Banksters

Whoever Creates The Wealth
Holds The Power

Banksters & Creditism

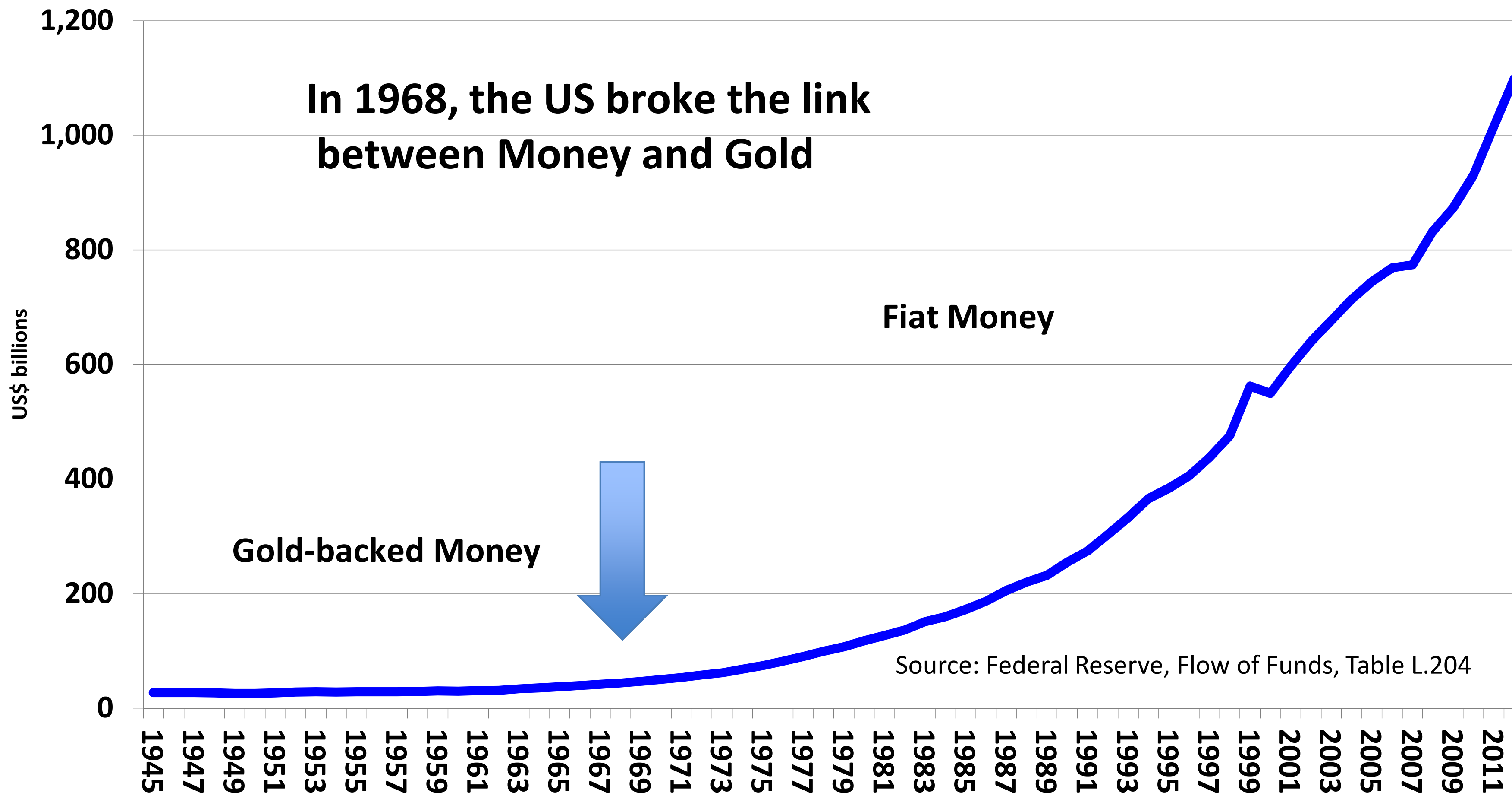
- Our Economic System Has Evolved from Capitalism to Creditism.
- Banksters are the new Ruling Class.
- Creditism may be unsustainable, however.
- If it collapses, the Banksters will fall.
- This presentation will discuss the rise and possible fall of Creditism and the Banksters.

From Feudalism To Creditism

The Source Of Wealth	The Political Power
• Land	• The Landed Aristocracy
• Manufacturing	• The Captains of Industry
• Credit Creation	• The Banksters

Losing Control Over Credit Creation

- In the 1950s and ‘60s the Fed had tight control over interest rates, credit creation and the economy.
- By the turn of the century, it had lost control over all of these areas.
- Financial-product innovation and industry deregulation circumvented and then destroyed the New Deal laws enacted to ensure sound banking.
- Credit proliferation transformed the economy and gave rise to the Banksters.


Money: Currency Outside Banks
1945 to 2012
In 1968, the US broke the link between Money and Gold
Fiat Money
Gold-backed Money
Source: Federal Reserve, Flow of Funds, Table L.204
US$ billions
1,200
1,000
800
600
400
200
0
1945
1947
1949
1951
1953
1955
1957
1959
1961
1963
1965
1967
1969
1971
1973
1975
1977
1979
1981
1983
1985
1987
1989
1991
1993
1995
1997
1999
2001
2003
2005
2007
2009
2011

"Money Creation" through Fractional Reserve Banking

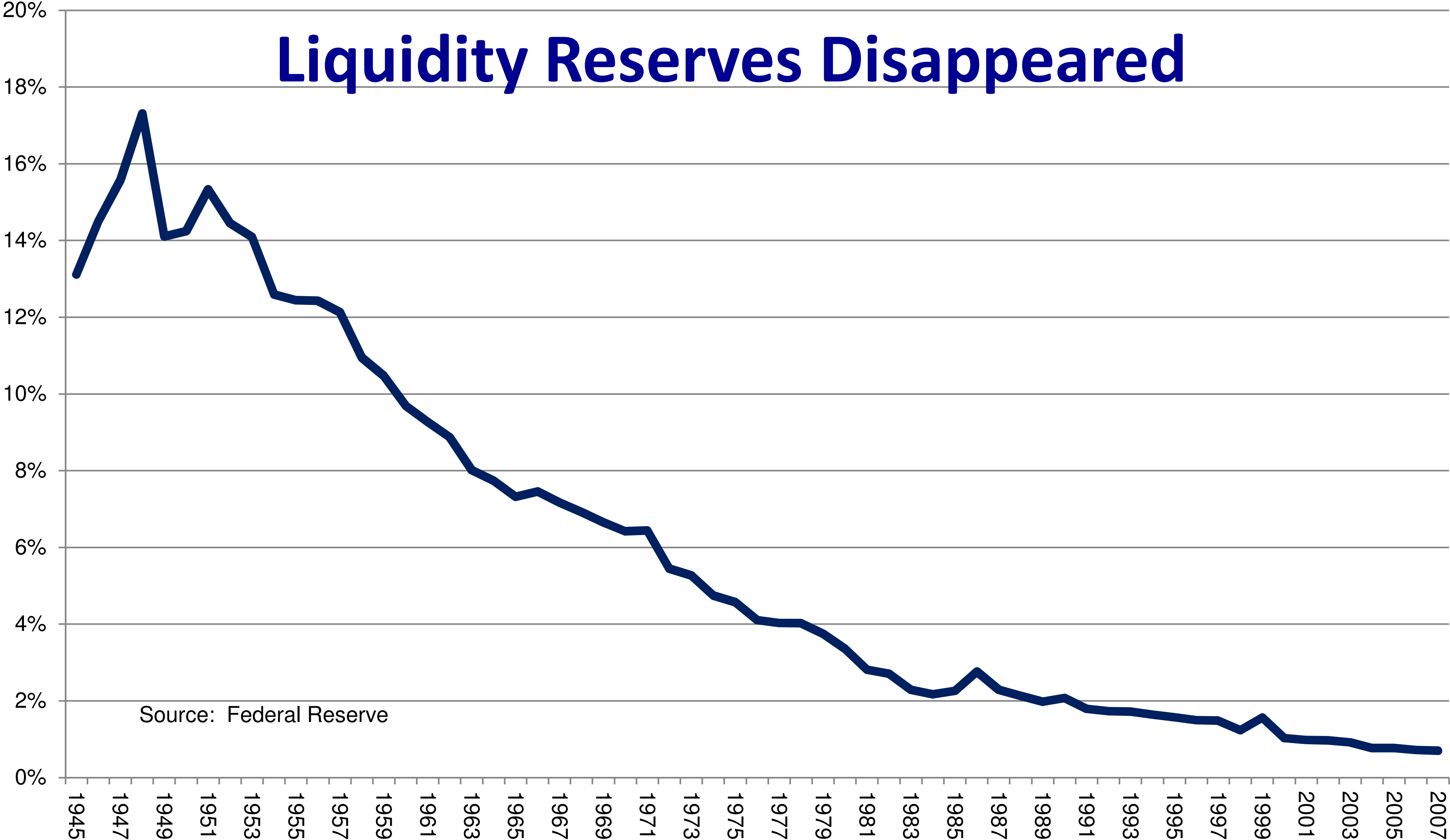
Assuming:

An initial deposit of $100 of gold

A Reserve Ratio of 10%

	Deposit	10% Reserve Requirement	Loan
Round 1	100	10	90
Round 2	90	9	81
Round 3	81	8	73
Round 4	73	7	66
Round 5	66	7	59
Round 6	59	6	53
Round 7	53	5	48
Round 8	48	5	43
Round 9	43	4	39
Round 10	39	4	35
Round 75	0.0	0.00	0.0
Totals	1,000	100	900

Commercial Banks: Vault cash + Reserves divided by Total Liabilities



The Eurodollar Market

- A large pool of unregulated dollar liquidity began to accumulate as deposits in London - in banks not subject to US laws requiring liquidity reserves or interest rate ceilings.
- By the late 1960s, this Eurodollar market began to make it difficult for the Fed to slow down the economy by hiking interest rates to make credit scarce.
- Corporations could simply borrow in London at interest rates the Fed could not control.
- Short-term capital flows originating in the Eurodollar market soon began to destabilize currency markets.

