

**Some Initial Thoughts on a Criminal Interpretation of  
The Crash of the World Financial System**

**By**

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**It, also, coincides with the announcement of the retirement of the author as the Vice-Chairman of the British Egyptian Society, after having had the honour of almost twenty years service in this position, under the guidance of both, Sir Michael Weir, who chaired the Society from inception until his death in 2006, and since then The Rt. Hon. Baroness Symons of Vernham Dean.**

**However, the responsibilities for its contents are entirely that of the Author.**

**Although A “Lubricant Oil” Is Very Small Relative To Its  
“Motor-Engine”,**

**Without It The “Engine” Breaks Down.**

**The “Financial System” Is The “Lubricant Oil” To The  
“Economy”.**

# Some Initial Thoughts on a Criminal Interpretation of The Crash of the World Financial System<sup>1</sup>

## 1- A “Crash”, Not A “Crisis”

To start with, it is a gross oversimplification to describe the current situation as just a “crisis” like many other crises that we have lived through and witnessed frequently. The current situation represents a “structural collapse of the entire worldwide Financial System”, or in one word, a “crash”, no less. It is a crash of the structure of the entire System, as there is a complete loss of confidence in all the system’s constituents: entities, instruments, products, rules, regulations, tools, and above all its professional, ethical and moral code of conduct.

To this extent, it needs a total replacement by a new system, the framework of which is to be based on a new paradigm. To succeed in this monumental challenge, it is absolutely critical to carry out an in-depth diagnosis of the crash, its nature, causes and key players, and their respective roles in the disaster that befell the world. From the outset, one can easily say that the crash we are now all living in is the first in recent history, which is, primarily, caused by unprecedented collective criminal acts.

## 2- The Criminal Dimension<sup>2</sup>

A number of crimes were committed over the years. Some of these crimes originated in the largest economy in the world; namely the US economy. Given globalization, it soon got copied and spread with, of course, ingenuity everywhere in the world, with the London financial market playing a key central role.

**The criminal actors**, without naming any specific entity, were collectively: the mortgage lending institutions, investment bankers, rating agencies, regulators, central bankers, many government institutions, and last, but not least, politicians.

**The victims** were, and are, many, amongst them: depositors and simple investors, simple innocent home owners, and now the whole world economy in its entirety; though in varying degrees.

**The beneficiaries** were all those who colluded in the collective criminal acts, in different forms, and in different degrees. For example, some financiers were rewarded in the only one word they understand; namely “money”. Others, mainly politicians, without naming anybody specific, boasted about their achievements of miracles in the form of continuing booms. The extent of benefiting varied from small thousands of dollars for juniors to tens and hundreds of millions for some CEO’s of financial institutions, and for politicians, from being praised politically, to being re-elected repeatedly!

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<sup>1</sup> Views expressed in this paper are entirely my own.

<sup>2</sup> Reference to crimes, criminals etc is not meant in the strict chargeable legal sense, but meant for illustrative arguments only. The same applies to entities when referring to crimes, criminals etc.



### 3-What crimes were committed and by whom?

The “nature” of the “crimes” varied:

- **Mortgage Lenders:** Committed a series of breach of trust crimes by lending their depositors’ money to *unqualified borrowers*, who had no income, no jobs and in most cases supplied non-verifiable information, which was accepted with very few questions being asked. Then, they converted the presumed (by depositors) to be” risk-free” investment deposits, into almost *100% default guaranteed loans*.<sup>3</sup>
- **Investment Bankers:** Committed a series of acts of fraud crimes by using newly invented “*sausage machines*”. These took totally inferior inputs of 100% default (toxic) guaranteed loans, and converted them into highly complex new investment products. This process was described as “*securitization*” which, simply and deceitfully, misled investors.
- **Rating Agencies:** Committed a series of acts of collusion and gross negligence crimes by rating those “toxic sausages” as “AAA highest quality best beef sausages”. In so doing, they legitimized not only the newly invented investment products, but made it possible for such deceitful products, worth trillions of dollars, to be marketed extensively as high quality “high return-lowest risk” investment products. They, therefore, paid no attention whatsoever to the very obvious “conflict of interest” involved in accepting “so-called fees” for their legitimizing what should have been totally rejected. To this extent, they seemed, at least, to have overlooked the fact that it is improper to accept payments from issuers of securities in order to rate the issuers’ own securities. One wonders whether these so-called fees were no more than “bribes”.

