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2016: The next financial and banking crisis

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How do banks make money? Interest! They take deposits from their clients and invest the money in different products, making interest to pay the bank's expenses and to create attractive investments for new clients by paying... interest. But what happens when the markets do not only give no interest at all, but negative interest? The banks lose money and...

...and welcome to the boom and bust economy which continues to be based not upon a Gold Standard or anything tangible, but upon casino economics, where investments are made in invisible funds and insurance and reinsurance products which are as valuable as the screen they are typed on, or less so. Pension funds are invested in products linked to the future price of copper or other commodities, municipalities bet their futures on a high-interest bank in NeverNeverland which collapses spectacularly because its interest rate is based upon pyramid investment schemes and what is the result?

The result came to a head in 2008 when the financial markets realized that there was not enough money (liquidity) in the financial system to honor the commitments. The result of this was that the banking sector received bailouts from central banks and governments, the insurance sector tried to cover itself by forcing insurance companies to hold in capital 100 per cent of their policyholders' future claims. But compared with the economic black hole created before 2008, these were cosmetic measures which covered potholes, while the sinkhole developing under the financial highway was turning into a chasm.

Today, in 2016, eight years on, the shockwaves are still being felt, and at a growing pace, simply because the banking system froze back in 2008 with an absence of sufficient liquidity. In simple terms, its heart stopped and it has since been kept alive in intensive care through injections (of money). It lies on an incubator, it breathes through an iron lung.

And basically, when the heart of the banking sector stops beating, the mechanisms on which it thrives (trading financial products and gaining interest rates in return) cease to function. The visible evidence of this today is that money is not only cheap, it does not provide any interest at all - in fact, you have to pay an institution to keep your cash, so the return is negative interest rates, equaling a loss of funds.

So how can banks cater for their clients if they do not even make enough money to cover their own expenses? One look at the high street banking outlets will prove the point. They are disappearing at an alarming rate - indeed some towns do not have any banks at all.

Austerity stifles, it does not stimulate

The reply by the European Union has been austerity measures which instead of stimulating economies, has stifled them by taking money out of circulation, and therefore decreasing

revenue through taxation, social security contributions, creation of jobs and so on. In fact, the policy of austerity is like finding a sick plant and instead of watering it and feeding it and pruning its dead leaves, the measure is to cut its stem to the ground, stamp on it, starve it, poison its roots and ensure that it never grows again.

Add the weight of the European countries and banks which have received bailouts to the burden of the already sick banking sector and we see the problem compounded.

But there is a new boy on the block: the People's Republic of China, whose economy had been overheating, then came the first signs that the pressure cooker was about to blow a fuse and in the first week of January 2016 we have already seen two imposed stoppages of trading in the markets (which are supposed to be free). Today alone, the Stock Exchange dropped seven per cent. Just as the real estate sector fueled the western banking crisis eight years ago, today the Chinese real estate sector is doing the same thing.

Add this bubble to the already burdensome European and banking bubble, and we can see the storm clouds looming on the horizon.

And what about the USA?

There are muffled signs that the US economy is growing, with unemployment halved in recent years (to a near-optimum 5 per cent) and the Standard and Poor's 500 Index up nearly 100 per cent since 2010. But the US economy is based upon a false precept - that the market economy exists without checks and balances. It does not. **The United States of America is around twenty thousand billion dollars in debt and there is over a trillion dollars in the market in student loans with high interest rates - a debt burden weighing down an entire generation and preventing it from participating fully in the economy before the debts are paid (if ever).**

These student loans, however, pale into insignificance when we look up the word "derivatives", namely securities (or bonds) which have a price (or coupon) based on (or derived from) an asset or a group of assets (stocks, which are shares or bonds, real estate, futures, currencies, interest rates and so on). Fine when things are going well but as we have just seen, they are going badly. **And when we examine the balance sheets of the USA's big 6 (Bank of America, Citigroup, JPMorgan Chase, Goldman Sachs, Morgan Stanley and Wells Fargo) we find that their exposure to derivatives far outweighs their total assets - total collective assets are less than ten trillion USD (ten thousand billion), exposure is a staggering 247 trillion USD.**

All of this is the result of an economic and banking model which does not work. It relies on small-scale checks and balances imposed on nationalized financial markets. It was never tried and tested to function on a global scale and never morphed out of the psyche of the Gold Standard, which was a psychological barrier against casino policies.

In a nutshell, they have gambled our money and our futures away. Option One: a 2016 financial reset, going back to base with all checkers removed from the board and an ensuing focus on nationalized rather than globalized policy. Option Two: We are witnessing the first stages of a global financial and economic meltdown.

The world's policymakers have tried to go too far, too fast with pre-federalized and globalized models of policymaking. We are not ready for a globalized economy, not yet.