CONCENTRATION IN BANKING – A PARADIGM OF MANIPULATIVE CONTROL AND POWER

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Abstract
The paper starts from the hypothesis that concentration of banking industry and ownership is a ground for proliferation of financial control and power, enabling financial clique to abuse the banking and credit system. Banking super-entities ensure manipulative pattern of functioning based on the monopolistic standard of demand of money, mechanism of interest rates and derivative market. Current financial crisis has deepend the concentrated system of relations and redestribution. The practice based on fraud and deception remained a cornerstone of strengthening the Anglo-Saxon banking and industrial empire to the current shaken model of financialization. Official monetary authorities, under the control of "sophisticated" individuals and semi-secret organizations, provide safe traditional and unconventional monetary and liquidity mechanism to corporate bankers.
Key Words*: Banking Industry, Control, New Financial Architecture, Financialization, Regulation, Interest Rates, Derivatives, Central Banks, Quantitative Easing, Lender of Last Resort.*

1. Introduction: Manipulative Scope of Banking Industry

Carefully intervowen network of financial instruments (including hybrid/exotic ones), financial institutions (highly leveraged) and financial markets (practice of financial engineering) constructed a "preventive" financial paradigm - New Financial Architecture. Fragility of the financializing architecture, along with the unsustainability of the efficient capital market theory corresponds to the effects of the current financial crisis and, generally, to the economic recession. Globally integrated system of huge bank conglomerates and the so-called "shadow banking" – investment banks, hedge funds and structured investment vehicles (SIVs) is a pillar and support to the New Financial Architecture. Over a long period of time, many private decisions were made, creating the shadow system that is institutionally and productively sensitive to the banking panic (credit crisis) as a systemic event. The problem of special importance is the fact that the word is mainly about real banking.

The process of money issue has become an equivalent of control over real resources. The issuing function of central banks is carred formally in the context of (ostensible) independence and (rhetorical) protection from political influences. However, demands of financial elites and private commercial creditors have reduced liquidity and monetary management in the domain of (private) corporate banking. The Federal Reserve System and the European Central Bank are predominantly subordiate to the banking colosses. Manipulating market and base interest rates is an irresistible mechanism of control of monetary, credit and banking system. On the other hand, the array of final goals of monetary policy is extended, which interferes with the "responsibility" of other instruments of economic policy. The regulations (laws) referring to the operations of the banking system contribute to this. Specific weight of the management of some monetary authorities thus exceeds acceptable dimensions of the immanent central-bank operations.

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A recently published study (Swiss Federal Institute of Technology), which includes 43,000 transnational corporations, shows that a very small group of extremely huge banks and gigantic predatory corporations dominatne the whole global economic system. The so-called entity, consisting mainly of financial institutions, is made of 25 banks and corporations, including Barclays, JP Morgan Chase & Co, UBS AG, Deutsche Bank AG, Credit Suisse Group, Goldman Sachs Group Inc, Morgan Stanley, Societe Generale, Bank of America Corporation. The fact is that the Federal Reserves are dominated by Wall Street banks, i.e. the follwogin families: the Rockefellers, the Rothschilds, the Warburgs, the Lazards, the Schiffs and European royal families. World central banks, as private corporations, own and control the Bank for International Settlements, which is in the core of the global financial system. Big banks are labelled as "black boxes", but not because of deregulation but because of non-transparency.

2. Manipulating money supply and mechanism of market interest rates

Problems in the interbank lending market are evident through conduct of Libor - benchmark rates for interbank lending. The banks that participate in "fixing" Libor rate do not have the obligation to lend at these rates. Since there are no data on the amounts of interbank lending, there is no way to know whether the lendings were approved at these rates. It is claimed that the market of commercial paper provided data on prices and quanitities too. Due to the banking crisis of liquidity in 2007, banks refrained from interbank lending, so Libor grew independently of Fed funds rates. By reducing Libor, FED tried to enable banks to start again to lend each other, but without success. Actually, Lobor cannot return to its usually appropriate relation with interest rates on reserves until financial markets are stabilized.