Needless to say, once such fake products were highly rated a large-scale marketing campaign was pursued by investment bankers, and others, which passed on such suspicious products down the line to the simple unsophisticated investors in the main street.

- **Regulatory Entities:** Committed a series of acts of collusion crimes by turning a “blind eye” to most of the crimes committed by “all” the above, in addition to failure to enforce order in what has become a serious anarchy in the global financial market.
- **Central Bankers:** Committed a series of acts of collusion and gross negligence crimes by pursuing irresponsible “loose money policies” and in some cases refusing bluntly to regulate the huge so-called self-regulating “derivatives market”. In so doing, as the saying goes, they allowed “money to

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<sup>3</sup> “In a move that could help home ownership rates among minorities and low- income consumers, the Fannie Mae Corporation is easing the credit requirements on loans that it will purchase from banks and other lenders. This action will encourage those banks to extend home mortgages to individuals whose credit is generally not good enough to qualify for conventional loans”. The New York Times, 30 Sept, September 1999, By Steven A. Holmes

- **Government Entities:** Committed a series of gross negligence crimes by ignoring the many crimes committed, by all the above, also allowing these crimes to continue unnoticed and unpunished for a long time, and in permitting such suspicious products to move across borders freely.

While drug trafficking, money laundering and the like are chased and intercepted aggressively, and “Mafiosi’s” are duly punished, fraudulent financial instruments are allowed to move freely. No “Trade Description Act” has, until now, ever been enforced in any country in so far as these investment products were concerned!<sup>4</sup>

- **Politicians:** While benefiting from the “booms and no busts” to get elected and reelected, not once or twice but in some cases more, they too, turned a “blind eye” to what has been going on for a long time. And when the crash happened, they, as usual, came up with strange explanations. An example of such an unconvincing explanation is the claim by the British Government that the blame lies with the US, in which some of the crimes originated and were then exported to other countries, such as Britain. Implicit in this explanation is that the financial city of London was neither engaged in home lending to unqualified borrowers, nor was involved in any securitization activities, in manufacturing or marketing. The facts speak for themselves. The financial City of London played a key role in these activities, and multitude of others associated with it.

Moreover, governments that came up with such an unconvincing justification could have stopped the spread of these activities. They seemed to have overlooked the fact that they, themselves and not just the US authorities, control entities like “Customs and Excise”. Instead of, for example, stopping a British tourist for illegally importing an extra bottle of British-made Whisky, or an extra packet of cigarettes, this powerful entity could not stop this type of financial fraud! In addition, their counterpart law and order agencies, such as Scotland Yard, could not chase criminals involved in fake financial instruments’ trafficking!!

