

Financial Crisis 2008 When The Money-Go-Round Stops



Historical Precedent and Background
Situation and Outlook
Action



The Great Depression vs The Financial Crisis

- 1.8 billion people
- 0.25 billion in US, EU, Japan
- Rich GDP per head \$ 7,000
- Europe 25% of population
Africa 8.5%
- No TV
- Rail and road
- Army, church and rich science
- Newspapers and pony express
- New oil
- 6.6 billion people
- 1 billion in US, EU, Japan
- Rich GDP per head \$ 38,000
- Europe 11% of population
Africa 14%
- TV, Cars, Homes
- Planes, cars, trucks and trains
- Education and technology
- Phones and internet
- Oil shrinking



Credit then and now

- Traditional standards
- Crony capitalism
- Robber barons
- Emerging regulations
- Asset backed lending
- Financial multiplier ~ 10 x
- Global weight of money
\$ 3 trillion
- Nominal assets ~ \$ 30 trillion
- Nature's services unknown
- Industrialised lending
- Incestuous
- Regulated
- But broken
- Credit cards
- Financial multiplier ~ 100 x
- Global weight of money
\$ 70 trillion
- Nominal assets \$ 7 quadrillion
- Nature's services ~ global
economy

1929



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- October 29 to November 13
“\$30 billion disappeared from the US economy”
 - 13 million people were out of work
 - Industrial production dropped by 45% between 1929 and 1932
 - House-building fell by 80% between 1929 and 1932
 - From 1929 to 1932, 5,000 banks went out of business
 - Stock market dropped 90% over 3 years.

2008



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- The crash has been building for some years
 - Early 2006 the warnings about the sub-prime crisis were loud, but ignored by regulators.
 - Deflation of credit bubbles was staved off for political expediency from late 1990s
 - China, Asia, Africa have been providing the demand pull for the global economy.
 - July 2007 cracks opened up. But papering over was performed by incumbents.
 - Housing, consumption and credit dried up.
 - 2008 full extent started to be realised as banks and then governments became insolvent.

World Economic Outlook - IMF October 2008



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- Deleveraging process becoming disorderly and costly for the real economy.
 - Confidence in global financial institutions and markets has been badly shaken.
 - Threats to systemic stability became manifest in September with the collapse or near-collapse of several key institutions.
 - Higher cost of funding and credit default protection and depressed asset prices.



What might be done ...

- Stabilise financial system and allow orderly deleveraging
 - improving funding availability, cost, and maturity to stabilize balance sheets;
 - injecting capital to support viable institutions with sound underpinnings that are currently unable to provide adequate credit; and
 - buttressing troubled assets by using public sector balance sheets.
- Rapid, consistent policy across jurisdictions.
- Temporary action that is paid back and is progressive in cost (tax).
- Accountability
- Medium term improvements in policy and regulation.

Policy options



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- Interest rates reduction – ongoing, but not a solution.
 - Central bank lending – money supply increased, but costs taxpayer.
 - Fiscal options needed:
 - Lower taxes – especially poor.
 - Public spending – fixed term projects.
 - Monetising public debt is an option
 - Inflate away debts, buoy up asset prices BUT this encourages moral hazard – rescues indebted, hurts those with savings.
 - Erodes trust and civil society.

What is being done ...printing money and bail outs



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- The only solution to avert anarchy is to bail out the system which created the problem.
 - Governments must print money and change the rules of the game.
 - Nationalisation of banks is ongoing.
 - The system is being preserved by providing guarantees and capital to banks to allow liquidity back in to the financial system.
 - If the economies of the west resuscitate, real incomes will stabilise as the debts are paid off over the coming years.
 - If economies do not resuscitate, stagflation will ensue ... and rule of law will break down.



What is not being done ...

- State capital must be backed by reduction in income inequality, forced responsibility, return to traditional lending standards.
- Consistent policy generally, though some independent action (Ireland).
- It appears that accountability is not being executed.
- It appears that the tax burden may fall on the low and middle income groups rather than the high earners.
- Fiscal measures not yet enacted.
- Does not bode well for medium term systemic improvements.
- Consequences are likely to be short term relief but extended stalling of economies
 - rationale for giving people economic responsibility and power has been ignored.

