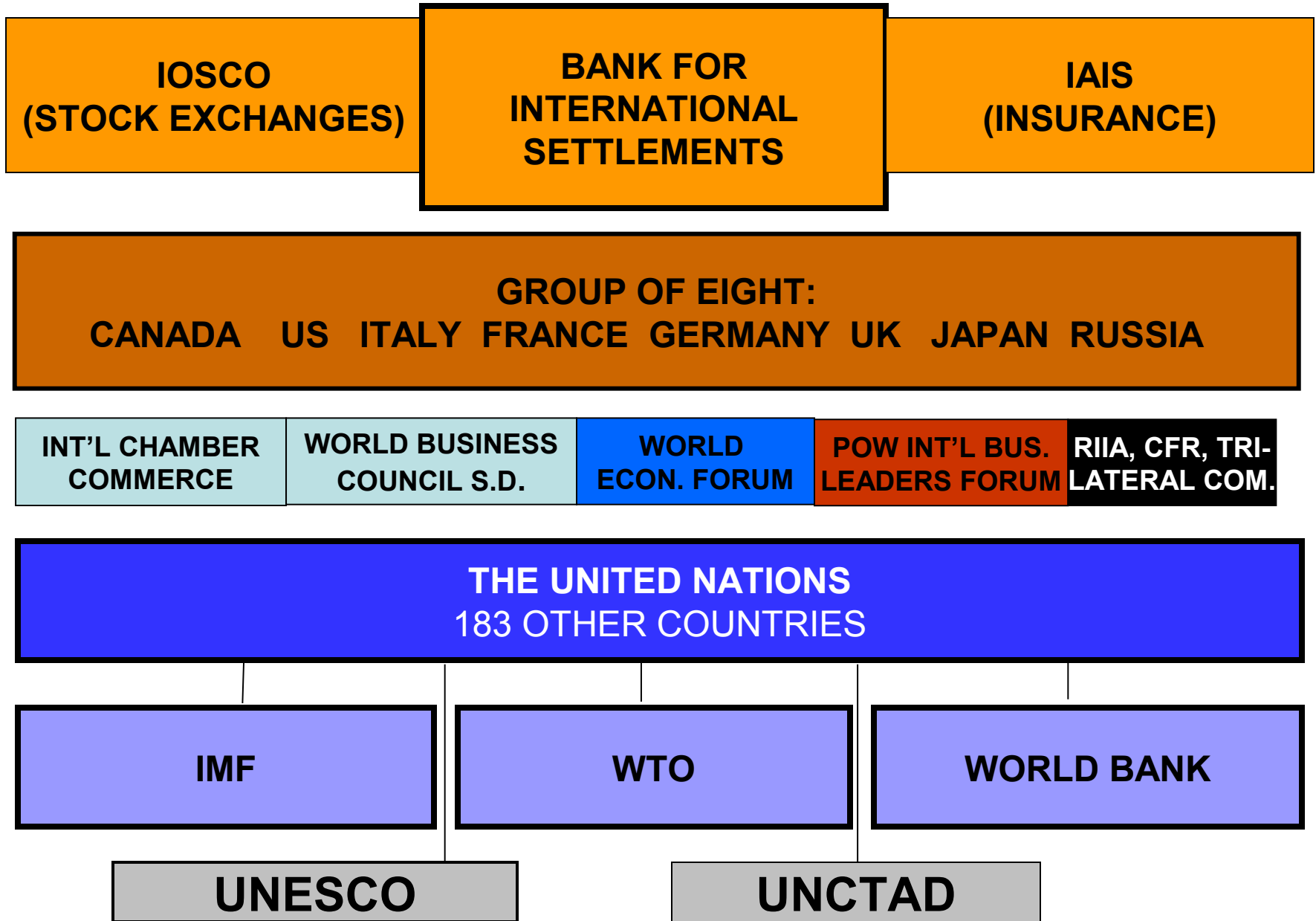


THE FINAL MOVE TO WORLD GOVERNMENT

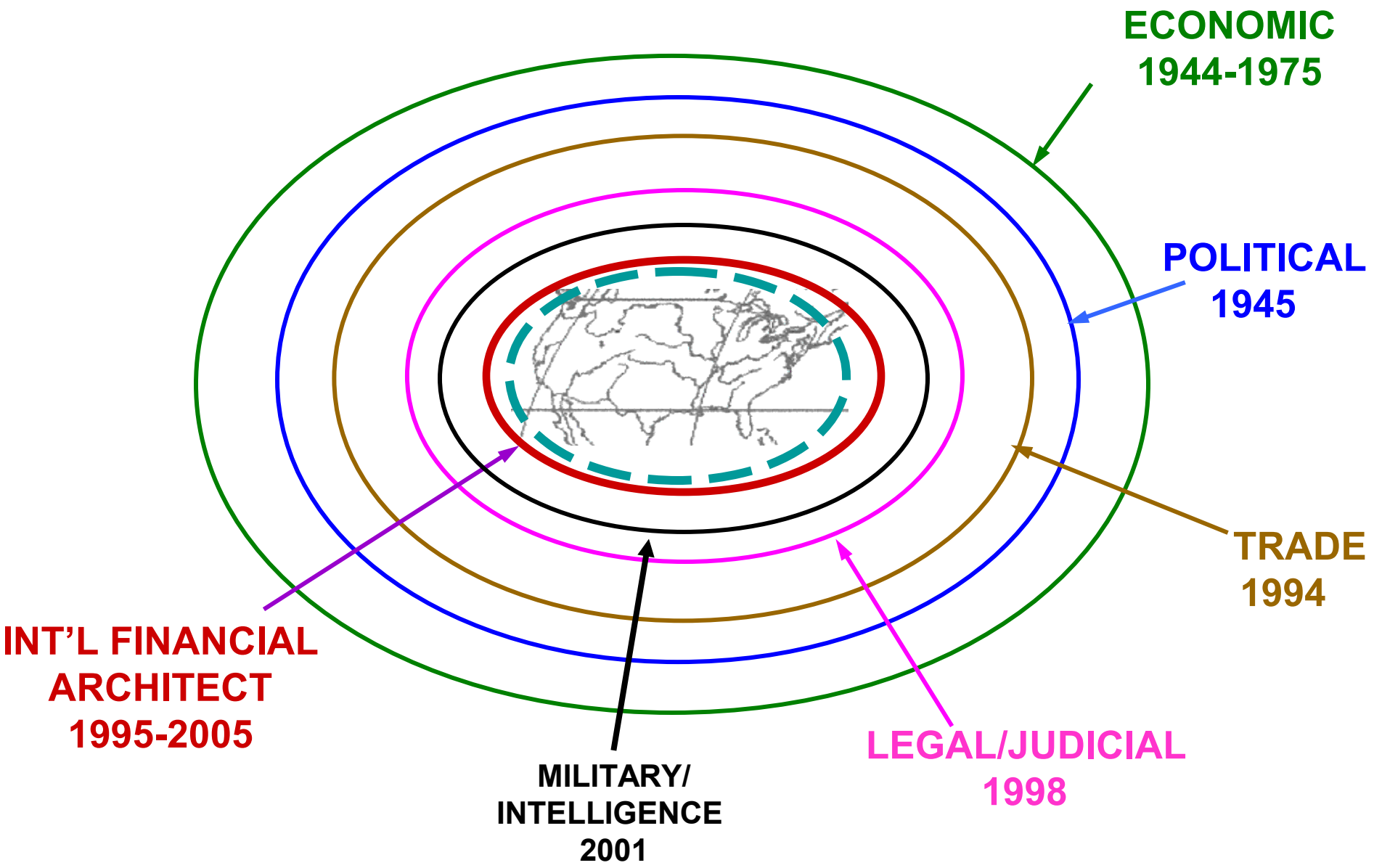
Joan Veon - November 15, 2008

- SUBPRIME CRISIS BECAME
- GLOBAL CREDIT CRISIS
- COUNTRIES OF THE WORLD TO TRANSFER NATIONAL SOVEREIGNTY OVER BANKS, INSURANCE COMPANIES, BROKERAGE FIRMS TO INTERNATIONAL STRUCTURE
- ON TARGET FOR GLOBAL CURRENCY

GLOBAL ACTORS ABOVE THE NATION-STATE



STEPS TO AN INTEGRATED WORLD



Think globally on financial regulation

FT 4/4/08

Jeffrey Garten

While it is not possible to know how today's financial crisis will unfold, the one certainty is that there will be a wave of new financial regulation in the US. The US Treasury has just released its "blueprint" and both Houses of Congress are preparing their own legislative proposals. Nevertheless, both efforts are bound to fall short of what will be required. Certainly the overwhelming focus for the US Treasury in its recommendations is organisational reform and not the content of regulation. As such, it must be considered no more than an opening gambit. As for Congress, its preoccupation with the immediate housing crisis, which is soon to be embodied in a law easing pressure on homeowners, will also have to be enlarged.

