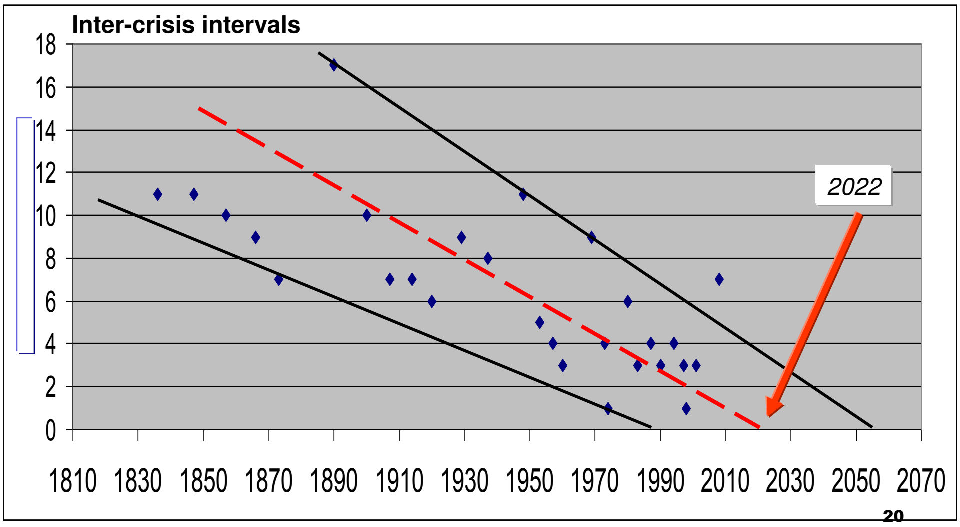
We have already indicated that the creation and management of a crisis to restore the income of the world's issuer requires the authority to set the refinancing rate and determine the volume of issuance. Only the Federal Reserve System which has both of these powers.

It is true that the regional dollar rate is managed by national governments. However, they are subordinate to the authority – be it political or military – of the U.S. and have to operate within a framework imposed by the U.S. in its own strategic interests. The enormous geopolitical adventures undertaken in the name of that country threaten the security of many and and are financed using "counterfeit" money. And let us not confuse the U.S. government – or its people – with these actions since, as we have already shown, the U.S. itself is subject financially to the Federal Reserve and its beneficiaries.

Of course, the people of the United States and the government of the U.S. get a cut of the benefits of this pyramid scheme. But we need only imagine what would happen to America, its economy, its people, if this vast parasitical profit pyramid were to collapse: "post-industrialism" American style. Industry gone. Crowds of out-of-work military veterans. These would hit the country so hard it would never recover.

If this model is correct – and the balance of proof in my mind suggests that it is – then the American people and American government, whose welfare is based on this pyramid scheme, are under very serious threat for they – just like the rest of the world – are held hostage by the Federal Reserve and its beneficiaries.

Here we see that at a certain moment in time paying off the crisis by conventional means becomes be impossible. What events could occur at this point? Let's look at history.

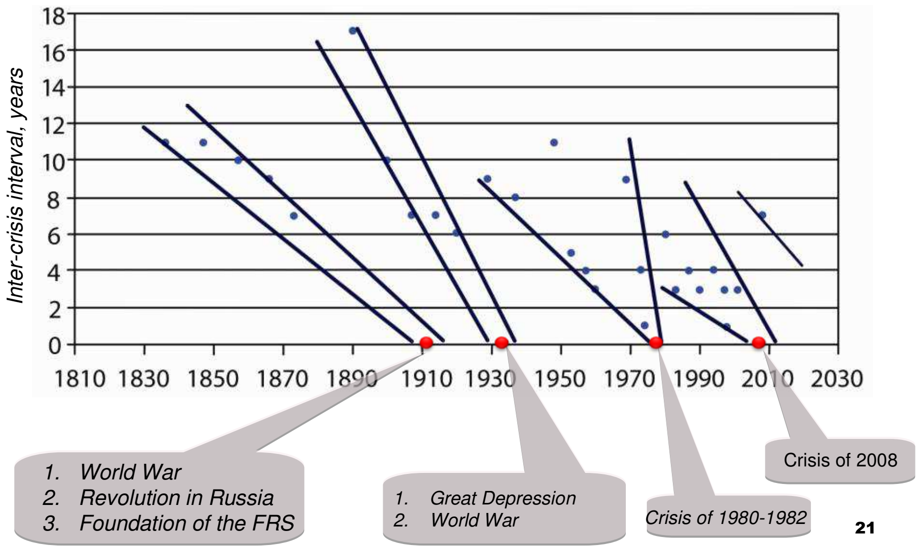


Slide 17: Zero-point forecast of the global dollar pyramid

It is clear that crises are occurring more often and are tending towards a single point. At this point the interval between crises becomes zero. This is: ZERO-POINT. The point at which the parasitic pyramid collapses and fundamental systemic change must occur.

How likely is it that a change in the global system will occur as a result of – or, alternatively, will cause – a major war which will radically closes all the previous balances and imbalances? Or could it be a global virtual war of the "war of civilizations" type, imposed on the world since the days of Huntington? Or rash of global terrorism, right on cue as it were?

Remember: "[for] 300 percent, and there is not a crime at which it will scruple, nor a risk it will not run, even to the chance of its owner being hanged.”
History allows you to make an estimate of the probability of these dangerous means.



Slide 18: Probable historical methods of repairing the pyramid.

We see these tendencies here towards a zero-point. How did these cycles end? In two world wars and the Great Depression.

Therefore, we believe the question of the nature of managed crises that our model rises to be an extremely troubling problem of worldwide importance.

Can a change of parasitic model occur peacefully by treaty? Theoretically – yes. But this would require new global regulators.

So, the mandatory conditions needed for a peaceful avoidance of ZERO-POINT are:

1. International monitoring and management of the global issuance of the world's reserve currency. And the backing of that currency with real assets.

2. Restriction of the generation of quasi-money in the form of receipts or derivatives. For example, by demanding journal-to-order bookkeeping and having sufficiently influential taxation.

3. Reconstruction of the World Bank and International Monetary Fund.

But since today the club itself and beneficiaries is confident enough to manipulate these institutions, the alternative might be to rise up a multi-cash world system.

A big role here belongs to fast-growing China and regional geo-economics, especially in South-East Asia.

Is it possible to calculate how much time the world has left to this projected zero hour? Yes.

First, we need to see how quickly the dynamics of dollar issuance are changing today. We saw earlier that by 2010 the process had gone berserk. Secondly, a moment occurs when cyclical crises merge into one continuous crisis. This is moment "X". The moment when the existing crisis-generating system breaks down.

This forecast indicates that this complete breakdown is likely to occur around 2022. Not much time in which to transform the world monetary system. The world community must act and act now.