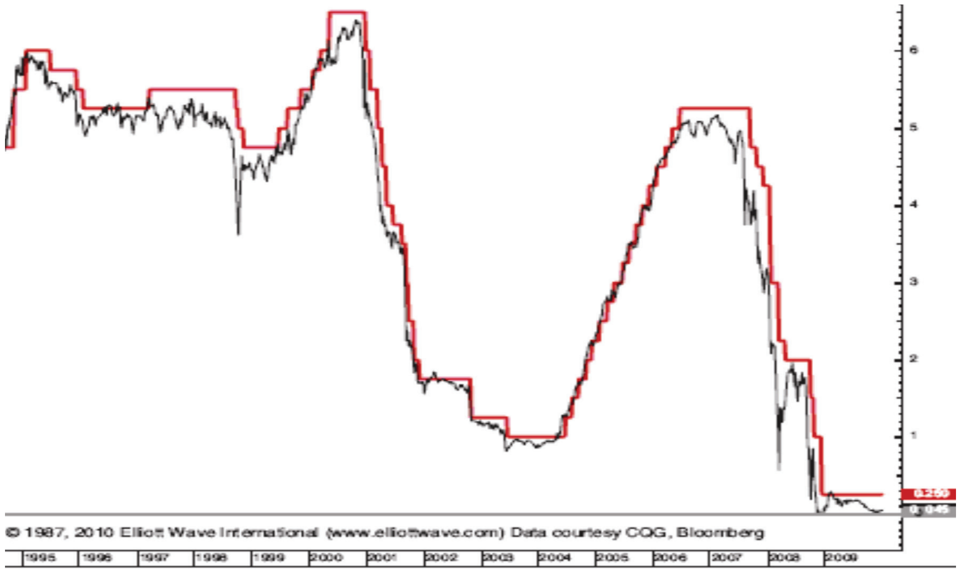
Former chair of the Federal Reserves A. Greenspan has been accused for the housing bubble and the forthcoming financial crisis. It has been claimed that the "easy" (expansionary) monetary policy has caused or significantly contributed to the current economic difficulties. Still, according to one view (D. Henderson, G. Hummer, 2008), a proper analysis would show that Greenspan's policy was far from perfect and that it was actually "tight" (contractionary). The error arises from inadequately clear or argumented (accurate) explanation of the role of interest rates in carrying out monetary policy in the USA. When it comes to monetary policy in terms of the current crisis, the basic reasoning is that low interest rates pointed to the expansive monetary policy. This has led to the classical mistake of using interest rates in evaluating monetary policy.

The mentioned criticisms of A. Greenspam are founded in the excessively expansive monetary policy. Namely, after the recession at the beginning of the decade, which caused an "expansive" direction, low interest rates have created room for the overall increase of prices, i.e. the area where the crisis of housing industry is turning into a financial crisis. The wrong approach refers to the existing inconsistency in the evaluation of the monetary policy: low interetst rates produce expansive monetary policy. The significance of the Federal Reserves is exaggerated, while the relation of supply and demand, which should actually determine interest rates, is totally neglected. Also, changes of the discount rate have often been a consequence of adapting to the changes arising from market interest rates (on interbank markets). Despite partial possibility of increasing or decreasing interest rates of central banks, financial system has significantly reduced the influence of Federal Reserves' rates.

Recent history still shows that FED "control" can be mainly labelled as illusion. Lowering of the discount rate has been seen as an indicator of the FED decision to "pump in liquidity" into the system. Actually, FED followed market trends and did not "decide" which level of interest rates it wanted. Whenever treasury bills changed, what followed was the immediate reaction of the "target rate" for federal funds. After market rates started to decline in October 2000, then rose in June 2003, followed by another decline in February 2007, FED reacted each time. In addition the drop of interest rates almost never happend on the bullish market. It seems that it was not FED but the market that made decisions on the level and time, which means brokers and/or manipulators. Interest rates consistently declined during the three biggest bear markets in history: 1929-32 inDow, 1990-03 in Nikkei and 2000-02 in Nasdaq.

For example, the Bank of Japan constantly adapted its target rate with the goal to maintain the direction in accordance with the decline or rise on the bonds market. Target rates closely followed the market, and the same principle refers to banks such as FED. The following diagram shows a link between tha target rate of the Federal Reserves and the effective 90-day Treasury Bill Yield, in the period 1995-2009. FED's decision on raising or reducing the rates was determined by the market changes.