Situation



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- Financial system (bank) equity wiped out
 - Too much debt built on unproductive/overvalued assets
 - We are in unknown territory
 - Nationalisation of banks. “Socialism”?
 - Is government debt good/risk free?
 - Taxation up, benefits down.
 - Are even the rich insulated?
 - Real economy is threatened
 - No flow of money, no consumption, no compensation – a vicious downward spiral
 - Food production threatened
 - But infrastructure (roads/IT/energy) is in place.

Early November update.

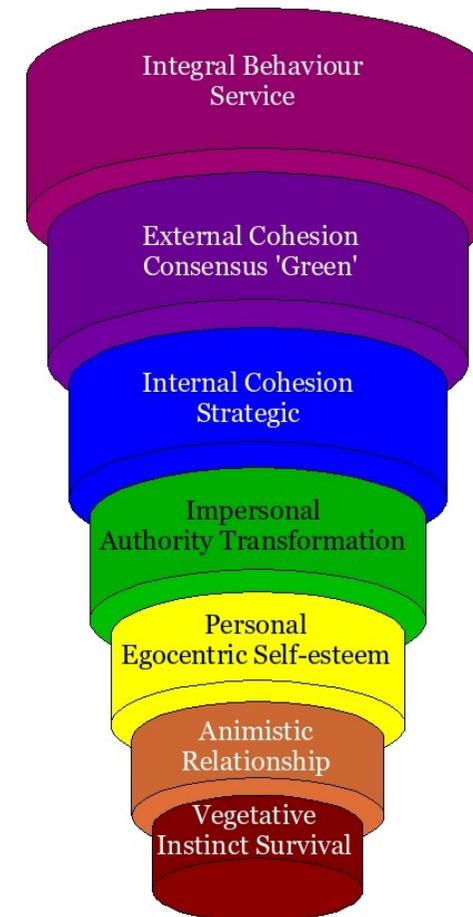


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- Investors are selling what they can, not what they like
 - Emerging markets.
 - Banks and hedge funds are selling. Caused by redemptions and capital requirements.
 - International carry-trade unwound and self perpetuating.
 - Money markets seem to be reliquifying.
 - Banks lending but not so eagerly and with tighter standards.
 - Confidence down.
 - Consumption down.
 - Oil prices down, but still high, and benefit only ~ \$ 100 billion.
 - Global losses now admitted to be in the \$ 2 – 3 trillion range.

Cultural maturity threatened.



- Social culture remains materialistic.
- May regress to disciplined traditions and even primitive rites.
- Required emergence of natural equality and integrated interdependence.



Emergent values



Level/Zone	Values	Organisation values	Essence	Opposite essence	Objective	Positive traits	Action	Soul	Elemental force	Excessive traits	Negative traits
Holonc Being	Collective individualism, cosmic spirituality, earth changes	Natural interdependence – holarchy not hierarchy.	Being		A-personalisation				Space-time		
Integral Behaviour/Service	Natural systems, self principle, multiple realities, knowledge	Service to Humanity – ethics, social responsibility, future generations, cooperation.	Awareness	Attachment	Self-knowledge	Wisdom, knowledge, consciousness	To know	Universal	Information	Overly intellectual, spiritual addiction, confusion, dissociation	Learning difficulties, spiritual skepticism, limited beliefs, materialism, apathy
External cohesion/Consensus	Egalitarian, feelings, sharing, caring, community	Strategic Alliances – employee fulfilment, community involvement.	Intuition, imagination	Illusion	Self-reflection	Psychic perception, accurate interpretation, imagination, clear seeing	To see	Archetypal	Light	Headaches, nightmares, hallucinations, delusions, difficulty concentrating	Poor memory, poor vision, can't see patterns, denial
Internal cohesion/Strategic	Materialistic, consumerism, success, image, status, growth	Development of cohesive culture – commitment, enthusiasm, shared values.	Communication	Lies	Self-expression	Clear communication, creativity, resonance	To speak and be heard	Creative	Sound	Excessive talking, inability to listen, over-extended, stuttering	Fear of speaking, poor rhythm
Impersonal/Authority/Transform	Meaning, discipline, traditions, morality, rules, live for later	Continuous renewal and learning – adaptability, innovation, teamwork.	Love, relationships	Grief	Self-acceptance	Balance, compassion, self-acceptance, good relationships	To love and be loved	Social	Air	Codependency, poor boundaries, possessive, jealous	Shy, lonely, isolated, lack of empathy, bitter, critical
Personal/Egocentric/Self-esteem	Gratification, glitz, conquest, action, impulsive, live for the moment	High performance systems – pursuit of profit, productivity, efficiency, quality, professional growth.	Power, will	Shame	Self-definition	Vitality, spontaneity, strength of will, purpose, self-esteem	To act	Ego	Fire	Dominating, blaming, aggressive, scattered, constantly active	Weak will, poor self esteem, passive, sluggish, fearful
Animalistic/Relationship	Rites, rituals, taboos, superstitions, tribes, folk ways and lore	Routines for the organisation – communication between employees, customers, suppliers.	Sexuality, emotions, desire	Guilt	Self-gratification	Fluidity, pleasure, healthy sexuality, feeling	To feel, to want	Emotional	Water	Overly emotional, poor boundaries, sex addiction, obsessive attachments	Frigidity, impotence, rigidity, emotional numbness, fear of pleasure
Vegetative/Instinctive/Survival	Food, water, procreation, warmth, protection, staying alive	Pursuit of revenues – financial solvency, employee productivity.	survival, grounding	Fear	Self-preservation	Stability, grounding, physical health, prosperity trust	To be here, to have	Physical	Earth	Heaviness, Sluggish monotony, obesity, hoarding, materialism, greed	Frequent fear, lack of discipline, restless, underweight, spacey
Level/Zone	Values	Organisation values	Essence	Opposite essence	Objective	Positive traits	Action	Soul	Elemental force	Excessive traits	Negative traits