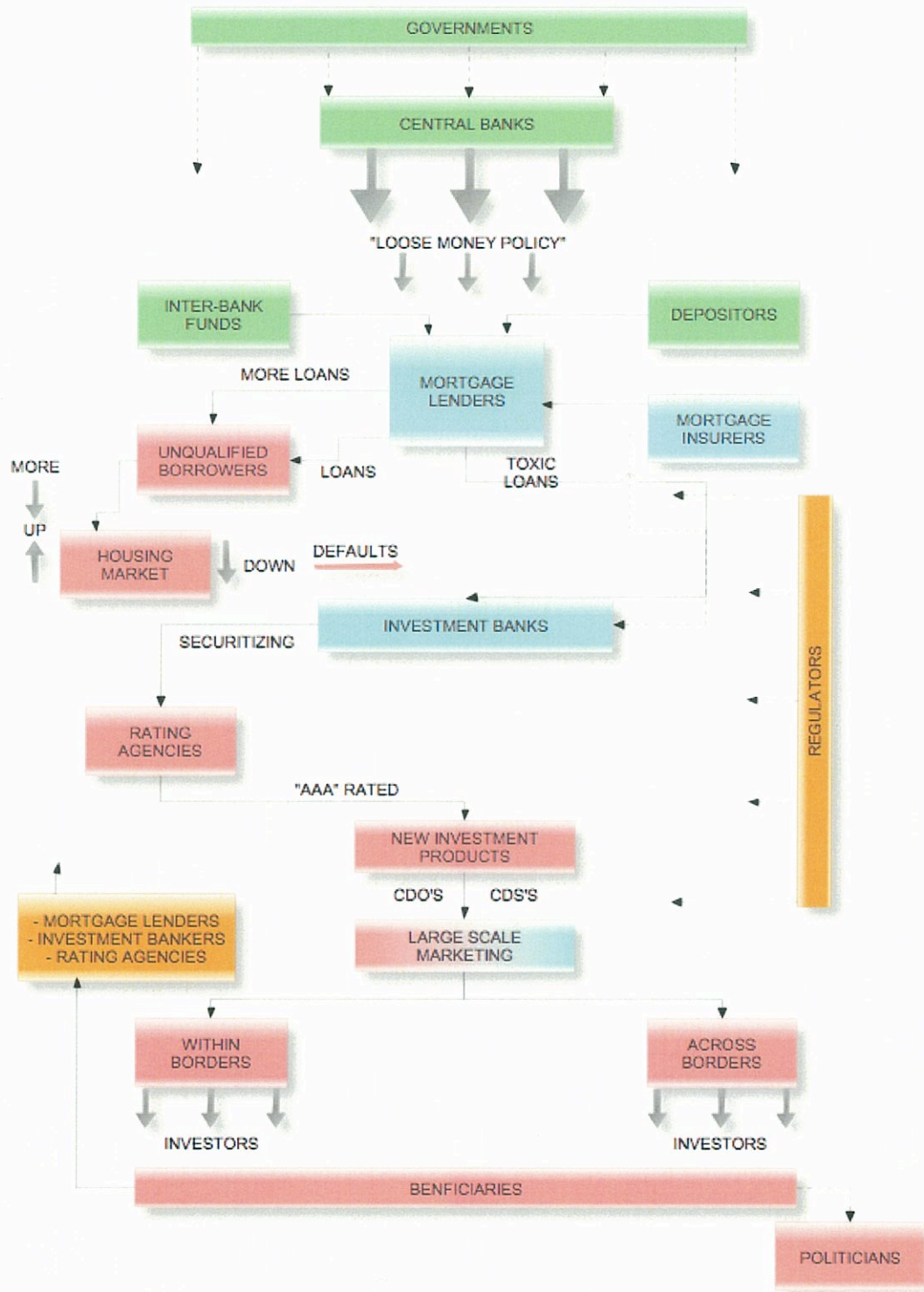
For a diagrammatic presentation of the financial process of the crash see the diagram overleaf:

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<sup>4</sup> “Fannie Mae, the nation’s biggest underwriter of home mortgages, has been under increasing pressure from the Clinton Administration to expand mortgage loans among low and moderate income people and felt pressure from stock holders to maintain its phenomenal growth in profits”. The New York Times, 30 September 1999, By Steven A. Holmes.



A Diagram of the Financial Process Leading to the Crash



#### 4- Pain Relief Measures

On the one hand, when the crash started, attention was focused on “pain relief measures”, rather than addressing the “core problem” of the structural collapse of the entire worldwide Financial System. On the other hand, fear tactics were employed to intimidate Congress and Senate to pass on a less-than-one-page “so-called bail-out plan”. No wonder these fear tactics simply backfired leading to further loss of whatever little confidence remained, causing havoc in worldwide markets. While trying, at inception, various types of pain-killing measures, they also forgot the repeated globalization word and resorted to piece-meal, country by country remedies.

