



The bubble of bubbles

Bank Run is the phenomenon taking place when a great number of clients of a bank withdrawal simultaneously all their deposits because they're afraid the bank will become insolvent. Because the bank lends almost all of the deposits, if many depositors ask to withdrawal the bank can't pay and goes bankrupt. If the phenomenon spreads towards many banks or within the bank system, we have Bank Panic. This mass phenomenon has taken place several times in the last 400 years causing strong economic slumps. Last time it happened in the United States from 1929 to 1939.

With a letter dated September 22, 2008, spread to the news agencies, the illustrious Dominique Strauss-Kahn, former French minister of economics, finance and industry (1997), who run for the French Republic presidency primary elections (2006) and is currently the general director of the International Monetary Fund (since 2007) proposed by Sarkozy, denounces a «real and proper catastrophe» of financial markets and that «what still hasn't happened», i.e. «the beginning of a serious recession of the world's economy».

He affirms that «only a solution of systemic nature ... will allow the economy of the United States and the global economy to gain again a semblance of normality», précising that «On the short term, this approach mustn't be set aside three fundamental elements: injection of new liquidity, acquisition of non-liquid credits and the contribution to financial institutions» explaining this way the bank run would be prevented, non-liquid credits would be eradicated and banks would be re-capitalized with the help of the public.

Nicolas Sarkozy echoes him by addressing the United States General Assembly, he proposes to hold an emergency summit of the G8 extended to some merging countries, to discuss «new rules» fro the financial markets and particularly for «rating agencies, balance surveys and bank solvability, hedge funds, the coordination of information and the recovery of faith in the financial system».

Strauss-Kahn is a courageous person. A few months ago, he was the first (and only) to forecast the explosion of the sub-prime bubble would cost more than 1,000 billion dollars. That announcement was criticized and considered exaggerated. Those criticizing were right, but for the opposite reason. Summing up the 700 billions the United States are about to issue with the interventions the Federal Reserve, European Central Bank and other European banks have already carried out during the last year, the cost results higher than that declared by the IMF director. Whom, today has already increased his estimate up to 1,300 billions. Then if we consider the probable risk on the 5,000 and more billion dollars of mortgages financed directly or indirectly by Freddie Mac and Fannie Mae, the cost will be much higher than the one (officially) forecasted.

But the fundamental and worse problem, which Strauss-Kahn omits to denounce, is that the sub-prime bubble is nothing else than the peak of an enormous iceberg about to melt-down with the figures pointed out in our



previous news (Big Crunch or Big Rip): more than 60 thousand billion dollars CDS, more than 600 thousand billion dollars OTC more than 3 trillion dollars monetary mass nominal value. They're exorbitant numbers, not crisis figures but systemic catastrophe numbers. Compared to those figures real economy looks like an ice-lolly.

Lets take a look at Strauss-Kahn's systemic recipe: injection of new liquidity, acquisition of the banks non-liquid activities by the states and contribution of new capitals to the banks. Would this be a systemic recipe? Where would the new liquidity to inject in the financial system plus the one they states should use to acquire the non-liquid activities plus the one to re-capitalize the banks come from? Not from savings, because if that was possible there wouldn't even be the risk of a bank run.

Therefore, all this liquidity can only come from new issues of legal tender currency. Always uncovered. And since there isn't even the time to print the banknotes, the new issues would take place only on computers. To issue new currency, central banks register as credits the purchase of non-liquid credits almost devoid of value of the banks and the purchase of government securities and as debits the countervalue in legal currency they credit to banks and states.

Within three months from these operations, all the outstanding currencies will suffer value losses, purchase power losses, at least proportional to the new liquidity put in the system. Indeed, since the coverage of this enormous debit mass (as currency with no real value is) can't be made with savings, it'll explode, as précised in a previous news (Legal tender currency must be disconnected from real economy), the bubble of bubbles, i.e. the whole monetary system that invented bubbles to survive. Perhaps this is what the IMF director intends when talking of «semblance of normality»?

And the new rules Nicolas Sarkozy talks about? The word «semblance» is perfect also for his statements, as if there was some kind of handover between him and Strass-Kahn. «Semblance» is like changing outfit to a person that doesn't wash and wants to stay dirty. That person will look cleaner but really will always remain dirty. Sarkozy doesn't talk about changing rating agencies but to establish a new operating way of the current agencies; he doesn't talk of drawing up balances in a clearer way but to estimate them a different way; he doesn't talk of modifying the fractional reserves of the banks but to estimate better their (true or apparent) solvability; he doesn't talk of abolishing hedge funds but to adopt new rules and, in fact, legitimize them; he doesn't talk of transparency and objectiveness of information but of their coordination to avoid cells gone mad from telling people the truth.