Figure 1: The FED Follows the Marcket - weekly closes



In mid September 2012. the Federal Reserves announced a third round of purchasing assets in the amount higher than in 2008. The two previous quantitative easings were not successful. This time no limit was set for the final amount of purchase or duration of the programme. The third round was opened and it included collateral for montly purchase of 40 billion dollars of mortgage-backed securities. The general goal was the alledged enhancement of inflation in order to avoid deflation. Specific aims were not set and the plan contained continuation of targeting „until economic conditions are improved“. The argument for QE2 is "psychological value" – psychological rise of investors. Apart from weak purchase of houses, the problem is also the level of interest rates, which makes the companies undecisive for investments and hiring due to uncertaintly of future prospects. When FED stops issuing the mentioned amount on the bonds market, artificial manipulation with interest rates or interest in investing into bonds will stop. If the central bank sells assets, which implies transaction money, money supply will be lower.

Bankers from Wall Street are especially interested in quanitative easing, just because of the growth of prices of financial assets such as stocks and commodities. There may be more reasons to save banks because banking industry is not on a "satisfactory level". New amounts of money recover their balance sheets and improve the ratio capital/assets. Leading bankers expect FED not to increase the interest rate at the federal funds market till 2016. The word is about the rate which is a benchmark for many consumer and business loans, at the level of somewhat more than 0% since December 2008. Indexes (e.g. Dow) have shown the highest levels since December 2007, despite poor economic performances. Inflation of assets could be quickly transformed into consumer inflation. Prospects for enormous growth of prices of oil and gold are certain. Let us mention that the European Central Bank and the Bank of Japan also use significant issuing ehnancements. This is specifically luquidity management, not the monetary one. It is certain that the monetary policy cannot easily eliminate global credit bubble. Some theoreticians suggest deflation breakdown as a solution.

The first two easings (QE1 and (QE2) represented banks bailout by permanent manipulation with the money supply. Huge amounts of purchased securities had as an alledged goal an increase of liquidity and preventing the growth of interest rates. Banks bailout was carried out through inflation policy, along with maintaining the monetary system the way it still exits. Cetranl bankers in the USA and Europe plan to use inflation for cleaning their bad debts. The forthcoming inflation could enable spreading of net interest margin of banks, which determines generation of cash flow and profit. Since FED and the European Central Bank fixed short-term interest rates close to zero, while long-term interest rates grow due to inflation, profitability of banks would significantly increase. Due to growth of asset prices and increase of margin, prices of shares of many banks could double in the next year. Obviously, creating inflation by the central bank would be in the interest of speculators and Wall Street, in terms of increasing wealth through the so-called carry trade, i.e. leveraged buy-outs and the mentioned margins.

Owing to controversial quantitative easings, mortgage-backed securities are bought from pre-defined financial institutions. If banks and financial institutions used the money to make loans, a short-term positive influence on economy would be achieved. Pumping money through the QE3 mechanism will be largely directed to shares and other investments, which means it will lead to an increase of their exchange value. Two previous rounds of quantitative easings had "positive effects" for financial markets, but also for further increase of inequality of income and weakening of loan quality. The existing gap of wealth in the USA between the rich and the poor will be even bigger, because the rich become even richer owing to quantitative easings – regressive redestribution programme. One consequence is probable growth of commodities prices, which was the case with QE1 and QE1 too, without significant increase of employment. The influence of weakening the status of dollar, world's reserve currency, cannot be avoided on a long-term basis.

The current process of interest rates determination is very simple, and the calculation is in fact carried out in London (Dockland) through the process which is highly routine. Every working day after 11, traders of the leading banks send, in an electronic form or by phone, their evaluation of interest rates according to which their banks would loan money. A simple computer programme elminates the lowest and the highest quarter of evaluations; it calculates the average of the remainig data, which results in Libor for that day. Calcualtion is repeated for each of the ten currencies and 15 loan durations (from the overnight to the twelve-month one). Therefore, 150 Libor rates are published daily: overnight sterling Libor, weekly euro Libor, monthly yen Libor, three-month USD Libor etc. Basically, the proces is very important because 360 trillion dollas of assets worldwide have been indexed in Libor. According to individual data, Libor is used for evaluation of financial instruments valued 800 trillion dollars. Most of these assets are consumer debt instruments such as mortgage loans, car loans or credit cards.

