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THE PEOPLE HAVE A RIGHT TO VOICE AND COUNTERVOICE

~ No. 3/20: ERNST WOLFF ON THE GLOBAL FINANCE SYSTEM ~

INTRO

"If you look around in the world today, the picture is most of all determined by one characteristic: instability. [...] While in the social sector there has been increasing unrest, in the political sector disintegration and in the economic sector stagnation, the financial markets have only known one direction for eleven years: upwards. No matter what happened, no matter what kind of upheavals the world had to endure, the financial markets were not shaken by anything. And this despite the fact that in 2007/08 we experienced the biggest financial crisis of all time. How do you explain that? Do the financial markets have nothing to do with the rest of the world anymore? Are they the only healthy thing in a world that today can only be described as being sick? Not at all!", said Ernst Wolff, a German financial expert, at the 17th AZK Conference (2019) in his enlightening lecture "Global Financial System: The Fuse is Burning". His most important answers to these crucial questions have been summarized in seven articles in this issue.*

The Editors (wie/mik./het.)

**AZK = Anti Censorship Coalition, https://en.anti-zensur.info*

Financial Crash 2007/08 – What happened afterwards?

What happened in 2007/2008 is often compared with the crash of 1929. And yet there is a fundamental difference. Whereas in 1929 the system was able to get back on its feet by its own efforts despite of the Great Depression, in 2008 it had to be rescued with public money. This was only possible with the greatest redistribution of wealth ever, and the administration of "life-sustaining drugs" by the central banks: On one hand, huge amounts of money were created and on the other hand, less and less interest was charged for their allocation. At the time the citizens were told that this was necessary to stimulate the economy. Today we know: It was a lie! In reality the money hardly ever flowed into the economy but has largely rather been used for financial speculation. In order to stabilize the markets, central banks later bought government bonds and securitizations, in other words, precisely those securities that acted as fire accelerators during the crisis of 2007/2008. Who did benefit from these bailouts? Exactly those who caused the crisis and who placed themselves above law and order by letting politicians declare them as "too big to fail". Today, the major financial institutions can afford to take any speculation, no matter how risky, knowing they will be rescued in an emergency. We have thus reached worse conditions than in absolutism*: whereas in the past rulers dominated only geographically limited empires, the financial industry now rules the world.

*Autocracy without political participation of the people

Deregulation – banks get unlimited leeway to earn money

From 1948 to 1973, the world experienced the post-war boom, with the world economy growing uninterruptedly for about a quarter of a century. The biggest beneficiaries of this development were the banks, which fueled this growth primarily by granting loans and thus became more powerful from year to year. When the economy then cooled down in the 1970s, the banks' business also declined. They therefore urged politicians to give them more leeway to earn money. They demanded to loosen the rules, in other words, to deregulate them. For example, in October 1986, Margaret Thatcher abolished the separation banking system, i.e. the separation of normal commercial banks and investment banks, in the City of London. This separation had once been introduced to protect bank customers. It prohibited ordinary commercial banks to speculate with their customers' deposits. Since foreign banks were to be subject to the same regulations as British banks, the City of London experienced a large influx in the late 1980s and quickly developed into the most important global financial center alongside New York. This exerted enormous pressure on the financial sector in other countries, so that most of them followed suit. Consequently, the financial sector grew faster than any other sector of the economy and assumed dimensions that the world had never seen before. The two results out of that were the growth of hedge funds and the boom of derivates.

What are hedge funds?

Funds in general are companies that invest the money of investors and thereby multiply it. Hedge funds do just that, but they differ from other funds in several ways. The first difference concerns their clientele. Anyone who wants to invest in a hedge fund as a private individual has to prove that they have extremely high assets. The second difference concerns the strategy. Hedge funds have no clearly defined investment sector. A frequent focus of the hedge fund strategy is betting on price or price fluctuations. One tool often used by hedge funds is leverage. Leverage means: speculating on credit. The third major difference is the willingness to take risks. By leveraging their bets, hedge funds take high risks, i.e. they cannot only make high profits, but also suffer very high losses in case of bad speculation. The fourth difference is aggressiveness. The fifth and sixth difference between hedge funds and normal funds is, on one side, tax avoidance and, on the other a lack of transparency.