Disintermediation

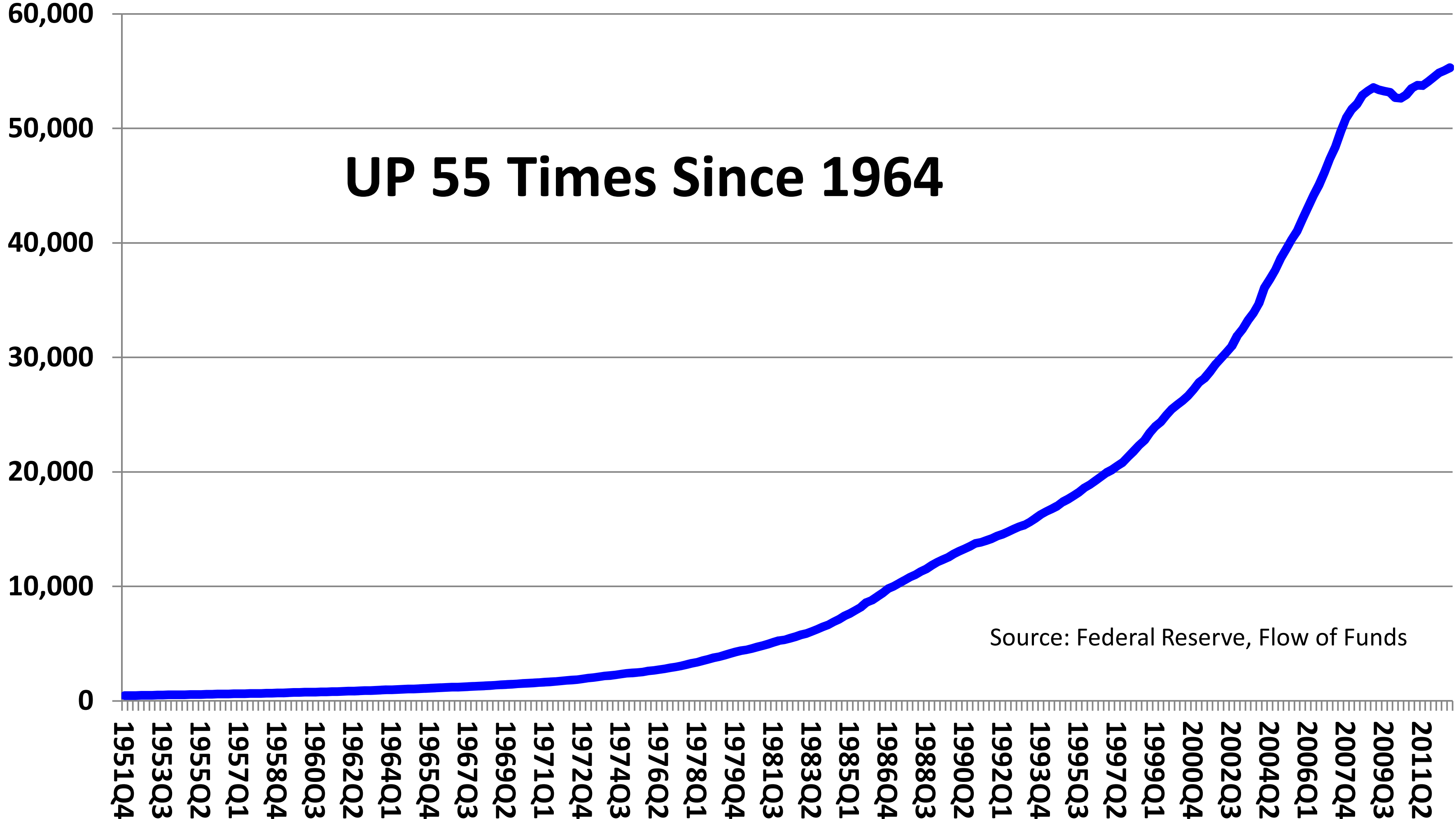
- Rising inflation forced the public to look for higher interest rates than those offered on bank deposits, which were capped.
- Deposits were shifted into Mutual Funds which offered higher returns.
- The outflow of deposits from banks forced the Fed to allow banks to attract funds by selling CDs.
- By significantly broadening banks’ funding sources, this change made it more difficult for the Fed to constrain bank lending by controlling the cost and availability of deposits.

Securitization

- Banks began to bundle loans together, split them into tranches with different degrees of risk and sell them to outside investors.
- Banks earned origination fees and servicing fees.
- They were free of credit risks and the need to maintain regulatory capital.
- Mortgages, credit card receivables, car loans and student loans were all securitized.
- Lending standards suffered since the bank originators were not on the hook for credit quality.

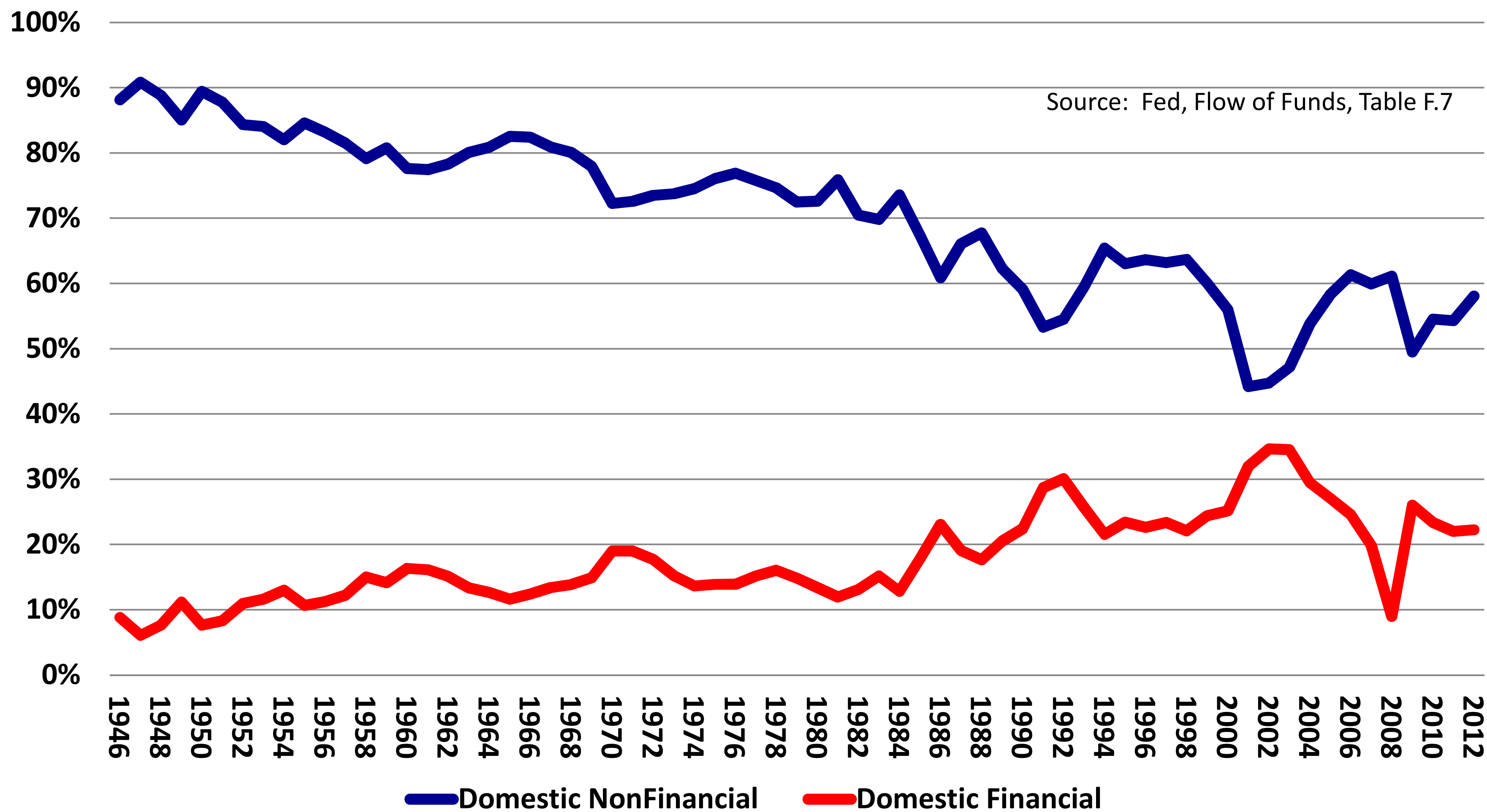
Accounting Shenanigans

- Banks set up off-balance sheet “special purpose vehicles” that allowed them to hide risky assets and reduce capital requirements.
- The investment banks used extremely high leverage from 26 – 33 times their capital.
- A fragmented regulatory regime allowed all financial institutions to employ regulatory arbitrage.
- Numerous accounting scandals involving derivatives occurred, including those at Enron, Fannie & Freddie and General Electric to name only a few.


US: Total Credit/Debt, All Sectors
US$ billions, 1951 to 2012
UP 55 Times Since 1964
Source: Federal Reserve, Flow of Funds
60,000
50,000
40,000
30,000
20,000
10,000
0
1951Q4
1953Q3
1955Q2
1957Q1
1958Q4
1960Q3
1962Q2
1964Q1
1965Q4
1967Q3
1969Q2
1971Q1
1972Q4
1974Q3
1976Q2
1978Q1
1979Q4
1981Q3
1983Q2
1985Q1
1986Q4
1988Q3
1990Q2
1992Q1
1993Q4
1995Q3
1997Q2
1999Q1
2000Q4
2002Q3
2004Q2
2006Q1
2007Q4
2009Q3
2011Q2