Libor and prime rate are the two most important indicators for mortgage loans with adjustable rate mortgages. Until 2008, almost 60% of prime mortgage loans with adjustable interest rate and 100% subprime loans were indexed in Libor. Libor growth leads to the growth of prices paid by consumers to get, for example, a mortgage loan. Recent manipulation of the Barklays bank referred to Libor, by unjustified and immoderate level: for example, the reported 5.45% instead of 5.30%. In the period 2005 – 2007, the bank changed the rates that it allegedly reported to the British Banking Assocation (BBA) and Thompson Reuters, in order to increase the margins for internal trade, i.e. to get the advantage of trade positions. That means that it could bet, for example, that Libor rate would grow, and then report on artificially high rates that artificially increase Libor averages in turn. The bets would be more profitable and investors would be put out of business on the other hand. Mortgages rates would be pushed somewhat higher, although the risk of consumers loans did not change at all.

At the end of 2008, Barclays lowered the rates that were reported for Libor average in order to make the bank finances look more stable than they really were. The goal is media perception of the bank's sound financial standing, while assets are illegal, manipulative activities with interest rates levels. Sometime the rate was too low for real market price, but sometimes it was too high. False image of stability was suppose to prevent market panic and prevent calls for additional regulation or even nationalization, which became certain when the financial crisis reached its peak. Management showed USD Libor artificially low, consumer got cheaper loans, and the probability of state intervention towards banks was reduced. Barclays also had a cheating role in monitoring Euribor interbank crucial interest rates, in order to cover up the scope of its bad debts. It seem there were adequate reasons to include some leading American banks in criminal investigations based on the global scandal regarding fixing interest rates. Potential cases of global fraud include Citigroup, JP Morgan Chase, UBS, Royal Bank of Scotland, Deutsche Bank i HSBC.

Twenty main banks systematically fixed global interest rates for years, which was the biggest financial scandal in history. Repulation of the London City, as the leading centre of international finances, should be degraded due to the scandal related to the culture of fraud and manipulation, as well as successful efforts to manipulate interest benchmarks. Still, similar scandals of fixing prices on Wall Street may point to something totally different. The case of Libor points to rogue trading of cartels ranging from simple mortgages to interest rates derivatives. It also points implicitly to the tacit agreement or even support of the Bank of England, or tacit approval of regulators. It has been already known that the date should be cross-checked whenever possible. Also, it is clear that Libor and Euribor should be set based on the current, not estimated costs of borrowing. The trust in global financial markets will not significantly drop since markets are not free. Central banks do not undertake anything to stop the trend that big bank manipulators become even bigger; actually, they encourage these trends.

3. Corporate manipulative derivative mechanism – an enhancement to crisis

The seventies are characterised by an increased exposure to risk of the interest rate and the currency risk. The risky character of the economic environment arose from hight inflation rates, variable interest rates and flexible exchange rates. The breakdown of the world monetary system, based on the final decision of the USA, or redirecting financial flows from the periphery to the centre (USA), owing to the imposed superiority of American banks, set a challenge for the financial system – exponential profit opportunities for corporate banks and realistic catastrophic scenarios for financial and economic world community. Derivatives are fixed as a hedging investment strategy, along with transformation towards a strategic speculative pattern, starting from the profitability of controlled trade. Big banks feel free with exposure to excessive risks. The report of Bunsesbank from 1993 warned of the possibility of causing chain reaction and endagering the overall financial system due to the trade in derivative instruments. Derivatives almost caused a collape of the insurance gigant AIG in 2008.

In the previous decades, Wall Street banks took over complete control over derivative trade, one of the most profitable and controversial areas of finances. JP Morgan Chase, Goldman Sachs, Morgan Stanley, Bank of America and Citigroup (possibly four more) meet every month (Midtown Manhattan) in order to protect their interests or coordinate their domination on most derivative markets. With derivative exposure of more than 53 trillion dollars, Goldman Sachs is in the middle of the derivative bubble, which threatens to turn the whole global financial system into chaos. Glodman Sachs was in the middle of the financial crisis in 2008 which brought the overall global economy in a pretty deep recession. This corporate gigant is one of the banks that are too big to fail, with a tendency of further growth. The biggest USA bank, JP Morgan“ is a “grand-grand“ bank of “so important” banks; it has the highest exposure to derivatives in the world (78,1 trillion dollars), with recently published unworrying losses of over 2 billion dollars from derivative trade.

