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Will the Global Financial System Survive? What are the Triggers for a Crash?

"The People Causing the Economic Crisis are the Ones who Stand to Gain the Most from It". Interview with German Economists Marc Friedrich and Matthias Weik

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In view of the public debate they have raised in Germany, Matterhorn Asset Management is extremely pleased to feature the below written interview Lars Schall did, on our behalf, with Marc Friedrich and Matthias Weik this past week. German economists Friedrich and Weik co-authored two books which unfortunately are still only available in German. In their latest publication, "Der Crash ist die Lösung", the economists explain from a German and International perspective, in easy to understand language, why "The Crash is the solution" and why this crash will be more catastrophic than the previous one. They describe based on solid economic fundamentals why a 'final financial collapse' is on our doorstep.

Lars Schall: What are the most crucial weak spots in our financial system? And why is it that the financial sector is so powerful vis-à-vis politics?

Marc Friedrich: The most crucial weak spots in our financial system are:

- Japan's gigantic debt;
- China's shadow banking system;
- The completely opaque derivatives market;
- The immense and rapidly growing global debt;
- The global banking sector as a whole.

The financial sector is so powerful vis-à-vis politics because a very unhealthy one-sided relationship exists between the political system and the financial industry. Let's take a closer look: How does a government fund itself? It collects taxes, and it sells government bonds. Who buys these government bonds for the most part? Banks and insurance companies! So who holds the reins here? It's the creditor, of course, who gives the commands and who says which laws can and cannot be passed against him. This is also the reason why nothing has changed since the crisis in 2008. The hand that gives is always above the hand that takes. Moreover, the financial industry has succeeded in establishing structures outside of the law and saturating itself with cheap money from the central banks. This has made them even bigger, more powerful and, most importantly, more systemically important, which has only increased their ability to coerce governments and citizens when the next crisis comes.

LS: Why do you think the financial system won't survive?

M&M: The financial system won't survive for several reasons: We've had a fiat money system in place since 1971 based on interest and compound interest. In other words, it grows exponentially. But exponential growth is mathematically impossible on our planet with limited resources and thus destined to fail. We have a monetary system based on debt, so our system constantly needs new debt in order to grow, i.e. new money is generated only through the issuance of credit. This means our financial system has a mathematically finite lifespan–and it expired in 2008. Added to this is bank money created from nothing. This enables all banks to create money out of nothing by lending money.

Let me explain this madness: Central banks and commercial banks can create nearly unlimited amounts of bank money from "nothing". This completely perverse system works this way every time a loan is granted by a bank. By creating money out of nothing, banks do something that is not only incredible but also makes every banker's heart beat faster with delight–it's what we call the 8th wonder of the world, in addition to the effect of compounding: Banks lend money that they themselves can create from "nothing". Since January 18, 2012, banks in Europe are only required to deposit a one percent minimum reserve of central bank money at the ECB as collateral. This means that for every euro deposited at the ECB, the bank can create 100 euros and lend this with interest and compound interest. The banks lend money created from "nothing" and charge interest for something that actually does not exist. It's brilliant! Banks make money without directly having to do anything for it. The interest that the customer has to pay ultimately means that more money is paid back than previously existed and was lent. In turn, the banks take this additional money and grant new loans. This automatically leads to more and more debt, which the banks must create out of nothing again, ad infinitum. This creates an unending circle, which, mathematically speaking, must eventually collapse.

The only way to keep the present financial system alive is to ban math and thus overturn the laws of nature.

LS: In order to understand your thesis that the crash will be the solution, one needs to understand the following, namely that the same people who caused the ongoing financial crisis are the real winners of it. Please elaborate on this, and please explain why you consider a crash as a chance?

M&M: As perverse as it may sound, the people causing the crisis are the ones who stand to gain the most from it. We explain this in our book "The Crash Is the Solution" based on an overwhelming number of facts and sources.

Financial sector profits are back at record levels, stock markets are hitting all-time highs thanks to the flood of cheap money and huge bonuses are being paid out again. Yet, ever since the onset of the crisis, the political establishment, central banks and financial industry have only bought time at a very high price and, in doing so, more than anything else, have accelerated the process of maximizing economic damage at the expense of us citizens. No lessons were learned from the crisis and nothing has changed. What happened to all the big promises that were announced? What about Basel III, the financial transaction tax, reining in the banks, etc.? The financial lobby succeeded in axing, massively watering down or pushing all this off into the far-distant future.