Distribution of Profits Before Tax

Between the Non-Financial Sector & the Financial Sector

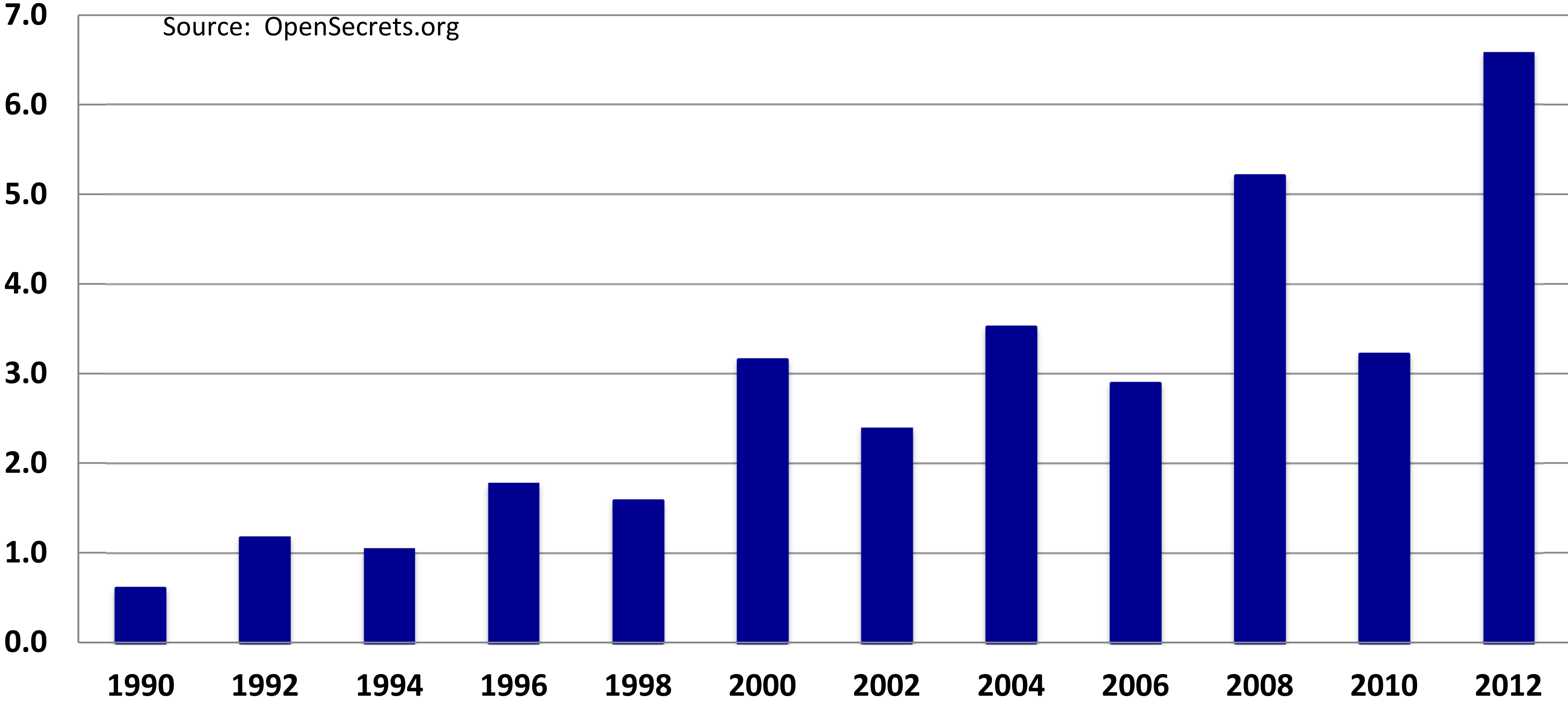


Buying Political Influence

"The financial sector is far and away the largest source of campaign contributions to federal candidates and parties, with insurance companies, securities and investment firms, real estate interests and commercial banks providing the bulk of that money."

OpenSecrets.org

Contributions to Federal Candidates & Parties from Finance, Insurance and Real Estate, US$ billions



Rolling Back New Deal Banking Regulation

- Congress removed the ceilings on bank deposit rates during the early 1980s.
- Glass-Steagall was repealed in 1999.
- Derivatives were deregulated in 2000.

The Repeal of Glass-Steagall

- During the 1990s, the laws barring commercial banks from the underwriting business had gradually been whittled down.
- The Financial Services Modernization Act of 1999 repealed what was left of Glass-Steagall.
- Travelers had already acquired Salomon Smith Barney and merged with Citicorp in a pernicious violation of the spirit of the law.
- After 60 years, banks were once again brokers and brokers were once again bankers.

Deregulating Derivatives

- The Commodity Exchange Act of 1936 required that all futures and commodity options be regulated and traded on organized exchanges.
- The Commodity Futures Modernization Act of 2000 (CFMA) undid that law.
- CFMA permitted OTC trading and left derivatives largely unregulated.

Deregulating Derivatives

- In November 1999, a report of the President's Working Group on Financial Markets recommended that The Commodity Exchange Act of 1936 be amended to allow derivatives to trade over the counter and to free them from the regulatory jurisdiction of the Commodity Futures Trading Commission.

The President's Working Group On Financial Markets

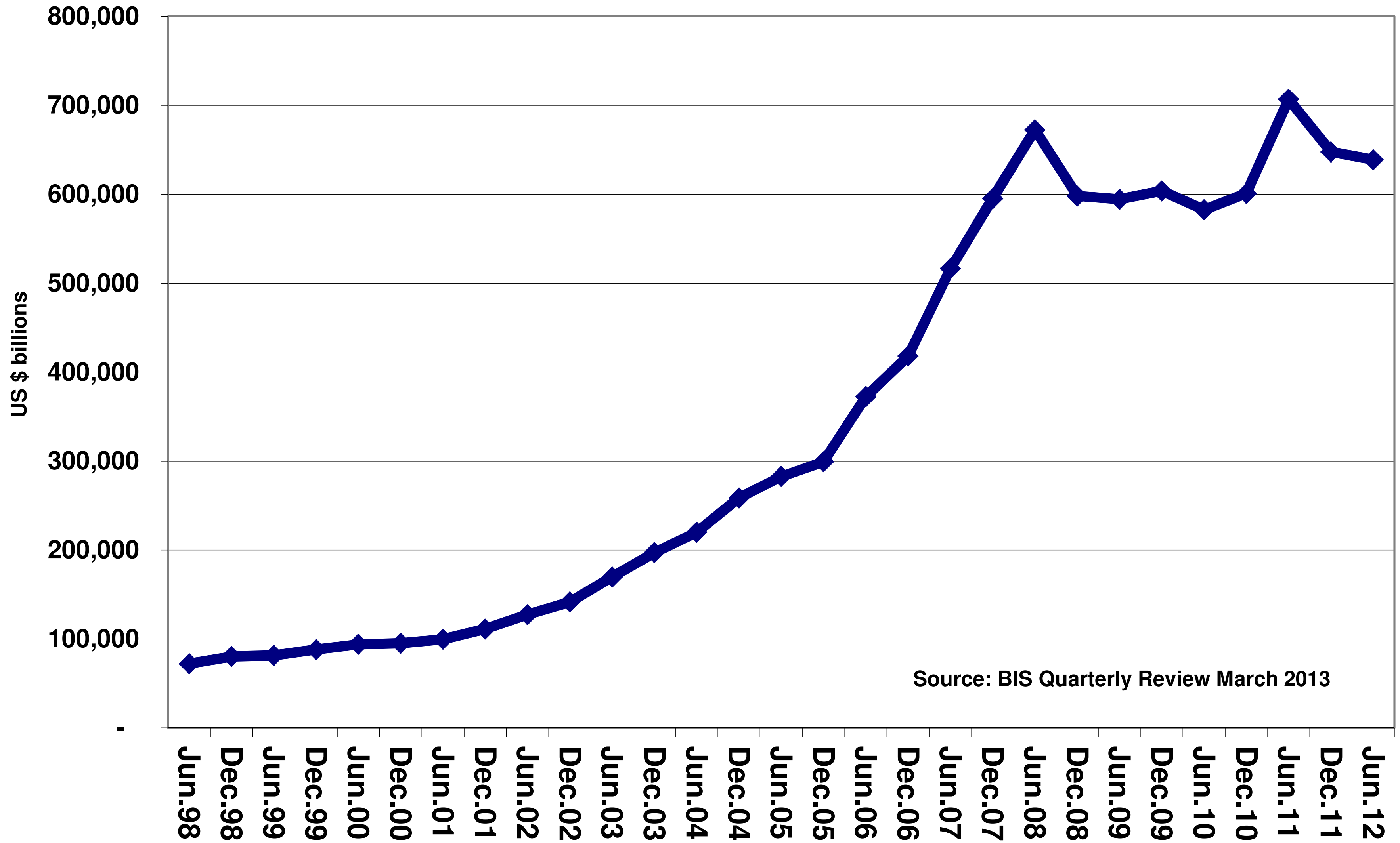
The Report was signed by:

- Fed Chairman Alan Greenspan
- Treasury Secretary Larry Summers
- SEC Chairman Arthur Levitt
- Commodity Futures Trading Commission Chairman William Rainer

The Maestro

"…the introduction of government regulations unavoidably involves some element of moral hazard."

Alan Greenspan, 1999


Over-The-Counter Derivatives
US $ billions
800,000
700,000
600,000
500,000
400,000
300,000
200,000
100,000
-
Source: BIS Quarterly Review March 2013
Jun.98
Dec.98
Jun.99
Dec.99
Jun.00
Dec.00
Jun.01
Dec.01
Jun.02
Dec.02
Jun.03
Dec.03
Jun.04
Dec.04
Jun.05
Dec.05
Jun.06
Dec.06
Jun.07
Dec.07
Jun.08
Dec.08
Jun.09
Dec.09
Jun.10
Dec.10
Jun.11
Dec.11
Jun.12

$700,000,000,000,000 Really?

- Equivalent to the value of everything produced on earth during the last 20 years.
- Would have reached $1 Quadrillion by 2010 and $1 Quintillion by 2020 at the pre-2008 rate of growth.
- 90% Trade Over-The-Counter, largely unregulated.
- The Average Daily Turnover of the 10% that trade on Exchanges was $5.9 trillion in 2011 (38% of US GDP).
- **HISTORY’S GREATEST PONZI SCHEME?**

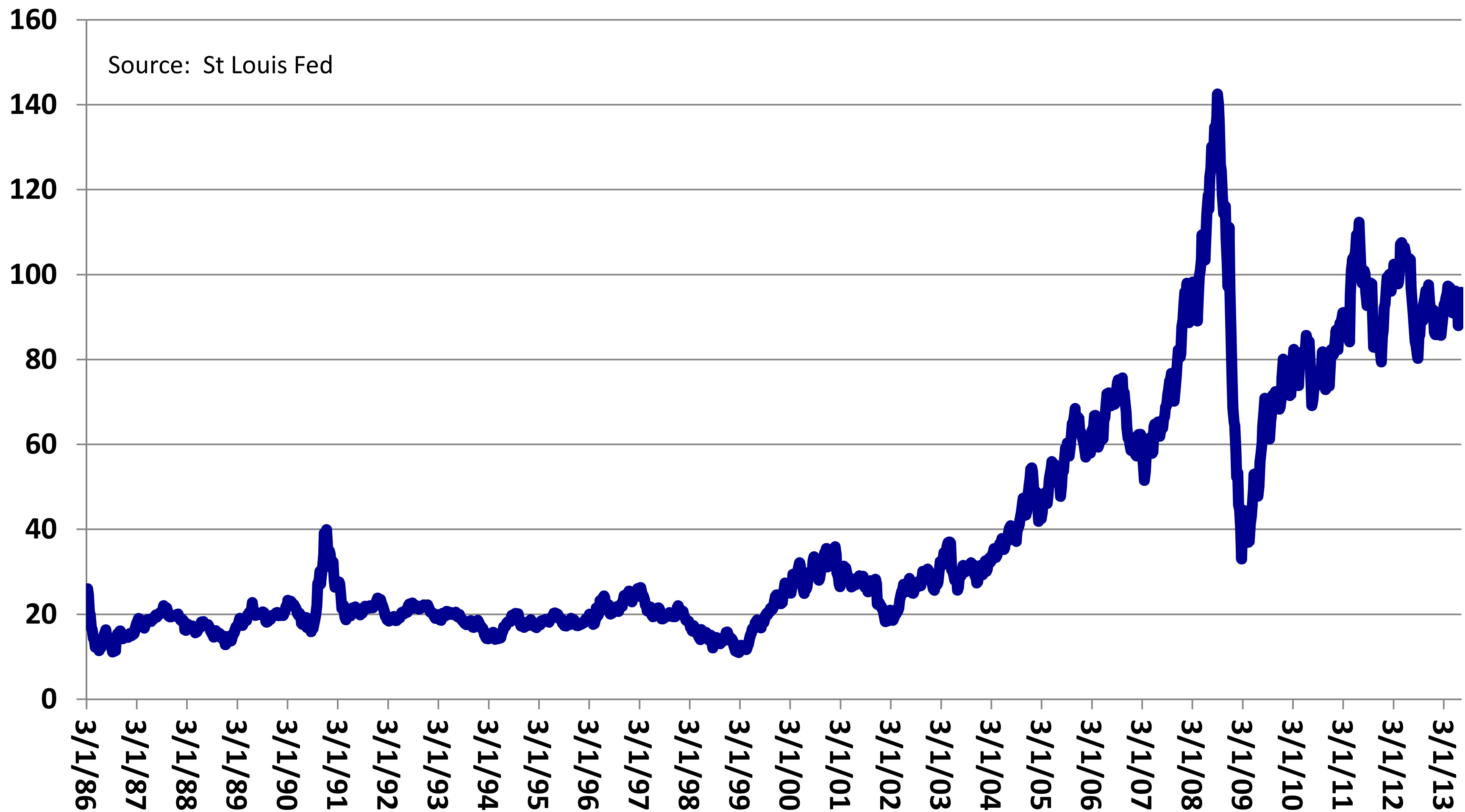
Derivatives Exposure

- At the end of 2010, derivatives exposure:
  - **JPMorgan Chase & Co**: $78.9 trillion
  - **Bank of America**: $68.3 trillion
  - **Citigroup**: $47.5 trillion
- Combined: $194.7 trillion
- An amount equivalent to 3.1 times global GDP of $63 trillion.