Here is just a sampling of the important issues that eventually need to be discussed in Washington and on Wall Street, besides the consolidation of the fragmentary regulatory structure and housing foreclosures. They include: new standards for future mortgage financing; enhanced protection for investors and homeowners; constraints on complex securitised financing, including global standards for valuation and disclosure; deeper capital cushions and enhanced supervision of investment banks and other "non banking" institutions; changes in the operations of credit-rating agencies; and internationally co-ordinated scrutiny of global banks and brokerages.

In tackling this daunting agenda, Washington ought to keep three critical considerations in mind.

First, the longer-term remedies for today's crisis will require far more perspective than anyone currently has, in the middle of today's epic battle to stabilise markets. After all, there is no way of telling where the crisis will spread to next or whether another big financial institution will collapse. No one knows whether the Federal Reserve will break more new ground in expanding its reach. It is impossible to predict how close we are to a dollar crisis, how deep and long the recession will be, or how the effects of the crisis will be transmitted abroad.

Second, the US should jettison its habit of making financial policy as if it were cocksure of what it is doing. Indeed, it should be humbled by the magnitude of its ineptitude in overseeing financial markets. After sitting on the sidelines while opaque financial instruments mushroomed, US officials should be deeply embarrassed by their own hypocrisy in preaching the mantra of transparency to governments around the world.

Wall Street's crowing about how financial innovation distributes risk to the benefit of all is also laughable in the light of how that very risk became concentrated and toxic. America's highly litigious culture has failed miserably to prevent extensive fraud among lenders and borrowers in the housing market. Never mind that Washington's *laissez-faire* attitude toward the debasement of its currency – with the damaging impact at home

and abroad – ought to raise serious questions about its claim to any global leadership.

The implication is that America should be willing to examine other financial systems for ideas from which it might benefit and engage in extensive collaboration with its partners. For example, US officials should seek to understand how Europe has managed to avoid the extremes that have affected the US. There could be some lessons from the consolidated UK regulator, the Financial Services Authority. It would not hurt to confer with Swe-

The US should jettison its habit of making financial policy as if it were cocksure of what it is doing

den or Japan, both of which have experienced severe crises of their own in recent years and at least learnt from their mistakes.

A willingness of the US to reduce its traditional arrogance in financial matters means it should not just concentrate on patching up the financial system with a blizzard of out-of-date legislation, but also consider a wholesale restructuring of the financial system in all its global dimensions.

In the late 1990s, the Asian financial catastrophe showed how quickly a crisis could spread across borders. In the current debacle, contagion has spread among financial products – from sub-

prime mortgages to credit default insurance and to municipal bonds. Both in the 1990s and now, deep problems in financial markets have devastated the lives of millions of people.

We are therefore faced with a challenge of massive proportions that will require the re-examination of everything from how financial institutions of all kinds are overseen globally, to the stability of the international currency regime, to the role of central banks and their relations to one another and to the strengthening of social safety nets.

The Bretton Woods system arose out of the ashes of a world war. What has been unfolding over these past two decades is no less significant as markets globalise and become more intertwined with one another; as highly complex financial instruments outstrip regulators' ability to understand them, let alone exercise any meaningful supervision of them; and as new financial powers in Asia and the Gulf join the main financial decision-makers.

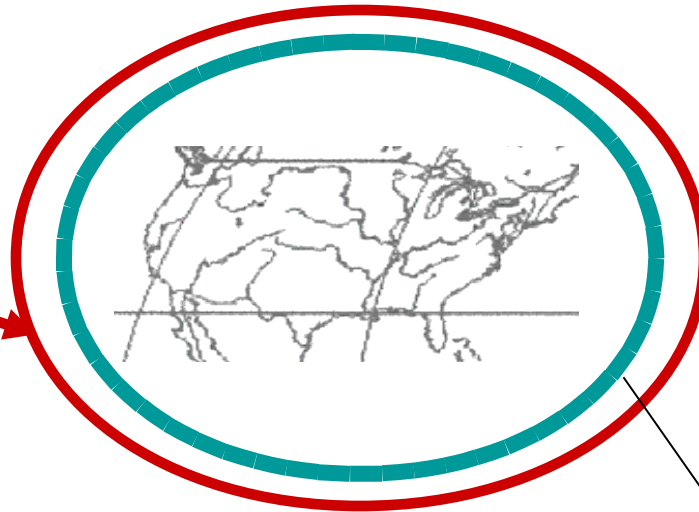
It is not yet time to act to reform the global financial system. However, it is time for the US to figure out how to lead by building a consensus, rather than moving unilaterally or trying to shove its own discredited biases down other people's throats. Most of all, it is time to ensure that the full dimensions of the challenges ahead are appropriately understood before new regulations are enacted.