Hedge funds have no benefit for society

Since hedge funds are allowed to operate like banks, but are not subject to their restrictions, many major banks have either set up their own hedge funds or did all the business they normally were not allowed to do through hedge funds. On the other hand, various hedge funds became so large that they in turn own most of the banks. While classic speculators have still tried to participate in the success of companies, hedge funds don't care at all for the well-being of the companies. To the contrary, they even deliberately cause their demise if they can make a profit from it. In other words, hedge funds do not fulfil any useful function neither economically nor socially, but only serve to enrich speculators. In our time, this enrichment takes place mainly in the field of derivatives.

What are derivatives?

Derivatives* are financial products whose price is derived from the price of another product. This other product can be anything, such as a commodity, a share price or even an interest rate. With derivatives, you bet that the underlying asset will either rise or fall, which means that a derivative is basically nothing more than a bet. The derivatives sector is now by far the largest area of finance. Nevertheless, it is still largely unregulated today and serves professional gamblers in the financial casinos as the most important enrichment platform.

*derivare (Latin) = derive from

Derivatives – a mental experiment for better understanding

Imagine the global economy as a wholesale market where farmers offer their goods, where intermediaries buy these goods and resell them to retailers. Next to this wholesale market there is a bank that grants loans to the farmers and the various merchants. The business of this bank runs well until one day the farmers have enough fields, the intermediaries have enough cars and the retailers have paid off their shops. Now the bank's granting of loans is coming to a halt. In this situation the banker now comes up with an idea. He opens his own booth at the wholesale market and offers bets there. He makes people bet on whether more apples or more potatoes will be sold in a day. The banker's plan is successful. More and more farmers and traders, but also more and more customers of the market take part in his betting business. The reason: bets allow you to make high profits quickly. But the whole thing is not without consequences. Over time, more and more farmers and traders neglect their own activities. In addition, the resulting addiction to betting has another consequence: Various farmers and traders gamble away their assets and go bankrupt. A few, however, make huge profits and leave their professions to become professional gamblers. The biggest winner, however, is the bank, which has earned money on every single bet right from the start and which, due to its information advantage, controls all participants in the end and can manipulate the game without limits to its own advantage. And that is exactly the situation that we find ourselves in today worldwide. The mushrooming of derivatives has caused the real economy to wither away and the betting casino to spin like never before.

The speech of Ernst Wolff at the
17th AZK-Conference (2019) will soon be online in full length at:
www.kla.tv/en & https://en.anti-zensur.info

The worst of all derivatives: credit default swaps

Credit default swaps were invented in the 1990s by a team of J. P. Morgan bankers and played a pivotal role in the almost collapse of the global financial system twice. To understand how credit default swap works, imagine the following: You have some money in the bank and want to make a certain amount of it as a loan available to a company. To do this, you conclude a contract with the company in which all details are regulated. To be absolutely sure that at the end of the term you will get your money back including the interest, you go to another bank and have the loan insured. This means that you pay the bank a certain amount and the bank guarantees in return that you will get the money even if the company goes bankrupt during the term of the loan. This is where the bankers of J.P. Morgan enter the game, for their credit default swaps can be contracted not only by the lender, but by any person or institution that was not even involved in the lending process. You can do this with any number of banks you like. It has the effect of multiplying the damage in the event of the actual collapse of an affected company, since the default swap policies must be paid out not only to the lender, but to all those who have contracted credit default swaps. So if you have a lot of money at your disposal, you can proceed as follows: You find a company that is not on solid ground, contract lots of credit default swaps on it, then buy it up, strip it of its assets and drive it to ruin. The result: the company is bankrupt, jobs are irretrievably lost, but the person responsible for the misery pockets a fortune. As an outsider, you would hardly believe it, but this is common practice in the financial system.

Closing Point ●

"These things make the global financial system appear like a shark tank. Is this possible that someone who has money, and therefore power, is legally able to harm, disembowel and destroy other companies, unscrupulously enriching himself by it? […] One of the most important tasks of our time in my view therefore is to take advantage of this coming conflict and educate as many people as possible about the nature and functioning of the current money system. In order to open the door to another system, one that does not serve a minority but the majority, one that is neither based on greed nor the desire for power and the overexploitation of the earth's resources, but on a peaceful, rational and socially acceptable use of these resources – for the benefit of us all."

Ernst Wolff

The Editors (wie./mik./het.)

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