How Much Profits
Do Banks Make from Derivatives?

- Creating them.
- “Structuring” them.
- Trading them.
- Manipulating commodity prices with them?

Crude Oil Price
West Texas Intermediate



Why Deregulate Derivatives?

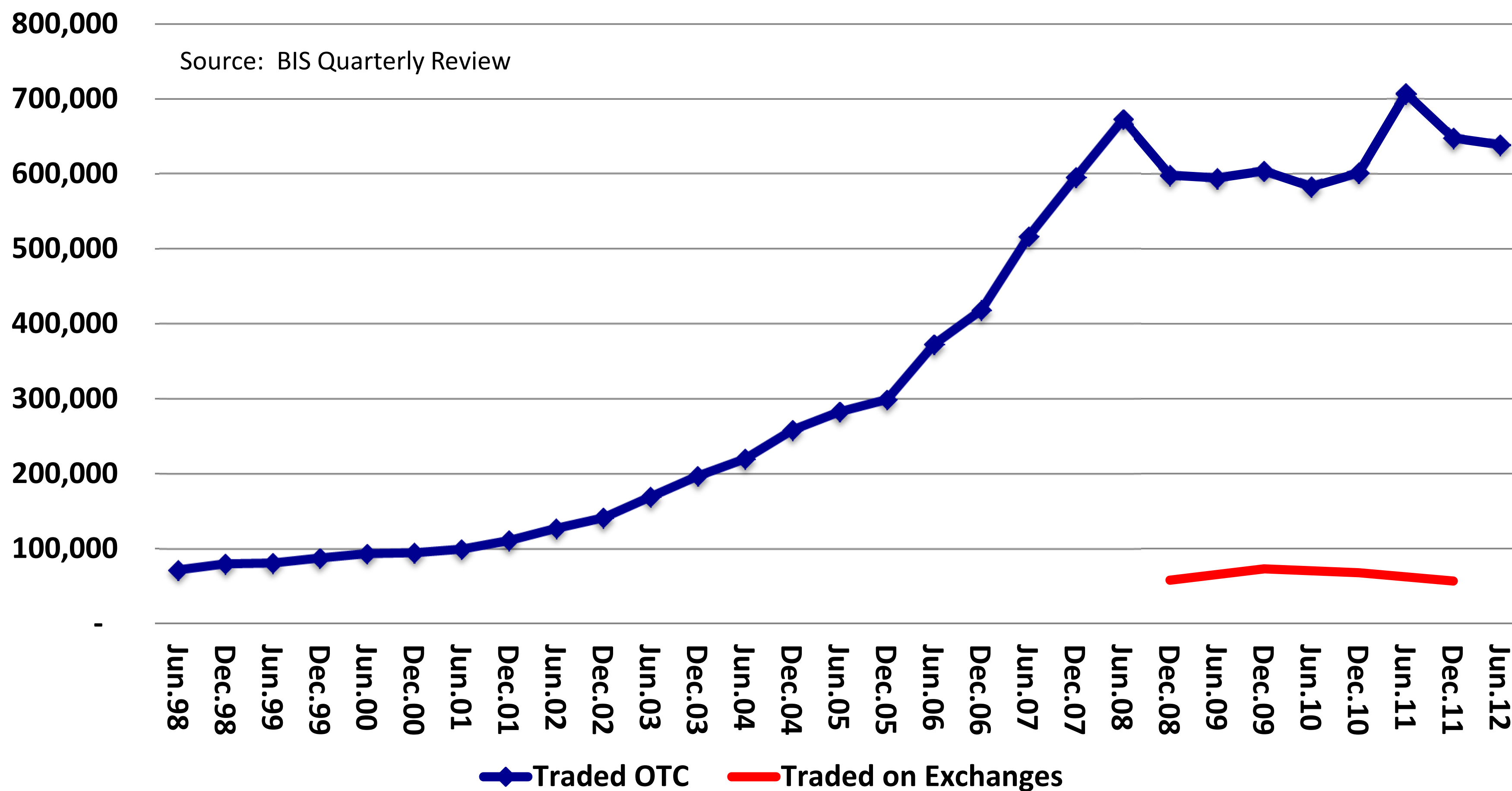
- Stupidity?
- Corruption?
- Government Policy?
  1. To stimulate the economy by creating banking jobs and earnings?
  2. To create a globally dominate US banking industry?
  3. To create the possibility to manipulate commodity prices for policy purposes?

Dodd-Frank

- The Act became law in July 2010
- Only 1/3 of it has been implemented.
- OTC Derivatives Reform Implementation was required by July 2011. Now the date of implementation is uncertain.
- Volcker Rule Implementation was required by July 2012. Now the date of implementation is uncertain.

Derivatives: OTC vs. Exchange Traded

US$ billions



Regulatory Arbitrage

Financial Stability Oversight Council is comprised of:

- the Secretary of the Treasury;
- the Chairman of the Board of Governors of the Federal Reserve System;
- the Comptroller of the Currency (OCC);
- the Director of the Bureau of Consumer Financial Protection;
- the Chairman of the Securities and Exchange Commission (SEC);
- the Chairperson of the Federal Deposit Insurance Corporation (FDIC);
- the Chairperson of the Commodity Futures Trading Commission (CFTC);
- the Director of the Federal Housing Finance Agency;
- the Chairman of the National Credit Union Administration; and
- an independent member with insurance expertise.

How Could The Banksters Be Stopped?

- Re-enact Glass-Steagall.
- Break the banks apart into small pieces.
- Turn the banks into utilities.
- Cap the banks’ ROA and ROE.
- Cap the bank managers’ pay.
- Limit the size of investment banks, but allow these small investment banks to risk their capital as they please.

How Could The Banksters Be Stopped? Part II

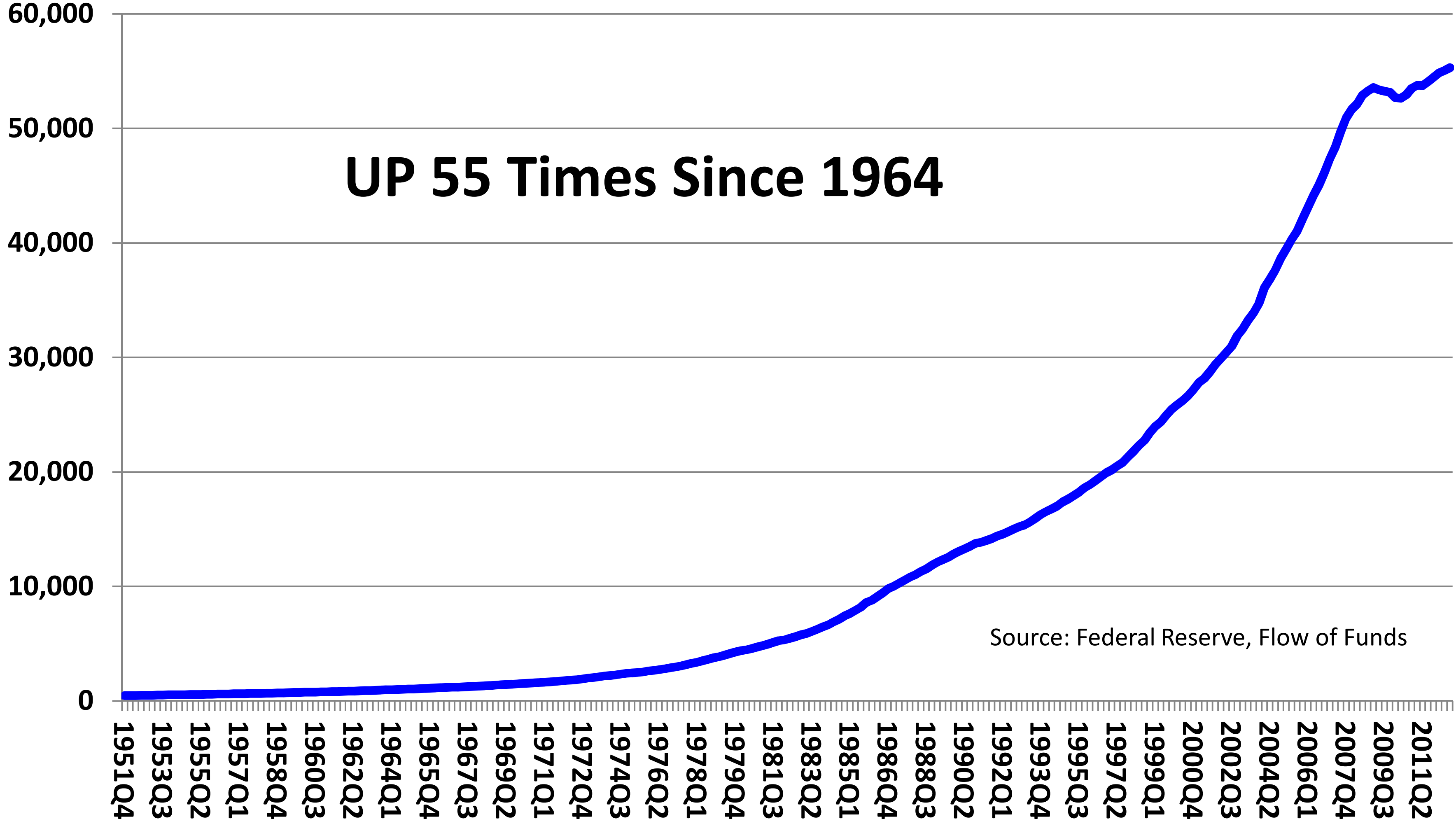
- Force all derivatives to trade through exchanges with high margins requirements.
- Unify Financial Sector Supervision under only One Regulator – to avoid regulatory arbitrage.
- Seal the Revolving Door between the regulators and the regulated.
- Eliminate offshore banking centers and tax havens.