The secrecy that surrounds derivative trade is the crucial factor that enables banks to gain huge profits. Wall Street banks get tens of billions of dollars annually on the derivative market, while the concentrated financial community tries to keep up the trend. World derivative markets are beginning to show certain trends of cracking, which may become a huge break. In case of complete burst of the bubble, it is impossible to make a correction. It is enough to remind that

9 biggest banks in the USA have estimated total exposure to derivatives in the amounts of several hundred trillion of dollars. Moody recently lowered credit ratings of 15 leading global bank, whereby most are allegedly required to ensure three billion dollars of additional collateral for derivatibe exposures. For example, in case Cirigroup, additional liquidity and ensuring funds (derivative triggers, exchange margin requirements) would amount to 500 million, and in case of Morgan Stanley 6,8 billion collateral requirement. In case of the Royal Bank of Scotland the estimated collateral is 9 billion pounds, mainly for swaps exposure.

Complete world GDP is 65 trillion dollars. The estimates of notional value of the world derivative markets start from 600 trillion dollars to 1.5 quadrillion dollars. The derivative itself does not have the underlying value. The total market capitalization of stocks on the planet is probably about 36 trillion dollars, and for bonds it is 72 trillion dollars. That is why it is unacceptable to take the definition of a derivatie (Investopedia) as a security whose price depends or is derived from one or more underlying assets (stocks, bonds, commodities, currencies, interest rates, market indexes), as well as the fact that its value is determined by fluctuation of the underlying assets. International banks – financial oligarchy dominate the officially unregulated derivative system almost completely. Gigantic financial casino could destroy the overall global financial system by facing the derivatives crisis. Logically, since the derivatie is actually a highly leveraged bet without control in the financial system, it brings enormous money to the banks on the Wall Street, in the City, Frankfurt and other money centres.

Compared to stocks and bonds, derivative is not an investment into anything realistic but a legal bet on the future value or performance of something different. Nobody actually knows the total value of all derivaties, which may be 1.5 quadrillion dollars. Let us mention that the global GDP is 70 trillion dollars per year. Derivative agreements drastically exceeed the total assets of banks. For example. Goldman Sachs agreeements are 362 times higher than the assets. The rise of derivatives went in accordance with the "globalized processes". There was even a general opinion that the market of credit derivatives is a brilliant approach to managinng credit risk. Former president of the Federal Reserves D. Mullins once defined derivatives as one of the most dramatic stories in the modern economic history. Taking credit riks through a credit default swap (CDS) is seen continuously as a potential cause of implosion on the financial market.

4. Lender of last resort as a manipulative protector of corporatism

Classic "Lombard Street" by W. Begehot (1873) was considered a perfect report on the responsibility of lender of last resort. The essence is in lending liquid sources based on collateral, to financial institutions that have an eligible quality of assets (that they are solvent), but face short term difficulties of funding. Central banks, such as the Federal Reserves, have apparently overcome the concept "too big to fail", putting themselves again in the function of Wall Street bankers. The same goes for the IMF as a potential international lender of last resort. The official pattern has been accepted theoretically and practically – central bank as a lender of last resort has an obligation to tackle with the consequences, if it "did not manage to prevent the crisis".

Maintaining the record low level of short-term interest rates on a decade level before the current crisis, by the Federal Reserves, shows that the financial system of the USA has imposed a moral hazard to the overall economy. Moral hazard was not only an unpleasant side effect of panic. An encouragement was given to the Wall Street to create risky loan products – subprime and interest ones – which seems to have been created to fail. Lowering FED's interest rates, which was supposed to save the financial system, unscrupulous banks found the reason not to consider themselves responsible for their stocks. The strategy that would "support health" of the banking system and "launch" crediting, i.e. recapitalization plan, had the following effects: "tsunami" of mergers owing to which the biggest banks used the money of tax payers to become even bigger, removing smaller and weaker banks from the market; as well as reduction of competition that would be of use to consumers and enabling "explosion" of bank fees.

During this financial crisis, several hundred small and middle-size banks failed in the USA. Disappearance of several bigger banks has produced higher concentration in the banking industry compared to the period before crisis. The following biggest banks in the early period of propulsion of crisis (until September 19) officially got funds from the TARP Program: Bank of America and Citigroup 45 billion dollars each, JP Morgan Chase and Wells Fargo 25 billion dollars each, while Goldman Sachs and Morgan Stanley got 10 billion each. Like Citigroup, the Bank of America is a double winner of the TARP funds. It acquired two financial corporations: Merrill Lynch and Countrywide Financial Group which borrowed billions from the Central Bank. The implicit assistance of tax payers benefited the biggest, best linked banks, getting an economic stimulus to grow even more in order to reach the status "too big to fail". Being saved by the state was an award for corporations that primarily caused the crisis and which were actually failing according to real market standards.