Of course, there was, also, the Sarkozite initial theatrical attempt of a hastily called for summit of European leaders, which, if anything, revealed how divided the leaders were. The failure of the ill-prepared summit increased uncertainties, as it coincided with the refusal of Congress to be intimidated by fear tactics. As to be expected by all, but the politicians, the net result was trillions of dollars were lost in a few hours.<sup>5</sup>

Other views were expressed suggesting new theories. One such theory was to blame the market and to predict the end of capitalism, as we know it. However, one can strongly argue that what happened is an irrevocable proof that the market actually works, rather than the other way round. One can legitimately claim that the market watched for a long time all sorts of crimes being committed on a large scale, noting in this respect that it is not the responsibility of the market to enforce Law and Order. When those responsible for Law and Order failed to do their job, the market could not wait any longer, and had no option but to put an end to these crimes. The famous words by Lady Thatcher in March 1988 were obviously ignored:

*“There is no way you can buck the market”*

The market used its most effective tool to do what Law and Order enforcers should have done. Adam Smith’s invisible hand came to action, better late than never! For a person of faith, such as I am, I believe the invisible hand is that of God Almighty, as God most certainly would not allow criminalities to continue, and for innocent people to become victims.

As to the end of Capitalism prophesy, the answer is simple: freedom is an intrinsic part of human existence, and, hence, for as long as freedom remains, capitalism remains. But here, one has to remember that freedom is not absolute, but is strictly subject to responsibility.

As to those who take this crash as evidence of the “end of America”, the answer is, it all depends. On the one hand one should not live, so to speak, in a cuckoo land. The American economy is at present the largest and the most important

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<sup>5</sup> “In moving, even tentatively into this new area of lending, Fannie Mae is taking on significantly more risk, which may not pose any difficulties during flush economic times. But the government – subsidized corporation may run into trouble in an economic downturn, prompting a government rescue similar to that of the savings and loan industry in the 1980’s”. The New York Times, 30 September 1999, By Steven A. Holmes.



economy in the world, and will continue to be so for the foreseeable future. Hence, there can be no solution without the US. This is a fact that we can't afford to ignore. On the other hand, the world can't accept a United States in the way it has been behaving in the last eight years. For America to remain the world leader, and it is in the world's best interest for it to remain a leader, it has to provide, in the first place, moral leadership, and to become the first empire in history to ensure strict administration of justice, morality and ethicality, and to place all its all-inclusive power behind it.

America, sadly, missed an opportunity to do so after the 9/11 terrorists attack on innocent people. Instead it placed its overwhelming power behind a totally un-American wrong ideology, which resulted in the 'mess' the world finds itself in!

But now, after the election of Barack Obama, who can doubt the greatness of the American people? Who can doubt their unique courage, and their ability to set an example for the world at large and, indeed, its unmatched ability to continue to lead the world, after a brief eight years of an un-American irrationality? The answer is simple, nobody can doubt it, and, hence, we have to be cautiously optimistic, for there has never been, in recent US history, a presidency worse, or even equal in the negative sense, to that of George W. Bush, neither is there likely to be one like it in the future!

## **5- Where do we go from here?**

The six trillion dollar question (we no longer talk in millions any more!) is where do we go from here? Perhaps I should start by clarifying my views in so far as the pain relief measures, which were introduced in the initial stage, as some may misunderstand the point I made earlier on in connection with these measures. In general, I could see no alternative to these measures when the collapse erupted, though I may disagree with some details about matters such as when, how, and by whom. But, we are all much wiser with the benefit of hindsight. These details aside, such pain relief measures were absolutely necessary, given the gravity of the situation then, and still now. Some urgent action was desperately required to deal, without delay, with the trio-illiquidity, insolvency, and guarantees. These matters, and others associated with them, could not wait for a new system to be put in place and to be effectively functioning.