Political Reform?

- The Financial Industry has a firm grip on Congress.
- Meaningful financial sector reform is unlikely without political reform involving campaign finance reform or term limits.
- **Political Reform is unlikely.**
- **Therefore, the Banksters are likely to continue to Rule**
- **… unless Creditism Collapses.**

Creditism Could Collapse!

- Credit Growth Drives Economic Growth
- Capitalism Evolved Into Creditism.
- Creditism Is Teetering On The Verge Of Collapse.
- If it does, the Banksters will fall, and…
- Political Power will shift.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US$ billions, 1951 to 2012
UP 55 Times Since 1964
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20,000
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1951Q4
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1962Q2
1964Q1
1965Q4
1967Q3
1969Q2
1971Q1
1972Q4
1974Q3
1976Q2
1978Q1
1979Q4
1981Q3
1983Q2
1985Q1
1986Q4
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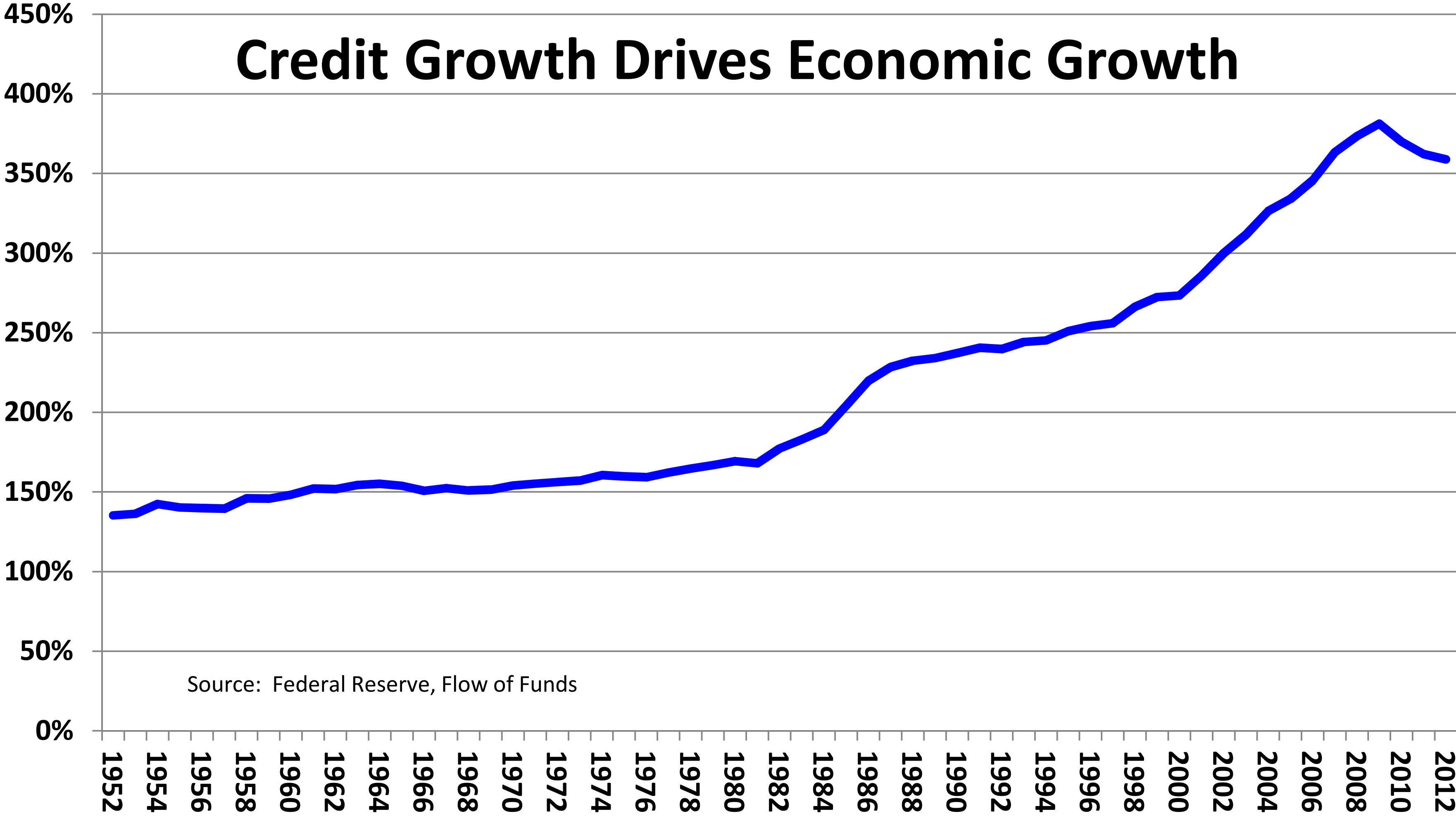
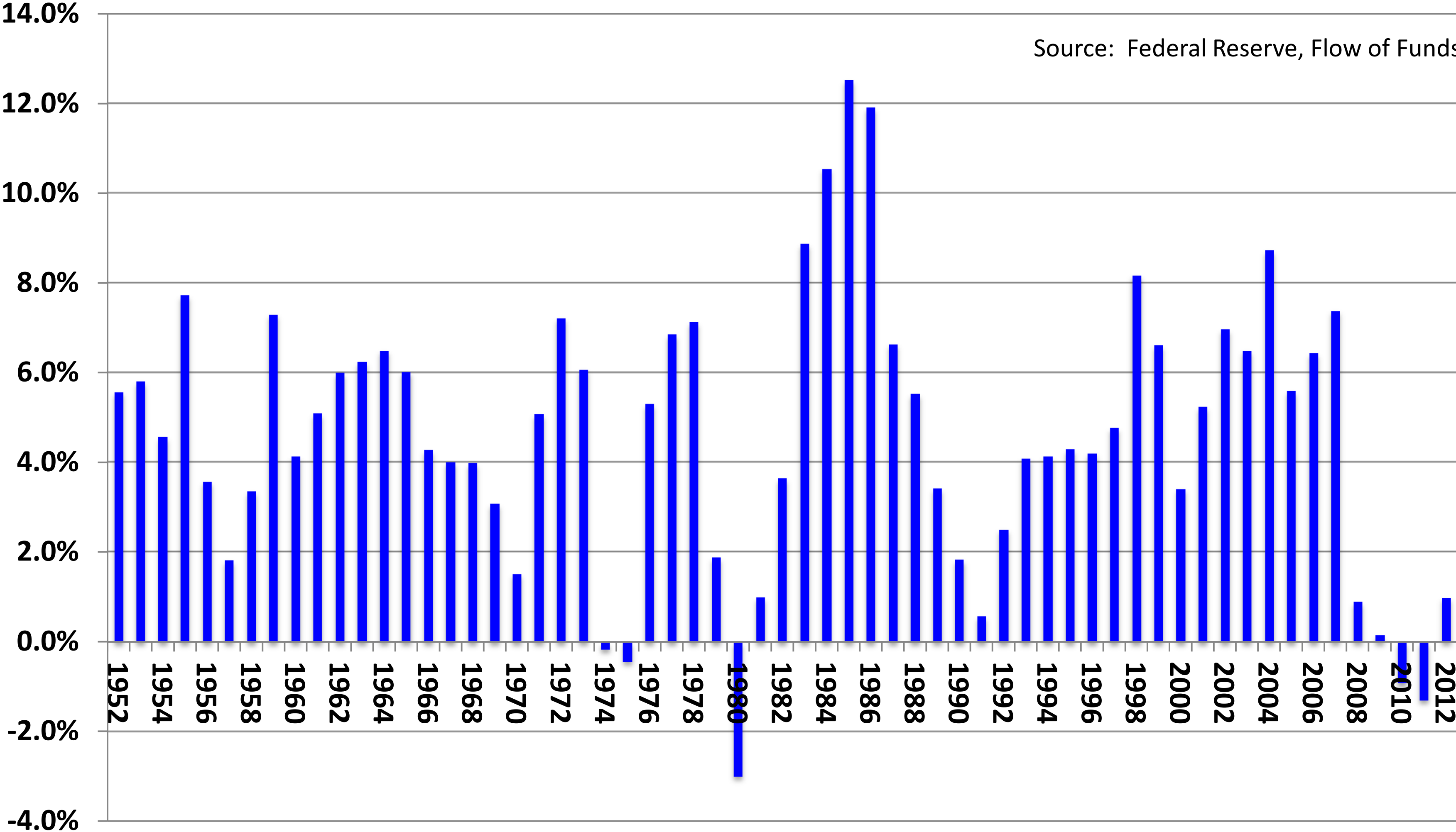
1992Q1
1993Q4
1995Q3
1997Q2
1999Q1
2000Q4
2002Q3
2004Q2
2006Q1
2007Q4
2009Q3
2011Q2