Scenarios



- High road – isn't going to happen
- Recession
 - Economic growth stalls.
 - Unemployment rises.
 - Consumption slows – focus on basics and cheap luxury.
 - People are depressed by resilient.
- Depression
 - Economic growth is negative.
 - Unemployment spirals up.
 - Consumption drops – focus on food. Little investment/development
 - People become destitute and angry

New metrics and new thinking



- Financial system will experience volatility and uncertainty
- It can return to normal over the next three years, but will retain the same weaknesses of moral hazard.
- New metrics, which include social and environmental demands, facilitate efficient systems based on natural law.
- Must be accompanied by more enlightened consumption pattern by humanity – **success without growth.**
- Already happening
 - Eco-housing
 - Telecommuting
 - Healthy eating
 - Community living

China and Africa



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- China and Asia will buy America and Europe.
 - China has \$ 2 trillion in foreign exchange reserves
 - The US dollar will decline in importance, to be replaced in part by the Euro and then by the currency of energy.
 - Energy is the currency of the biosphere
 - Africa will become the new China, but will be different
 - Growth from a very low base; Market for simple technologies
 - Can leap frog
 - More democratic economic systems must be adopted
 - America must adopt a culture of community and share its successes and technology with the world.
 - Europe must set the ethical standard and demonstrate success with no growth.

What can you do ...



Consumer

Investor

Business

- Analysis and scenarios
 - Cash
 - People

Personal consumption



- Reduce travel
- Spend on education
- Cut out the junk.
- Cook at home. Cook healthy (less meat, less processed, less packaged)
- Reduce alcohol, cigarettes.
- Holiday/vacation with family/friends/locally. Bicycle and camp.
- Repair and maintain. Don't buy new.

