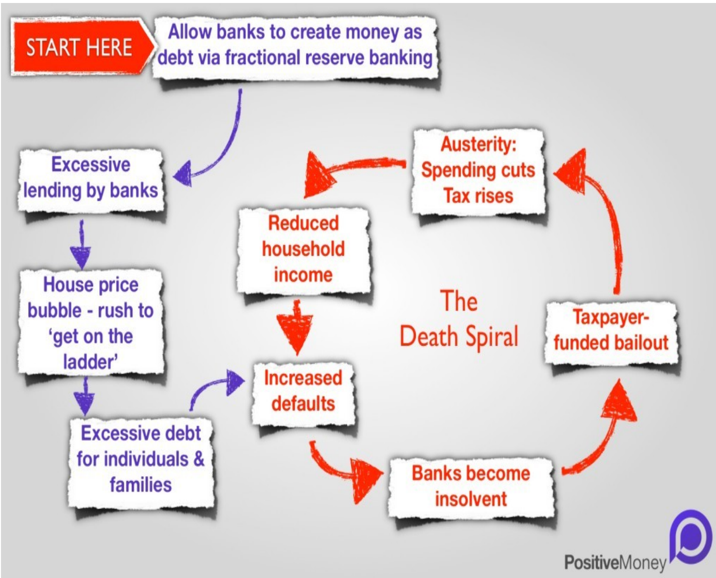
Understanding the Financial Crisis

Financial Predation leads to downward spiral leads to collapse



The Eurozone Crisis. Start here:

Pre-Euro: In order to trade between countries like Germany and Greece drachmas and deutschmarks had to be traded first. Exchange rate changes helped adjust imports and exports.

After the euro: There is no longer an option of competitive adjustment through changing exchange rates. At first Greeks borrowed more and more euros to pay for their imports, storing up future problems - particularly when interest rates rise because of the global banking crisis after 2007.

The Greek state also borrowed and Goldman Sachs helped it falsify the figures of its borrowing when it entered the euro. An independent state can always print money to pay its debts in its own currency – but not when it adopts a currency like the euro. This was banned by the Maasstrict Treaty. France and Germany were only too pleased to keep on selling armaments and naval ships...on credit. When international interest rates start to rise doubt was expressed that the Greeks could pay their debts. Interest rates rose and with higher debt servicing costs a self fulfilling prophecy occurs because it is more expensive for the Greeks to service their debts.

Interest rate increases mean the Greek state has less money to spend so cuts back. Greek citizens have less money to spend and they cut back. Incomes fall so tax receipts fall, expenditure and deficits rise further. So, interest rates rise yet further.....a vicious spiral runs out of control...

With some differences similar problems affect Spain, Portugal, Ireland and now the 4th largest economy in the eurozone, Italy. This is incredibly dangerous to the stability of banks that have lent these countries money.

Rules of the Predatory Lending Game

1. Risks are wholely carried by borrowers. That is ensured in the provision of collateral which, when borrowers are ruined, become the property of the lenders.

2. Bankers have access to government bail outs but borrowers do not. When banks and finance institutions become insolvent they are not allowed to fail. Fictional accounting is maintained until such a time as the state has organised a transfer of resources from the household sector to recapitalise them.

3. State's are put on the rack of having to borrow from the international bond markets when they are in a downward income spiral - when tax receipts are falling and expenditure for things like unemployment benefits are pressing upwards. They are then in a weak position to resist calls for privatisation and having public assets sold off at a knock down price.

4 Fierce resistance is put up to the possibility that states print money to cover their deficits – this is banned in the treaty of Maastricht, not only to eurozone states but to countries like the UK too. (Printing money would not be inflationary if there is spare capacity in the economy.)

5. The regulatory control agencies of states are hollowed out so that they have little or no ability to investigate or pursue the fraud, predatory lending and criminality of the financial elite. In this bust, unlike the previous ones, the financial criminals are getting away with it. The financial elite are above the rule of law and morphing into a new aristocracy

6. The globalisation of financial markets, the increase in complexification, makes financial practices virtually impossible to monitor and regulate anyway. A network of tax havens and secrecy jurisdictions have been set up - not only to evade taxes, but to evade regulation - and to commit crime and get away with it.

7. This drives countries to the point of collapse but time and again political parties and whole populations are persuaded to "commit economic suicide" - the alternative would be make the banksters take their losses, shifting taxes from labour onto property and onto natural capital use and speculative gains (eg in land values) – these are the policies that are never on the table.

8. Nevertheless the austerity policies are self defeating because they ultimately drive to the point where debts become unpayable – the only choices are then debt repudiation, resistance and fundamental reform of the finance system, taking away from banks the right to create money when they lend. .

The Next Stage???

The depletion of oil and other natural capital resources like top soils and water puts up energy and food costs and makes it difficult to continue the growth needed to pay rising debts and rising interest too. Politicians adopt insane policies of trying to solve a debt crisis by even more borrowing - the European Financial Stability Fund - and imposing fiercer austerity which makes things worse, making it even more difficult to pay. The debt deflation process passes from country to country, including the UK and the USA.....

Credit default insurance (credit default swaps) has to be paid and blow up in the face of financiers who have been gambling on risk management derivatives. This produces huge losses to financial actors some of whom cannot pay up and go bust. (See the diagram to the right showng the scale of financial sector derivative bets)

There is a run on the banks – the public in Greece had already withdrawn one fifth of their deposits and over a half is now in Swiss banks.

Because they owe to each other and cannot pay banks may start to fall like dominos...the payment system which uses the banks would then freeze. Credit and debit cards would no longer be usable, shops and businesses would be unable to use bank payment systems...

Chaos would ensue in which nothing can be bought and sold except small local cash transactions. General emergency declared..people like us survive by helping each other...