US: Total Credit to GDP




Total Credit Growth Adjusted for Inflation
annual % change, 1952 to 2012
Source: Federal Reserve, Flow of Funds
14.0%
12.0%
10.0%
8.0%
6.0%
4.0%
2.0%
0.0%
-2.0%
-4.0%
1952
1954
1956
1958
1960
1962
1964
1966
1968
1970
1972
1974
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1980
1982
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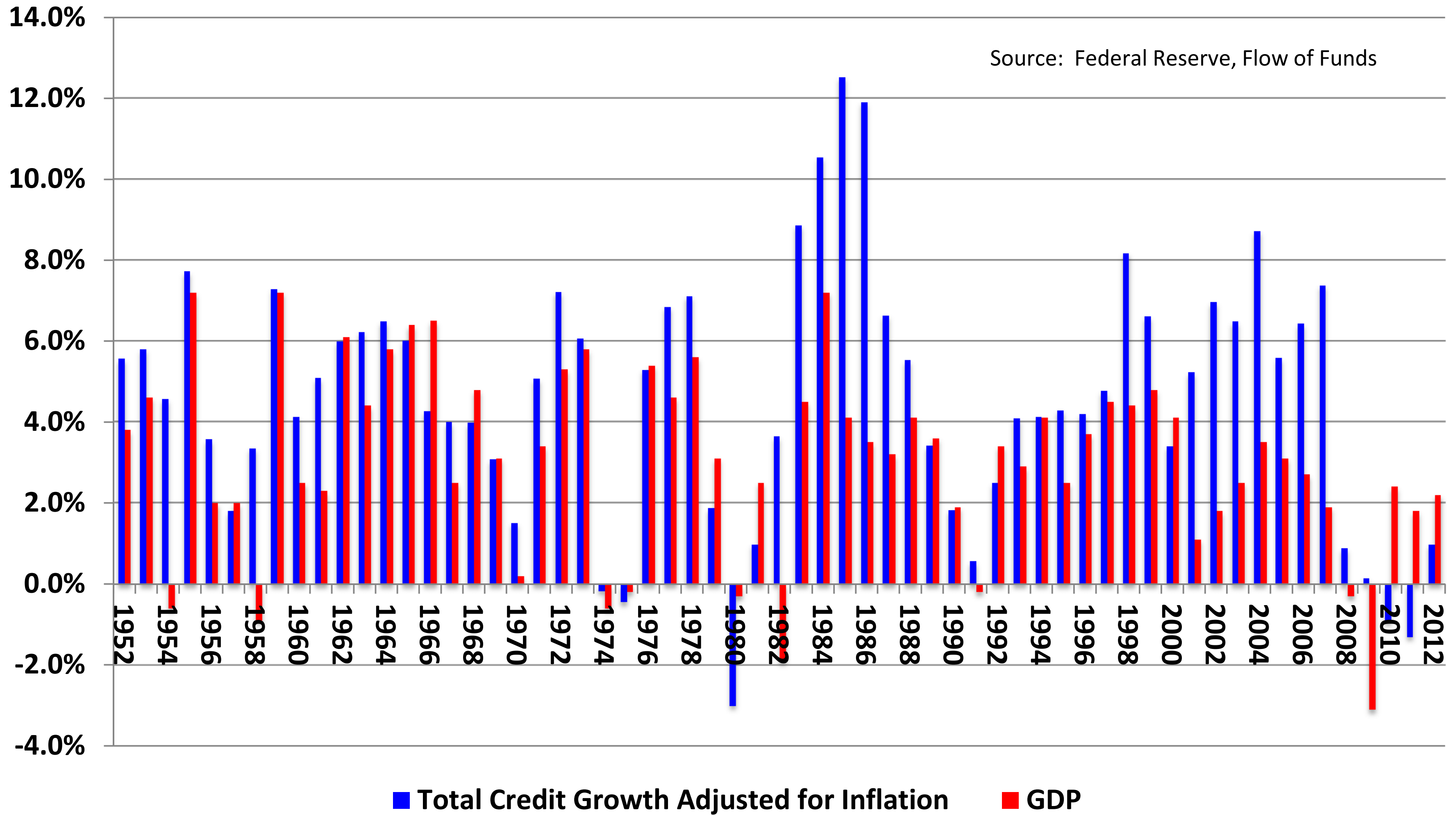
2000
2002
2004
2006
2008
2010
2012


US: Total Credit & GDP Growth
adjusted for inflation, 1952 to 2012
Source: Federal Reserve, Flow of Funds
14.0%
12.0%
10.0%
8.0%
6.0%
4.0%
2.0%
0.0%
-2.0%
-4.0%
1952
1954
1956
1958
1960
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1968
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1972
1974
1976
1978
1980
1982
1984
1986
1988
1990
1992
1994
1996
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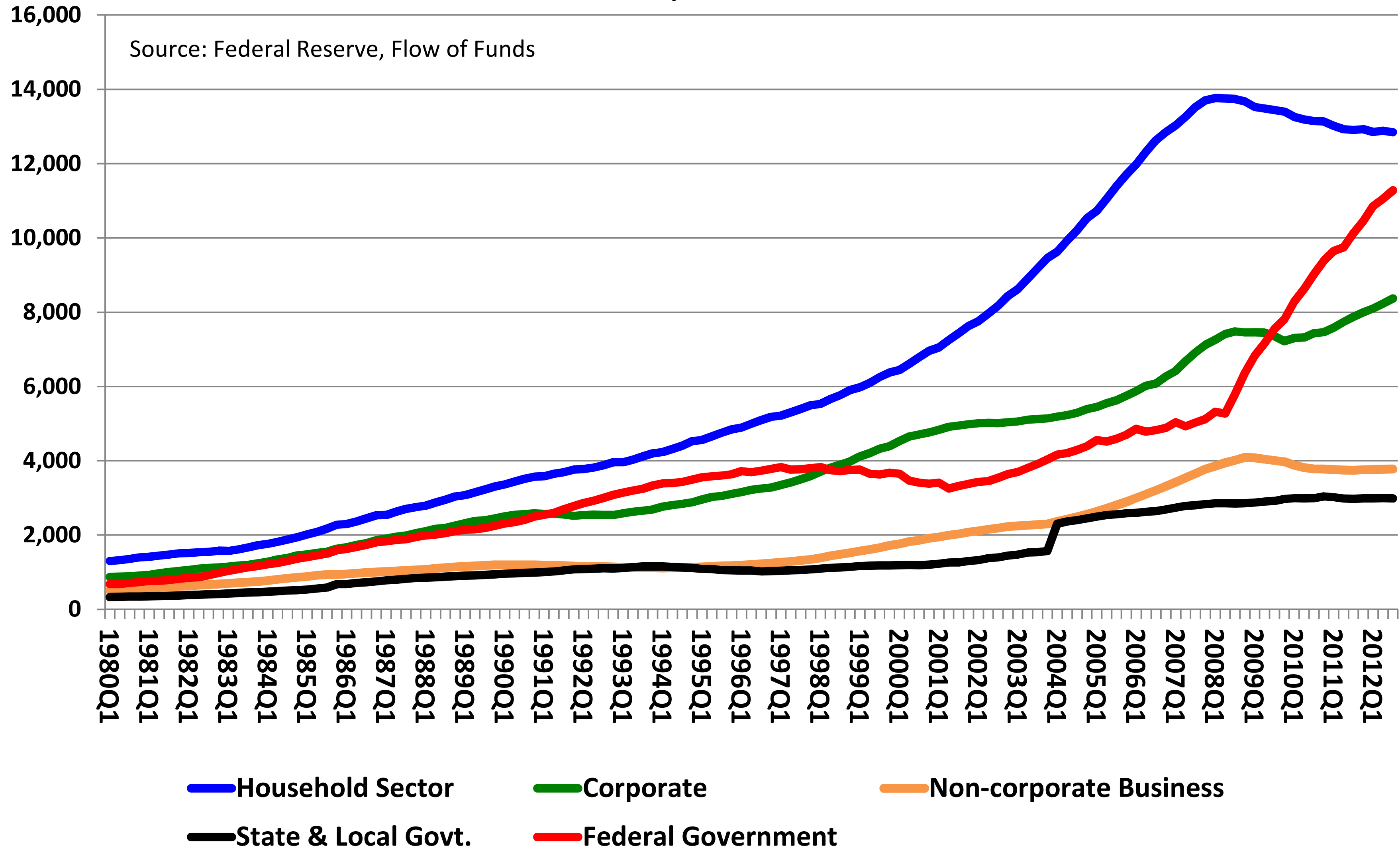
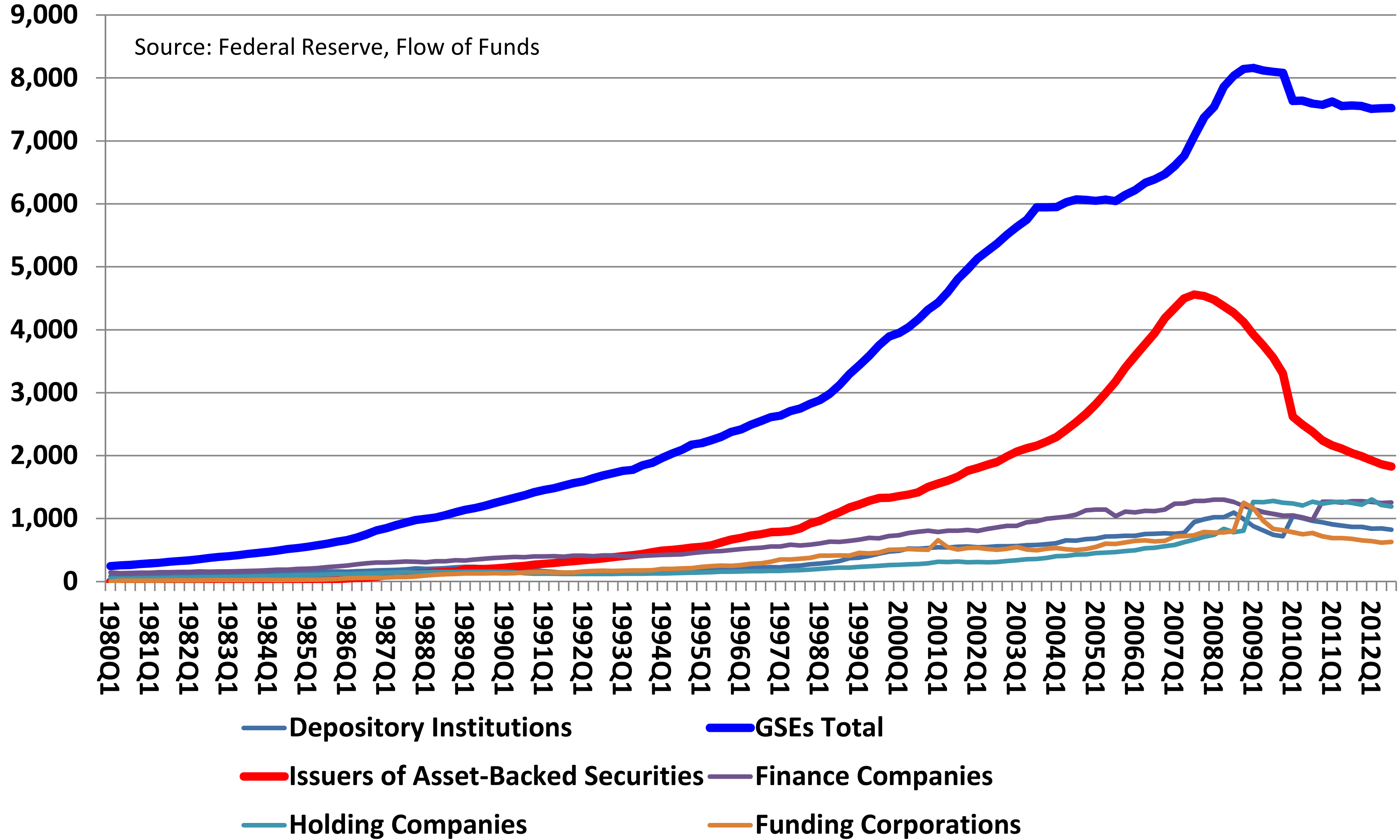
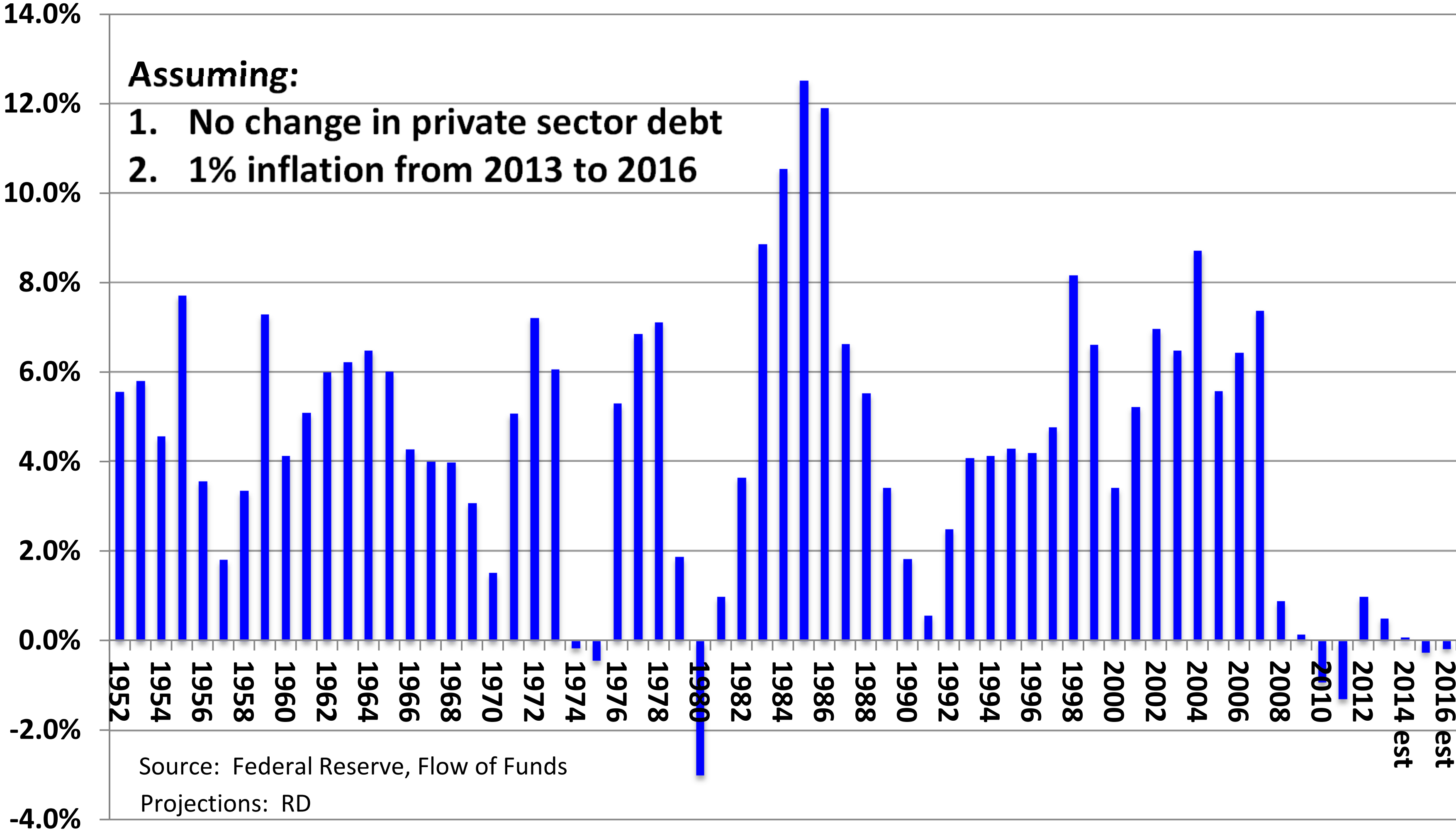
2000
2002
2004
2006
2008
2010
2012
Total Credit Growth Adjusted for Inflation
GDP