Investment

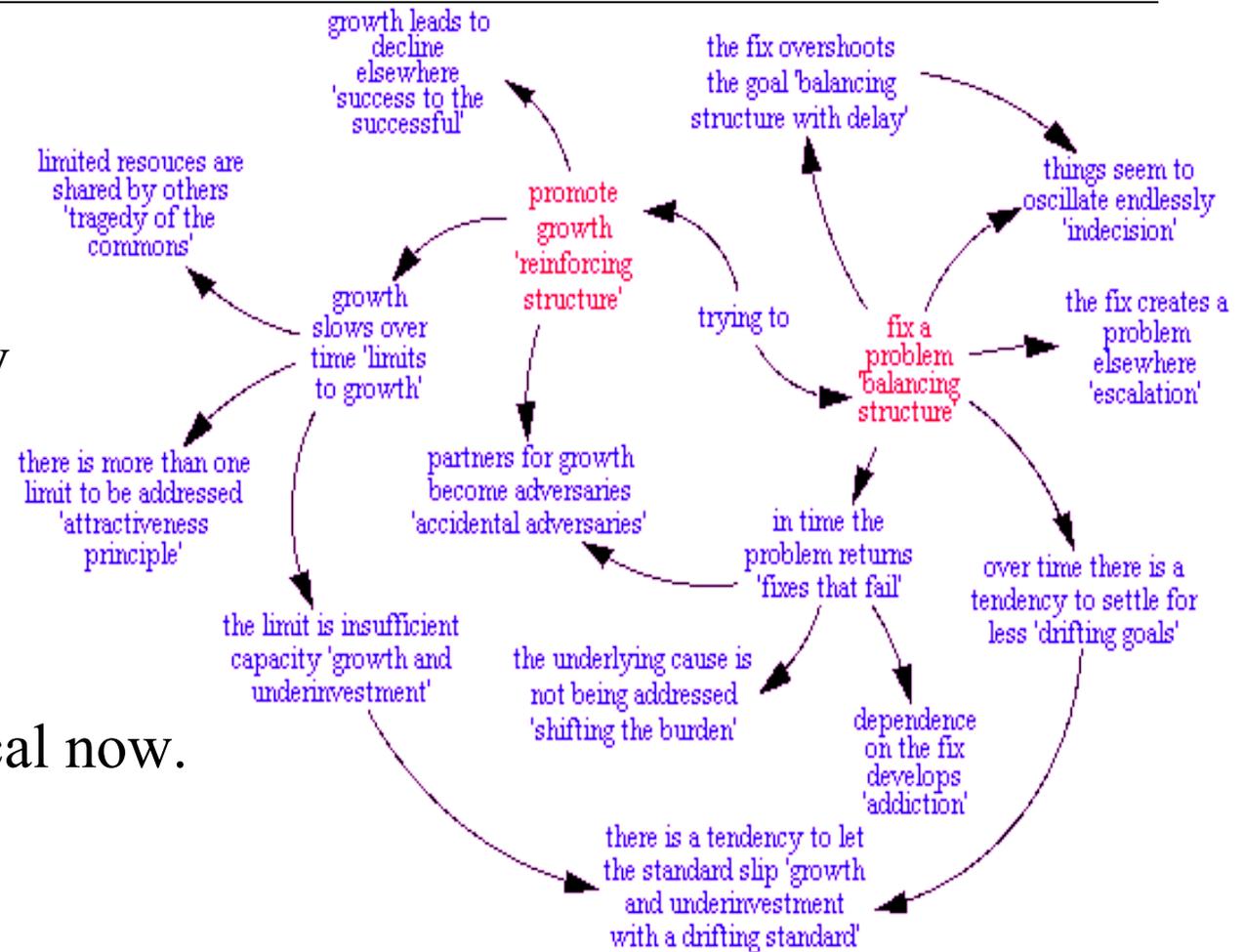


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- Direct investment is preferred. Long term rather than short term.
 - Price (and low management fee).
 - Due diligence: **cash** flow, value, capital structure, margins, market, management.
 - Diversify.
 - Buy operating assets in the real economy that are not dwarfed by debt.
 - Invest in Asia and Africa (via/with local operators).
 - Real assets – food, energy, commodities, agriculture, forestry
 - Not land-fill assets – shirts, motorbikes, CD players
 - Budget/quality providers. Eco-related businesses.
 - Later on – financials and builders.

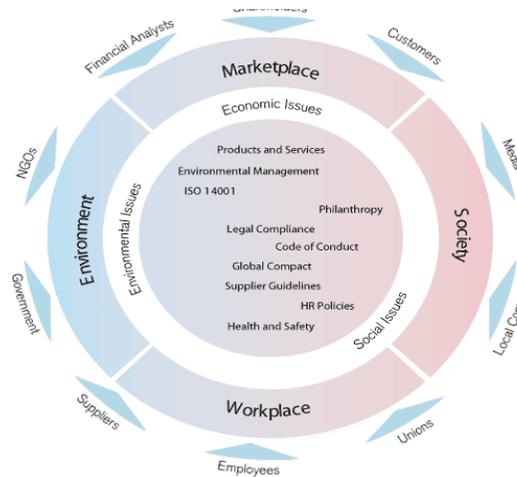


Business Action: Analysis and scenarios

- Systems dynamics
- Full spectrum
- Anthropomorphic analogy
- Financial
- Strategic
- Scenario planning is critical now.