Banks have swelled up again with cheap money from central banks so that they are now even bigger, more powerful and therefore more "systemically important" than before. But that's not all. They've also achieved something truly incredible: It is the only industry that is above the law and seems to always land softly despite constant systematic fraud, lies and manipulation.

Furthermore, there is no åsolution within the existing system. If there was one, the protagonists would have proudly announced it long ago. The profiteers of the system from the political and economic elite will do anything to preserve the status quo and let the masses pay for it. Aside from 90 percent of the population, the biggest loser is democracy.

LS: Is the crisis we're seeing really a crisis of capitalism?

M&M: What is capitalism? In capitalism, you would have let the forces do their work and the market would have taken care of itself. But this was not permitted. We no longer live in the age of capitalism: Banks are bailed out with taxpayers' money or even nationalized; central banks intervene in the markets and shareholders are expropriated. The real "capitalism" in place now uses means of communism to save itself. Just like in communism, only a small elite group benefits from this system. No crisis has been solved to date by printing money. What we are witnessing in Europe right now is neither in Europe's interest nor does it correspond to our understanding of democracy. Laws and treaties are broken at the highest level, and an already failed currency is desperately being clung to–at the expense of the people, and especially at the expense of Europe's youth. Money that needs to be rescued like the euro is not money at all. In our book we point out that the FED had intervened in the markets on 85 percent of all trading days since 2008. This is sick and often leads to the formation of bubbles, and ultimately to crises. With their disastrous policies, central banks create one bubble after another that often have to be absorbed by new, even larger bubbles. That's why the solution will be the final collapse.

What we currently have is a mixture of planned economy, statism, socialism and other nonsense. Everything but capitalism.

LS: Is the crisis caused partially because of the way money gets created?

M&M: Yes, absolutely! This is the underlying problem together with the unhealthy relationship between our elites in politics and the financial industry.

LS: Do you think in the future the process of how money gets created needs to be taught in schools and universities?

M&M: Yes definitely, we also call for this in our latest book "The Crash Is the Solution– Why the Final Collapse Will Come and How to Save Your Assets.

" If people understood how our monetary and financial system works, then many people would likely not be so easily robbed of their savings by the financial industry. We all deal with money on a daily basis, but hardly anyone knows how our monetary system works. This needs to change. We need empowered citizens and responsible investors. Money, saving for retirement, and investments–these are all topics that must be taught as a subject in schools. This is also essential to break up the financial industry’s current monopoly and to ensure more democracy and justice.

LS: What do you see as possible triggers for a crash?

M&M: There are any number of variables in the system that could cause it to collapse. Start with Japan’s disastrous kamikaze policy and its horrendous debt, the extremely bloated shadow banking system in China or the credit bubble there; drastic political turmoil in the Middle East; the Ukraine conflict; a flash crash on the stock exchanges; a major bank that fails; the crash of the dollar or euro; the sovereign default of Greece, Italy or Spain; a bursting government bond bubble, or the real estate bubble popping in the UK. We are all so interconnected through globalization that if a bank, a country or a currency collapses it could create a disastrous domino effect that no one can escape. The fact is: It isn’t a question of whether the crash will come, but when.

LS: Is your advice to get out of paper securities and go into tangible assets?

M&M: We have been experiencing epochal change since 2008, and we are very clear in our advice: Get out of paper assets and into tangible assets! These have always done better in the past than paper assets, and they have the unbeatable advantage that they can never become completely worthless. Paper assets have the disadvantage that they are more or less transparent, are only on paper and can only serve you indirectly. In addition, many different parties (banks, brokers, insurance companies, the government, etc.) take their own share. Tangible assets on the other hand prevent this in part, and serve you directly and immediately.

Broad diversification of investments is essential. No more than a third of total assets should be invested in an asset class. For example, a third in real estate, a third in gold and a third in (cash) money. We recommend much broader diversification however, spread over ten or more different investments. This makes your asset situation much more stable, even if one of your main assets should fail. And they will fall, be taxed or at worst even be expropriated.

LS: What do you think about gold and silver in that regard?

M&M: In uncertain times like these, physically possessing the two classic “money metals” gold and silver is essential as “life insurance” to protect your assets against crises, economic and social turmoil, and inflation. This gives you two time-tested and globally accepted tangible assets to protect your wealth. With silver you can also protect yourself against a possible prohibition on gold, which, for instance, has been practiced in the past in the United States, Russia and China. And due to the lower purchase price of silver coins, silver is more suitable than gold in an emergency to meet daily needs such as purchasing food and household items.

As a general rule: Always rely on the “old” precious metals–gold and silver. In physical form, that is. But it’s important here to buy in several installments! You can still take your wealth out of the system completely legally and anonymously with gold and silver. This is something that should be done and taken advantage of.