Non-Financial Sector Debt

US$ billions, 1980 to Q3 2012




Financial Sector Debt
US$ billions, 1980 to Q3 2012
Source: Federal Reserve, Flow of Funds
9,000
8,000
7,000
6,000
5,000
4,000
3,000
2,000
1,000
0
1980Q1
1981Q1
1982Q1
1983Q1
1984Q1
1985Q1
1986Q1
1987Q1
1988Q1
1989Q1
1990Q1
1991Q1
1992Q1
1993Q1
1994Q1
1995Q1
1996Q1
1997Q1
1998Q1
1999Q1
2000Q1
2001Q1
2002Q1
2003Q1
2004Q1
2005Q1
2006Q1
2007Q1
2008Q1
2009Q1
2010Q1
2011Q1
2012Q1
Depository Institutions
GSEs Total
Issuers of Asset-Backed Securities
Finance Companies
Holding Companies
Funding Corporations


Total Credit Growth Projected to 2016
Annual % change, Adjusted for Inflation, 1952 to 2016 est.
Assuming:
1. No change in private sector debt
2. 1% inflation from 2013 to 2016
14.0%
12.0%
10.0%
8.0%
6.0%
4.0%
2.0%
0.0%
-2.0%
-4.0%
1952
1954
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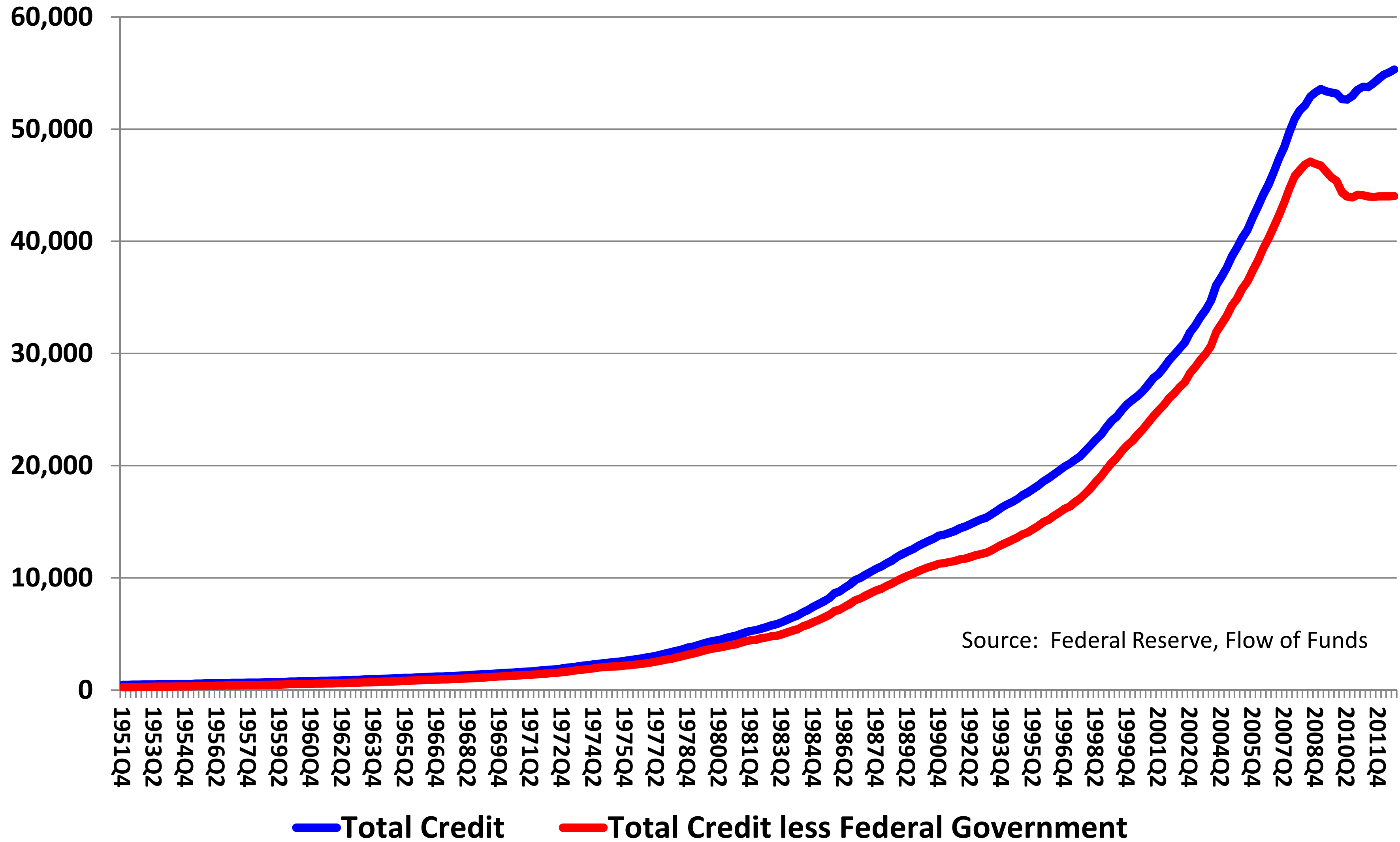
2002
2004
2006
2008
2010
2012
2014 est
2016 est
Source: Federal Reserve, Flow of Funds
Projections: RD

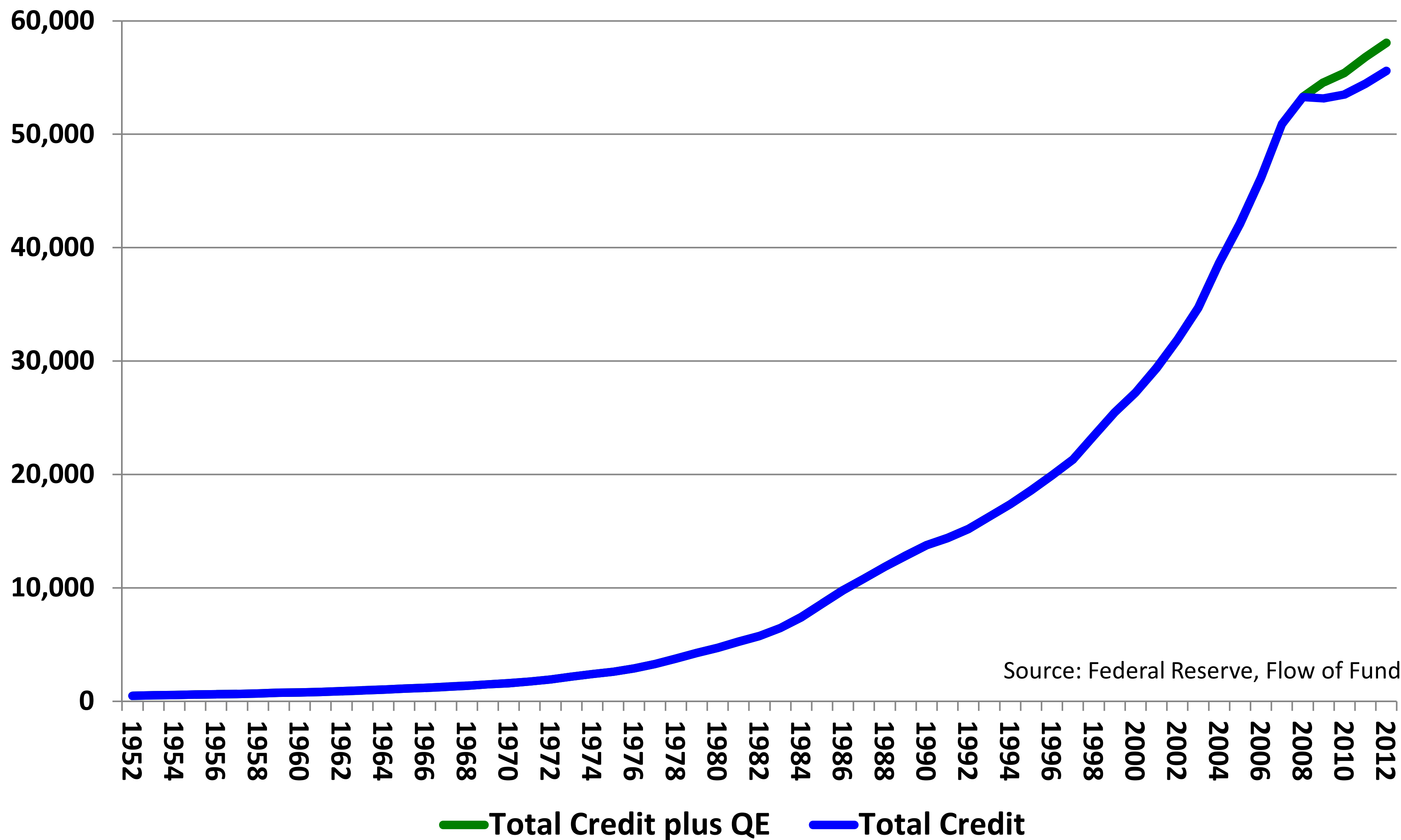
The Policy Response
Is Designed To Prevent
Total Credit From Contracting

- Because if credit contracts significantly, there will be a Depression.
- Milton Friedman taught Ben Bernanke that the Fed could have prevented the Great Depression if the Fed had prevented the Money Supply from contraction.
- Credit is the new Money.
- That belief is driving Fed policy!