However, it is worth noting, that with evidence of global recession, in addition to the financial crash, governments appear to be focusing on Keynesian's measures only to boost the economy, by increasing government expenditure and deficit financing, plus, of course, monetary policy measures to increase liquidity and reduce the cost of borrowing<sup>6</sup>. Governments are, also, considering reducing income, and capital taxes, in the hope that these reductions will provide incentives to invest. Certainly, it is desirable to combine Keynesian with supply-economics measures, thus boosting both components of effective demand. A similar strategy proved successful during the Thatcher era. Nevertheless, given the long leads involved in income tax

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<sup>6</sup> Reducing base rates have so far had very little effect on lending, as, in most cases, reduction in base rates were not matched by reductions in inter-bank rates, due to almost lack of confidence amongst banks. In fact, reduction in base rates resulted in higher inter-bank rates, rather than the other way round. This rendered monetary policy rather ineffective.



effects, additional tax incentives are needed, particularly those that affect consumer's expenditure directly, and are known to have relatively much shorter lags.

More specifically, I am surprised that no western government has uttered a single word about reducing expenditure taxes, such as VAT and the like. These are regressive taxes, which affect more directly consumers with relatively higher marginal propensity to consume. In the event of reducing such taxes the impact on consumers' expenditure is likely to be significant. Of course, this will be at the expense of saving, but this should not be of immediate concern in the short term for, at least, two reasons. On the one hand, savings are less of a worry for the time being, and in any case they represent a withdrawal from rather than an injection into the economy. On the other hand, reducing expenditure taxes can go in parallel with supply economics measures, such as reducing income taxes, or allowances. The former favours consumption, while the latter favours investment, both important components of effective demand.

Let me, also, say that the stage which followed the initial stage, of fear tactics and Sarkozy's theatrical acrobatics, set the scene for a more systematic, realistic and coordinated approach. Moreover it appeared that meaningful lessons had been learned from the fiasco and spin of the initial stage. More coordination in the pain relief measures characterized the latter stage. The spin agenda is now replaced by an agenda of substance for the immediate and short term.

Ironically this progress may be attributed to initiatives taken by the British Government, soon to be followed by the United States and other Western Governments. In a way, this shows what a special relationship between equal partners, rather than a subservient one, can do, and what it might have done in the past in saving, for example, hundreds of thousands of innocent lives. A summit<sup>7</sup> (and now the talk is about more than one summit) is scheduled within a meaningful span of time; neither today, nor tomorrow but within a realistic period of time, taking into consideration the trade off between urgency and substance. All these steps are most welcome and should be supported and protected from domestic political agendas, as the gravity of the situation requires rational and united behaviour, putting national interests above party politics.

## **6- Transparency, a New Paradigm And a New System**

However for such a plan to succeed, one important action is absolutely necessary. Full transparency is a prerequisite for the success of any future plan, that, hopefully, may emerge from the planned summits. Markets and key players can neither accept nor tolerate staying, so to speak, in a 'dark room'. Markets can interact with identifiable uncertainties, and know how to turn it, in a statistical sense, into what statisticians call 'certainty equivalent'. Markets can't cope with total 'dark room' uncertainty. Neither can they function with a 'VIX' volatility equal to that of a gambling Roulette Table. This means clearly, categorically, and with no mincing of words that: *Financial Institutions should be instructed by their respective*

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<sup>7</sup> A Summit of twenty countries is scheduled for the 14<sup>th</sup> and 15<sup>th</sup> November 2008 in Washington D.C., hosted by the US Government.



*governments to make full disclosure relating to what has become known as ‘toxic’ debts.*

Governments should be able to enforce these stipulations, particularly as they are now key shareholders in many large financial institutions. Markets may go, initially, so to speak, into a state of convulsion, but that has been the case any way with markets recently. Once the immediate impact is digested, the situation will become that of identifiable uncertainty, which markets know how to deal with and turn it into a ‘certainty equivalent’.

With this done, world summits can deal with the long-term task of establishing a new paradigm, on the basis of which a framework for a new financial system can be developed. However, these summits should not ignore the transitional scenario, which will have to deal with highly sensitive and potentially serious matters<sup>8</sup>. Two examples of such matters are how to deal with unregulated off shore hedge funds, and the Swap sector of the market; namely “Collateralized Debt Obligations” and “Credit Default Swaps”<sup>9</sup>, an estimate of the latter is slightly larger than that of the US economy.