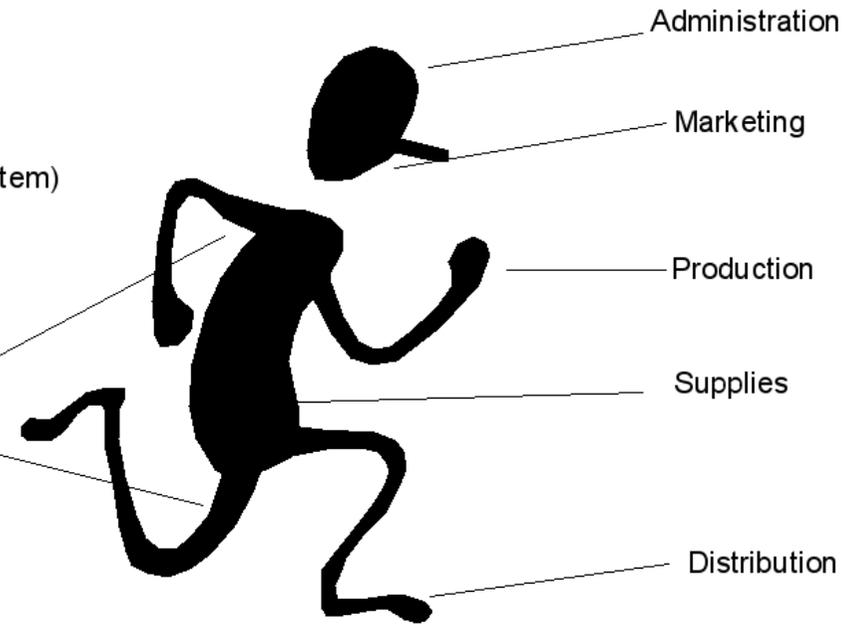


Analysis: full spectrum, anthropomorphic, ...



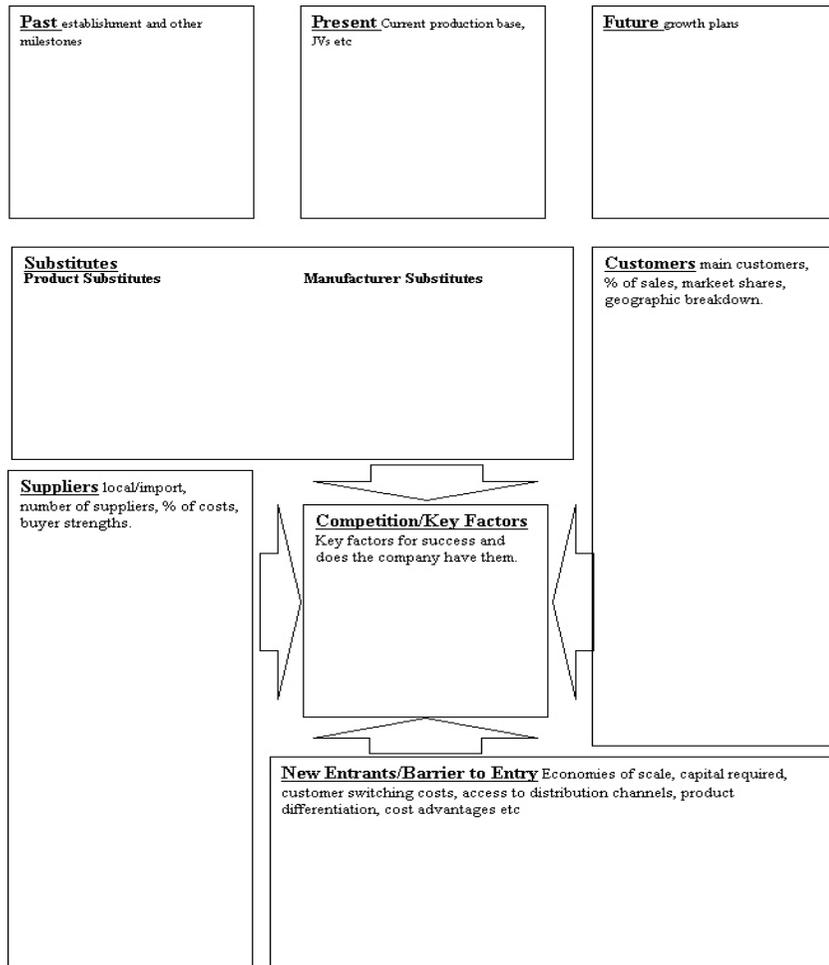
Communications
(circulation & nervous system)

Working capital
& fixed assets





Analysis: Strategic, financial.