Through frenzic participation in the speculative and manipulative environment with the debt blown by the bubble, corporations such as Bank of America, AIG, Freddie Mac or Citigroup gave a decisive contribution to the current confusion in the USA. It was obvious that the arguments on the efficiency of big banks were untenable. The crisis of solvency, which exploded with the failure of Lehman Brothers, became a reality. It was easy to recognize that an increase of the number of banks did not reduce the total amount of capital in the financial system. Starting from the position that size brings power for the purpose of paying lobbyists, legislations and possible changes of regulation, FED strongly favoured big banks from the Wall Street, enabling them further massive growth and huge power. The concept "too big to fail" was operationally rephrased into "the bigger, the better".

In 1970, five biggest banks held 17% of the total assets of the banking industry in the USA, while now 6 biggest banks in the USA own half of the assets. This refers to "super six": JP Morgan, Bank of America, Citigroup, Wells Fargo, Goldman Sachs Group and Morgan Stanley, which in September 2011 increased their hodlings by 39% (to 9.5 trillion dollars) compared to 2006. The fact that some non-bank companies, such as AIG, are important because of their links within the global financial system with the banks such as Goldman Schs, points again to the need to enable the best possible functioning to this bank. In secrecy and without public debate (voting in the Congress), FED decided which institutions were important to be saved.

The biggest bank in the world – the Federal Reserves, during the last financial crisis, secretly carried out the biggest bailout in the world history. The amount that the federal state spent saving big banks (700 billion dollars, TAPR) is significantly lower that the real amount. According to the report on limited auditing of GAO (page 131), accessible to all members of the Congress, FED redistributed 16.1 trillion dollars, practically interest fee, to the banks in the USA and worldwide, in the period between December 1, 2007 and July 21, 2010. That is one of the indicators which show how the system of "free market" functions. To show the amount in question, it is enough to take the data on the USA GDP at the level of 14.58 trillion dollars (2010), while the current national debt of the USA is somewhat above 15 trillion dollars.

Table No 1: Secret loans to banks by the Federal Reserves

Bank	*Loans*	*Bank*	*Loans*
Citigroup	2.513 trillion	Credit Suisse	262 billion
Morgan Stanley	2.041 trillion	Lehman Brothers	183 billion
Merrill Lynch	1.949 trillion	Bank of Scotland	181 billion
Bank of America	1.344 trillion	BNP Paribas	175 billion
Barclays PLC	868 billion	Wells Fargo	159 billion
Bear Sterns	853 billion	Dexia	159 billion
Goldman Sachs	814 billion	Wachovia	142 billion
Royal Bank of Scotland	541 billion	Dresdner Bank	135 billion
JP Morgan Chase	391 billion	Societe Generale	124 billion
Deutsche Bank	354 billion	„Ostali zajmoprimaoci“	2.639 trillion
UBS	287 billion		

Source: Adapted from the GAO Report

According to the repots of GAO auditors, about 3.08 trillion dollars was redistributed to the foreign banks in Europe and Asia. Most bailout loans were approved at the interest rates below market ones, which enabled many financial institution to quckly get huge profits (billions of dollars). For example, on October 20, 2008, the Central Bank of the USA approved 113.3 billion dollars of loan for 28 days through Term Auction Facility, at the rate of 1.1%. That interest rate was lower by a third of 3.8% that banks calculated to each other for one-month loans on that day. Apart from the mentioned amount, FED paid 600 million dollar to banks in order to support the program of emergency lending. Then, according to GAO, FED paid the amazing 659.4 million dollars of "commission" to financial institutions that were the first to cause the financial crisis.

Federeal Reserves actually pay banks not to approve loans. In accordance with the Emergency Economic Stabilization Act of 2008, Federal Reserves are allowed to pay the interest to excess reserves which the banks from the USA keep with the Central Bank. Since 2008, that amount exceeds 1.5 trillion dollars. This is possible if the Central Bank is not actually a part of the government, i.e. if it is a private institution – private banking cartel, which is a fact in case of FED. Additional problem in operating of FED refers to low interest rates that have a negative impact on economy and the so-called talegraphing to the market on its decision, which gives speculators an advantage over other investors. Keeping overnight lending rates between 0.00% and 0.25%, the banks were in the position to buy riskless USA Treasury bills that bring much more than the cost of funding.