Gold and silver have survived all crises and have never become worthless for thousands of years. What did Jesus get as a gift from the three kings to honor his birth? Myrrh, frankincense, and… U.S. government bonds! No, of course not. It was gold.

We do not recommend other precious metals such as palladium, etc. The risks and uncertainties are much greater here. It remains to be seen how the price of gold and silver will continue to develop. We currently are not seeing real prices, especially in the case of gold where the political establishment has deliberately manipulated and depressed prices in the past. Gold of all things was not allowed to be too expensive!
Avoid debt, and definitely do not buy what is often totally overpriced real estate with borrowed money.

In view of the current situation, having a certain amount of cash on hand is not a bad idea. Whether you hide it under the mattress or keep it in a safe deposit box is your decision.

Ever since the bank accounts of depositors in Cyprus got a major shave to bail out the banks there, we know: Money belongs everywhere, just not in an account. Something essential that everyone should know: The money in your bank account doesn't belong to you, but the bank! It's not yours until you physically withdraw it. By depositing money at the bank, which is up to the roof in debt, you are providing a loan at extremely favorable conditions to the bank with no real underlying security. On the other hand, when the bank gives you a loan to purchase a home for example, it puts a lien on the property to secure the loan.

LS: You perceive a crash as an opportunity. Why so?

M&M: There is an opportunity in every crisis. We currently have the biggest economic crisis in modern times, so we also have the biggest opportunity. If we succeed in seizing this opportunity, we can enter into a golden age of humanity. However, in order to do this we must solve the problem of "elite" and fundamentally change many things–both socially and economically, the human factor being the more important one. We deal with this in our book, which is extremely unusual for nonfiction. We talk about humility, respect, love, trust and other catchwords.

It is said that people learn from failure. Apparently the crash of 2008, whose aftershocks we are still feeling today, was not big enough. The facts, unfortunately, tell us that nothing has changed. The past, unfortunately, also shows us that the protagonists won't be forced to make the necessary changes until after a catastrophic event. It's always been like this, and so it will probably be the same this time, too. But the collateral damage will be enormous. One dramatic example of this is the "energy transition" in Germany–whether it is good or bad is beside the point. Nevertheless, it took a catastrophe in Japan to happen before the energy transition was possible in Germany. Apparently, our financial system will need to collapse first before people realize that we must implement a new financial system that serves all people and not just a small percentage of the population.

LS: Would you agree that we would need a competition of different forms of money in order to overcome the monoculture that we are witnessing in the monetary sphere?

M&M: This could be a sensible approach, but the currencies should be secured and not unsecured like our current money. Only time will tell whether different forms of money in order to overcome the monoculture is on the right path. The fact is: We definitely need a different and new monetary system!

LS: Who will be the winners and the losers of a crash?

M&M: There will only be losers, because we will all lose something. However, those who hold paper assets will lose substantially more than those who own property. Owners of government bonds, annuities, life insurance policies and accounts will be the big losers in the event of a crash–this was always the case in the past, and will also be so in the future. It's only a matter of time until the mother of all bubbles–the government bond bubble–bursts, because we cannot pay off debt with debt forever. This is why we are very clear in our advice: Get out of paper and into tangible assets.

LS: Marc and Matthias. Much appreciate your time for this interview.

Marc Friedrich studied international business administration and has focused intensely on the economy and financial markets. During a job assignment in Argentina, he witnessed a sovereign default first hand in 2001 and its devastating consequences. Marc Friedrich gained valuable work experience in the UK, Switzerland and the US.
Matthias Weik studied international business in Australia where he completed his degree. He has dealt with the global economy and its financial markets for over a decade. Matthias Weik earned his MBA as part of a work-study program while working for a German corporation. On professional and academic stays in South America, Asia and Australia, Matthias Weik gained deep insight into the world of international finance and economics.
Together with Matthias Weik, Marc Friedrich holds seminars and lectures for companies, associations, foundations, at conferences, trade shows and at universities and colleges. Together with the economist Matthias Weik he co-authored two bestselling books "Der grösste Raubzug der Geschichte" ("The Greatest Heist of All Time") and "Der Crash ist die Lösung" ("The Crash Is the Solution"). Their first book was also translated into Chinese Taiwan. Translations into Chinese mandarin and Korean are in preparation.
http://friedrich-weik.de

For our German readers the two publications are available from Amazon:
1. Der größte Raubzug der Geschichte
2. Der Crash ist die Lösung

Here is a recent panel interview they gave on German Television:

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