The writer is the Juan Trippe professor of international trade and finance at the Yale School of Management

STEPS TO INTEGRATED WORLD

FINANCIAL:

1913-1930,
1980, 1999,
2001, 2002, 2003



**NATIONAL REGULATIONS
OVER:
BANKS, INSURANCE,
BROKERAGE**

INTERNATIONAL LEVEL OF GOVERNMENT ABOVE NATION-STATES

FINANCIAL
IMF/WB
1944

POLITICAL
UNITED
NATIONS
1945

TRADE
WTO
1994

LEGAL
INT'L
CRIMINAL
CT.
1998

MILITARY
INTELLI
2001

GLOBAL
REGULATORY
2008-2009
CREDIT
CRISIS

GLOBAL ACCOUNTING RULES

GLOBAL SECURITY AND EXCHANGE COMMISSION - FSF

COUNTRIES OF THE
WORLD

INTERNATIONAL LEVEL OF GOVERNMENT ABOVE NATION-STATES

FINANCIAL
IMF/WB
1944

POLITICAL
UNITED
NATIONS
1945

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LEGAL
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GLOBAL ACCOUNTING RULES

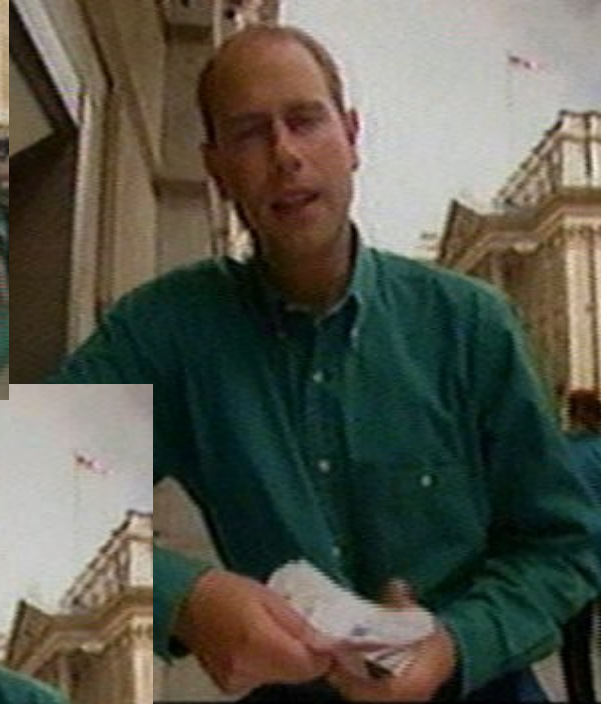
GLOBAL SECURITY AND EXCHANGE COMMISSION - FSF

COUNTRIES OF THE
WORLD

**GLOBAL REGULATIONS IS THE FINAL
PIECE NEEDED TO COMPLETE TOTAL GLOBAL INTEGRATION AND
EMPOWERMENT OF INTERNATIONAL LEVEL**

CENTRAL BANKS OF THE WORLD

SVERIGES RIKSBANK	1688
BANK OF ENGLAND	1694
BANK OF FRANCE	1803
DUTCH CENTRAL BANK	1814
REISCHBANK/BUNDESBANK	1870
BANK OF JAPAN	1882
FEDERAL RESERVE	1913
BANK OF CANADA	1934
COMECON COUNTRIES	1990's
BANK OF IRAQ	2004



**EDWARD
WESSEX**
(PRINCE EDWARD,
“CROWN & COUNTRY”)



**KING WILLIAM II – LARGEST INVESTOR
10,000 POUNDS OF THE 1.2M RAISED**

CENTRAL BANKS OF THE WORLD

SVERIGES RIKSBANK	1688
BANK OF ENGLAND	1694
BANK OF FRANCE	1803
DUTCH CENTRAL BANK	1814
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BANK OF CANADA	1934
COMECON COUNTRIES	1990's
BANK OF IRAQ	2004