Also, banks can additionally borrow using treasury securitieas as a collateral for overnight and "term" loans. After that, they use the money they borrowed to buy even more treasury securities. Transactions are again carried out in such a way that they enable banks to leverage themselves. Therefore, virtually free money allows banks to fund their trading. Banks or corporations take money that they do not need because it is virtually free – 1% of interest in some cases and one tenth in others. The money is invested into anything that brings interest and that also includes toxic assets in the books of many borrowers which they could not sell because they ensure funding to be kept in books. This is the practice that has been used lately.

The problem is additionally aggravated by publishing FED's intention to keep the interest rates ultra-low in the period of two years. Something similar happens after weekly meetings of FOMC. Skilfull participants on the market know that they can borrow cheaply in order to leverage trading books until FED announces a change of direction. The so-called "Operation Twist" was apparently carried out with the aim to stimulate demand for low interest rates in a longer time period,which has not been done. In accordance with the program of extending maturity (the mentioned operation), FED replaces short-term securities with the long-term ones. Artificially low rates have a negative impact on the markets and economy by creating volatility. Growth of the biggest players on the Wall Street fully depends on the Federal Reserves' policy of cheap money, which they control.

5. Concluding remark: destructive consequences of controlled and hidden system

Hidden financial (banking) system imposes the issue of scope (quantification) of losses, money, liquidity. Dimension of loss should obviously not be seen exclusively at the level of default of financial commitment or writing off (losses of values). It is definitely not possible to understand money and liquidity through standard definitions – narrow or wider aggregates. A new structure of money, as a constituent of new financial order, has been established. A hidden system, which has grown in the last twenty years, is not included in the traditional measure of money (monetary aggregates). Measuring money, inflation and unemployment has been largely distorted so that the presented aggregates (state statistics) are often useless and usually wrong.

Despite the rooted opinion, banks are overregulated, and regulation cannot prevent crisis. Lack of transparency is in the focus of causes of the financial crisis, leading to less trust in the banking regulation. According to one opinion, smaller and middle-sized banks are safer before a crisis appears, owing to regulation, while big banks are de facto protected. According to another opinion, regulation will worsen the situation. Furthermore, no matter how banks will respond to new rules, certain upcoming derivative panic cannot be actually prevented. Financial system is exposed to disproportionate amount of derivative risk, whereby top 4 corporate banks include around 95% of the total exposure. Derivative notional value of JP Morgan is equivalent to six GDPs of USA, i.e. it exceeds the total world economy by 21 billion dollars.

Derivatives were in the focus of the financial crisis in 2008. Current quality of derivative exposure to JP morgan is worse than the derivative porfolio of Bear Stearns or Lehman Brothers before collapse. Five leading priviledged banks injected money for campaigns of politicians who supported bailouts at the end of 2008. With the support of derivative clearing houses (e.g. ICE Trust), banks that do not belong to the elite Wall Street society are removed from the market. The leading group of concentrated industry tries to prevent the efforts for getting full information on prices and commissions which are freely available. Some market analysts suggest the possibility of a forthcoming serious derivative crisis, with rapid collapse that no government could cover with money.

Serious doubt is expressed regarding effectivness of the program of quantitative easings, including QE3, i.e. worry that they enhance distortion of some markets. Buying securities (bonds) could have unfavourable effect on the functioning of the market and financial stability. Ending of QE2 will certainly lead to a massive breakaway from bonds due to tight policy of FOMC. Costs of extreme monetary policy are pretty big, much bigger compared to conventional policy. It is logical that the policy of low interest rates creates an incentive for future financial imbalances. Ultra-low interest rates will continue to enhance interest of investors for gold. In other words, money issuing causes a growth of prices of gold, but also of commodity prices.

Policies of quantitative easings of FED and the Bank of England bring benefits mainly to the rich, which is shown by the growth of value of stocks and bonds. In other words, 82% of stocks that individuals have are owned by 5% of the richest Americans. Central banks, such as the Federal Reserves, fervently carry out the doctrine of global socialization of cascade losses of corporate banks. Unavoidable role of tax payers consists in the protection of unbelievable wealth of the elitist class of bankers and money brokers. According to the rules of capitalism, banks could be allowed to collapse, but banks that were supposed to collapse in 2008 are bigger than ever. The proposal for dismantling of too big, too powerful and especially too dangerous banks sounds naive.

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