Total Credit, with & without Government Debt

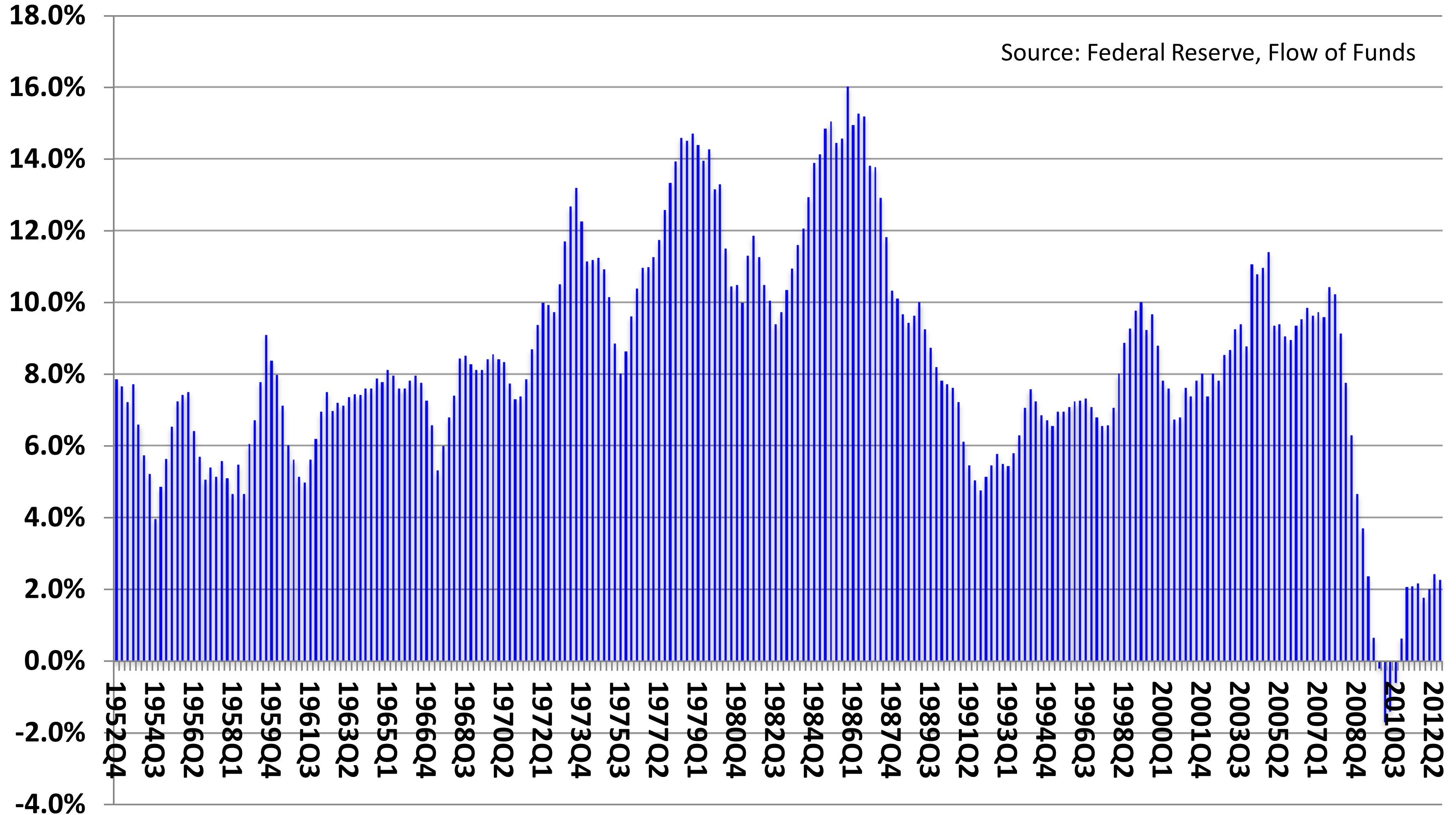
US$ billions, 1951 to Q3 2012

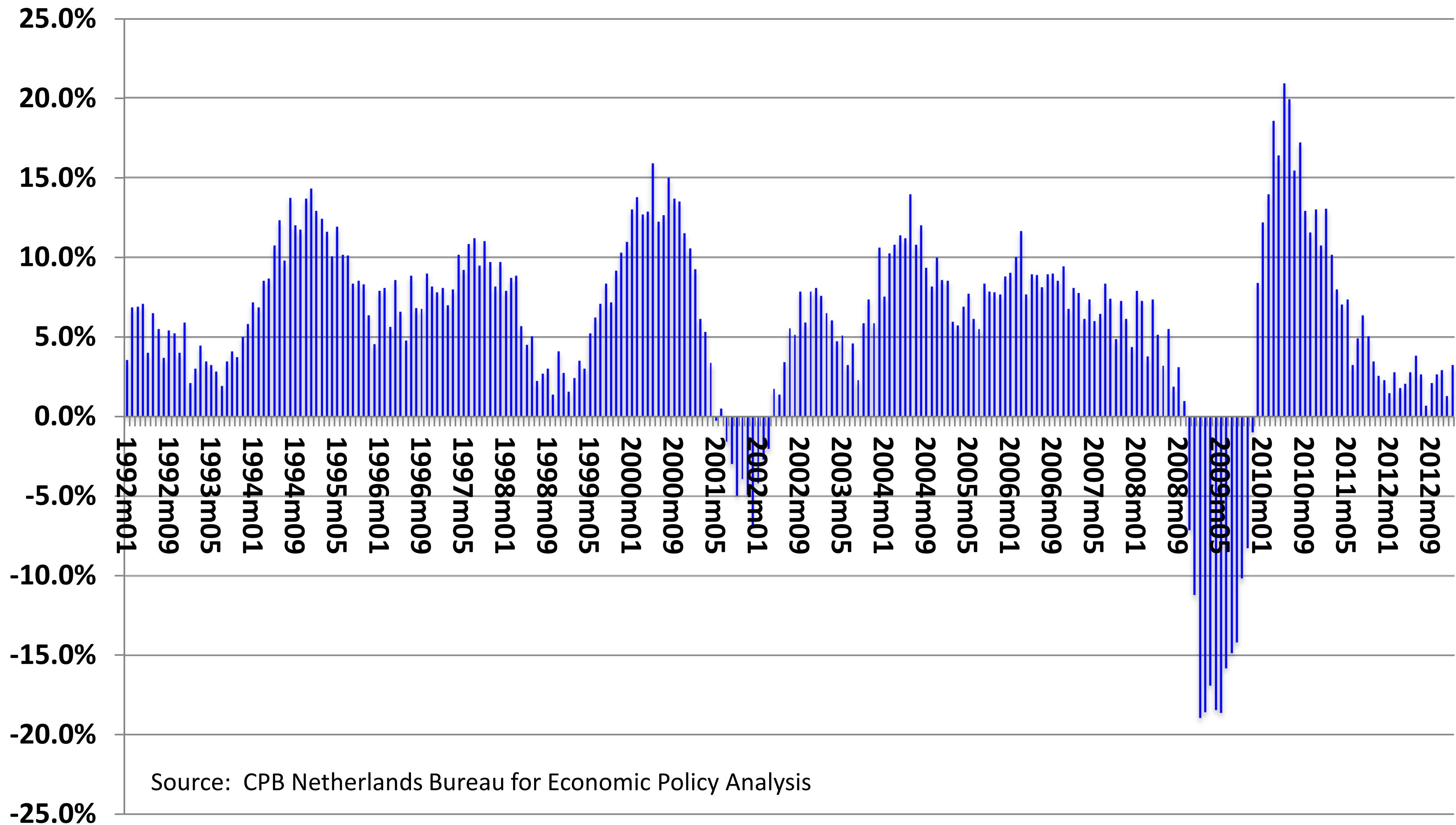



Total Credit, with & without Quantitative Easing
US$ billions, 1952 to 2012
60,000
50,000
40,000
30,000
20,000
10,000
0
1952
1954
1956
1958
1960
1962
1964
1966
1968
1970
1972
1974
1976
1978
1980
1982
1984
1986
1988
1990
1992
1994
1996
1998
2000
2002
2004
2006
2008
2010
2012
Source: Federal Reserve, Flow of Funds
Total Credit plus QE
Total Credit

Total Credit, annual % change

By quarter, 1952 to Q3 2012, not adjusted for inflation




World Trade Index
annual % change, 1992 to January 2013
25.0%
20.0%
15.0%
10.0%
5.0%
0.0%
-5.0%
-10.0%
-15.0%
-20.0%
-25.0%
1992m01
1992m09
1993m05
1994m01
1994m09
1995m05
1996m01
1996m09
1997m05
1998m01
1998m09
1999m05
2000m01
2000m09
2001m05
2002m01
2002m09
2003m05
2004m01
2004m09
2005m05
2006m01
2006m09
2007m05
2008m01
2008m09
2009m05
2010m01
2010m09
2011m05
2012m01
2012m09
Source: CPB Netherlands Bureau for Economic Policy Analysis

US Banks: Why Too Big To Fail?

- The four largest US banks hold 35% of all deposits.
- They are Bank of America, JPMorgan Chase, Citi and Wells Fargo.
- The first three have combined derivatives exposure of three times global GDP.
- The sum of the parts could be a multi-trillion dollar negative number.

One Final Thought

"The last useful financial sector innovation was the Automatic Teller Machine."

(paraphrasing) Paul Volcker