However, this approach will never satisfy the victims of this largest criminal scandal, or the taxpayers who have to foot the bill for crimes committed by those who were allowed to benefit from their crimes for a long time. Justice is required for the success of any new system. *World summits should resolve to establish an International Court of Justice to deal specifically with “Gross Financial Crimes” committed against humanity.*

All those who planned, participated, made it possible or covered for it must all, without exception, be made to pay for their misdeeds. However there should be no vindictiveness, no Guantanamo’s; all are innocent unless proven guilty. *Politicians should, also, remember that the old fanatic and dogmatic ways of Bush and Blair’s “hatred and spin politics” and the like are over, never to return.*

**Ahmed M. El-Mokadem.**  
**October 2008.**

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<sup>8</sup> Reliable leaks indicate major disagreements between the United States and Europe over the agenda. The U.S. regards the prime task as being to strengthen the existing system of regulation while Europe advocates a totally new system. Similarly, there is disagreement between the U.S. and France, in particular, in so far as hedge fund issues and the Swap market. The U.S. does not feel it necessary to address such matters while France insists on the need to include such matters in the agenda. “U.S. resists creation of global regulator”, Mark Landler, Herald Tribune, November 7<sup>th</sup> 2008, page 13.

<sup>9</sup> For more details on these and related issues, see  
Mark Zandi Financial Shock, Person Education, Inc, 2009



times are changing



## **ANNEX**

### **Towards A New Paradigm**

**Further Remarks  
On  
The” Crash”  
Towards A New Paradigm: Matthew, Hawkins, And Shakespeare**

Three remarks are made in this annex. The ideas implicit in these remarks could be of help in providing a general explanation of the” Crash”, the” Transition”, and” what we have to do” to ensure a safe outcome. But, most importantly, they may form part of a new (old?) paradigm for a framework for a new financial system.<sup>1</sup>These are:

1- As to the cause, I quote Matthew 22:34-46, and specifically,

“ You shall love The Lord your God with all your heart, and with all your soul, and with all your mind”

This is the greatest and first commandment. And the second is:

“ You shall love your neighbour as yourself ”

If all the actors in the Global Financial System had followed these two positive statements, prevalent in most of the great Faiths, would we be in the situation we are currently facing?

2- As to the transition, and here I quote from Donald Hawkins’ interesting book” Power VS Force”,

2-For Hawkins, recent history would be seen as a period marked, in his definition, by “ Force”- action ultimately derived from the negative attractor pattern of self-interest (N.B. contrary to the ideas in 1 above).

One can hope that we shall be soon moving back (in the US, but likely to be followed in other places around the world) into a period characterized (God willing) by” Power”. In Hawkins’ definition, this is action derived not out of self-interest, but by what is right, not just for the individual, but also for all parties concerned.

However, we are now in a transition between Power & Force- hence the G20 Conference in Washington, where self-interested characters are trying to assert their own self-interested positions:

Bush – honestly it was not my fault the world is in such a mess!

Brown- you know the story! And

Sarkozy- the French charismatic leader trying to be to the US their new Blair etc

3- As to what we have to do- in Shakespeare’s Hamlet,

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<sup>1</sup> By a new system, we simply mean a new set of rules and regulations, but based, still, on a free market philosophy, for which there is no substitute.



This crisis is what would be about a move from Machiavellians self-interest, back to leadership appointed by God in world-view where” all the world’s a stage” and” we are but players on it”. A world-view that is rather like a chess board, with all human beings being chess pieces in a game ultimately played out by Adam Smith’s invisible” hand of God”. All each of us has to do is” Trust in the Lord with all your heart and lean not on your own understanding” (Proverb 3,5). Follow, “ the still small voice within”, action by action, “let be”, moment by moment, and God’s plan evolves, as Hamlet put it,” there is a providence in the fall of a sparrow”, or as we say” it is written”.

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