Company: Business:	Date:																																																																																																																																																																																																								
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Business Action: Cash, Capital, People

- Cash is king
- Working capital focus - but customers are your blood. Watch numbers.
- Cut from the top.
- Expenses – entertainment, travel, associations, “perks”
- Work with banks. Raise capital.
- Partner with other businesses.
- Emulate successful competitors – don't be afraid to change.
- Discuss with staff. Make it a team. Allow buyin.
- Focus on customers and your strengths.
- Self-help (cash) ... business coaching (fee) ... turnaround help (equity)



Business Action: Cash is king

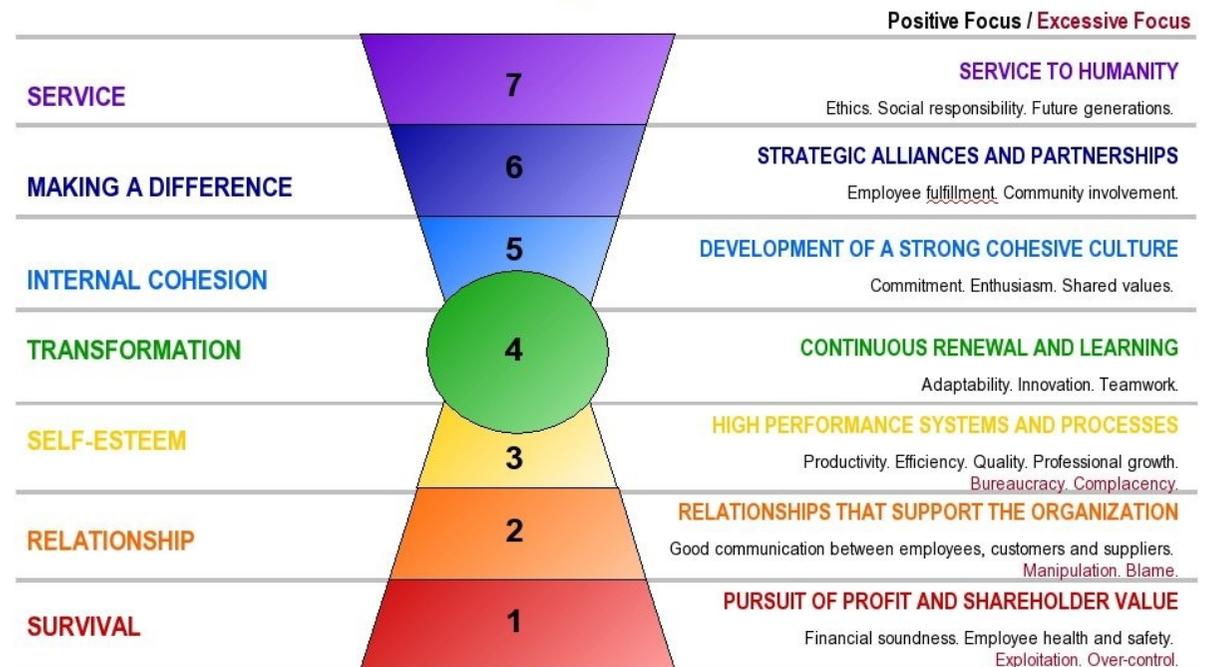
- Due diligence
- Debt is out, cash is in.
- Reduce top executive overheads. Facilitate employee equity buy-in.
- Reduce travel, but maintain relationships via phone and internet.
- Establish partnerships to reduce operating footprint while maintaining business.
- Negotiate professional service fees and long term contracts.
- Reduce inventories.
- Reduce investment.



Business Action: People are your key

- Transform culture
- Focus on lifestyle
- Parallel decision making
- Mind mapping
- Open space
- Self-management
- Task sharing
- Manners work

Seven Levels of Organizational Consciousness



Source: Richard Barrett



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