FEDERAL RESERVE

PRINTS MONEY OUT OF THIN AIR

**CHARGES THE FEDERAL GOVERNMENT INTEREST ON
NEWLY CREATED MONEY**

**IS IN THE PROCESS OF TRANSFERRING KEY COMPONENTS
OF THE FINANICAL SECTOR TO THEIR CONTROL:**

**CREDIT UNIONS, STATE CHARTERED BANKS,
INSURANCE INDUSTRY, MORTGAGE INDUSTRY,
PAYMENT AND SETTLEMENT SYSTEMS,
TO CONTROL PAYMENT AND SETTLEMENT SYSTEMS**

FEDERAL RESERVE




**Why CAN'T WE THE PEOPLE FORGIVE
OURSELVES THE INTEREST ON THE DEBT?**

WE OWE IT TO A PRIVATE CORPORATION

THE BANK FOR INTERNATIONAL SETTLEMENTS

The Central Banks of the World





**THE APEX OF [FINANCIAL CAPITALISM]
WAS TO BE THE
BANK FOR INTERNATIONAL SETTLEMENTS
IN BASLE, SWITZERLAND, A PRIVATE
BANK OWNED AND CONTROLLED
BY THE WORLD'S CENTRAL BANKS
WHICH THEY WERE THEMSELVES
PRIVATE CORPORATIONS."**

DR. CARROLL QUIGLEY, TRAGEDY AND HOPE, P. 325

IAIS
(INSURANCE)

BIS
(CENTRAL BANKS)

IOSCO
(SEC)

**WORLD'S
INSURANCE
SUPERVISORS**

**WORLD'S
CENTRAL
BANKS**

**WORLD'S
STOCK
EXCHANGES**

**BANK FOR
INTERNATIONAL
SETTLEMENTS - BIS**

**FINANCIAL STABILITY FORUM –
GLOBAL REGULATOR**

G7 (G20) CENTRAL BANK MINISTERS

G7 (G20) TREASURY SECRETARIES

G7 (G20) REGULATORY AGENCIES

BCBS

IAIS

OECD

IOSCO

IMF/WB



THE DEPARTMENT OF THE TREASURY
BLUEPRINT FOR A MODERNIZED
FINANCIAL REGULATORY STRUCTURE



THE DEPARTMENT OF THE TREASURY

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Secretary

Robert K. Steel
Under Secretary for Domestic Finance

David G. Nason
Assistant Secretary for Financial Institutions

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Michael Scott
Jeffrey Stoltzfoos
Mario Ugoletti
Roy Woodall

THE BLUEPRINT

ANGE FEDERAL BANKING CHART

- ✓ **BANKS**
- ✓ **BANK HOLDING COMPANIES**
- ✓ **SAVINGS AND LOANS**
- ✓ **THRIFTS**
- ✓ **CREDIT UNIONS**

THE BLUEPRINT

INSURANCE INDUSTRY

✓ **SWITCH OVERSIGHT OF ENTIRE
INSURANCE INDUSTRY FROM
STATE LEVEL TO FEDERAL LEVEL**

THE BLUEPRINT

INSURANCE INDUSTRY

✓ **SWITCH OVERSIGHT OF ENTIRE
INSURANCE INDUSTRY FROM
STATE LEVEL TO FEDERAL LEVEL**

THE BLUEPRINT

MORTGAGE INDUSTRY

✓ **CREATE OVERSIGHT SYSTEM FOR
MORTGAGE INDUSTRY**

**(50% SUBPRIME MADE WITHOUT FEDERAL
SUPERVISION)**

✓ **CREATE MORTGAGE ORIGINATION
COMMISSION**

THE BLUEPRINT

MORTGAGE INDUSTRY

✓ **CREATE OVERSIGHT SYSTEM FOR
MORTGAGE INDUSTRY**

**(50% SUBPRIME MADE WITHOUT FEDERAL
SUPERVISION)**

✓ **CREATE MORTGAGE ORIGINATION
COMMISSION - **FED OVERSIGHT****

THE BLUEPRINT

PAYMENT AND SETTLEMENT SYSTEM

**FEDERAL RESERVE SHOULD BE GIVEN
RESPONSIBILITY FOR PAYMENT AND
SETTLEMENT SYSTEMS OVERSIGHT**

THE BLUEPRINT

MARKET STABILITY REGULATOR “LENDER OF LAST RESORT”

- ◆ **MARCH 2008 - \$200B**
- ◆ **MARCH 2008 - \$236B**
- ◆ **TOOK CONTROL OF FANNIE AND FREDDIE**
- ◆ **BRIDGE LOAN TO AIG**
- ◆ **OPENED 24 HOUR ACCESS FOR GLOBAL
CENTRAL BANK FUNDS TO INJECT
\$180B INTO THE GLOBAL SYSTEM**

THE BLUEPRINT

MARKET STABILITY REGULATOR “LENDER OF LAST RESORT”

- SEPT 16 FED PUTS \$70B INTO SYSTEM
- SEPT 18 FED AUTHORIZED \$180B EXPANSION OF SWAP LINES WITH OTHER CENTRAL BANKS – FED, BOC, ECB, BOE, SWISS NATL, BOJ
- SEPT 25 HONG KONG CENTRAL BANK INJECTED \$500M INTO MARKET
- SEPT 29 FED AUCTIONS \$225B; INCREASES SWAP LINES TO \$620B WITH 9 CENTRAL BANKS
- SEPT 29 EBC, SWISS NAT & BOE INJECTS \$74B TO UNFREEZE GLBL MKTS
- OCT 6 FED TO PROVIDE \$900B IN CASH LOAN TO SQUEEZED BANKS
FED TO PAY INTEREST ON COMMERCIAL BANK RESERVES

THE BLUEPRINT

MARKET STABILITY REGULATOR

“LENDER OF LAST RESORT”

- ◆ **MARCH 2008 - \$200B**
- ◆ **MARCH 2008 - \$236B**
- ◆ **TOOK CONTROL OF FANNIE AND FREDDIE**
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- ◆ **OPENED 24 HOUR ACCESS FOR GLOBAL CENTRAL BANK FUNDS TO INJECT \$180B INTO THE GLOBAL SYSTEM**

THE BLUEPRINT

**TRANSFERS TO THE FEDERAL RESERVE
THE LAST VESTIAGES OF OUR ECONOMIC
SOVEREIGNTY
THAT THEY CURRENTLY DO NOT
HAVE CONTROL OVER - \$31T+**

U.S.

GOVERNMENT:

- **CREDIT UNIONS**
- **INSURANCE (ST)**
- **MORTGAGE (0)**
- **PAYMENT &
SETTLEMENT
(WS)**

FEDERAL RESERVE:

**ENTIRE COMMERCIAL
BANKING SYSTEM**

POST-IMPLEMENTATION OF BLUEPRINT

U.S. GOVERNMENT:

FEDERAL RESERVE:

**ENTIRE COMMERCIAL
BANKING SYSTEM**

- **CREDIT UNIONS**
- **INSURANCE**
- **MORTGAGES**
- **PAYMENT &
SETTLEMENT**
- **MARKET STABILITY
REGULATOR**

THE GREAT AMERICAN DEBT BUBBLE

BAD MONEY-KEVIN PHILLIPS

• '06 DOMESTIC FINANCIAL	\$14,184B
• FOREIGN FINANCIAL	1,764
• TOTAL NONFINANCIAL BUS.	9,031
• TOTAL HOUSEHOLD	12,873
• FEDERAL GOVERNMENT	4,885
• STATE/LOCAL GOV'T	<u>2,007</u>
• TOTAL US FIN/NON FIN.	\$44,744B

***1974 TOTAL: \$2,407B -**

ROSE 18.59% A YEAR OVER 34 YEARS

SENATOR BENTON - MISSOURI

- ❖ **“THE GOVERNMENT ITSELF CEASES TO BE INDEPENDENT [and] SAFE WHEN THE NATIONAL CURRENCY IS AT THE WILL OF A COMPANY.” [FED RESERVE]**
- ❖ **“ALL PROPERTY IS AT THEIR MERCY, THE PRICE OF REAL ESTATE, OF EVERY GROWING CROP, OF EVERY STAPLE ARTICLE IS AT THEIR COMMAND. STOCKS ARE THEIR PLAYTHINGS.”**



**AMERICANS IN
BONDAGE TO THE
FEDERAL RESERVE**



THE WORLD IN BONDAGE TO DEBT OF CENTRAL BANKS TO

