

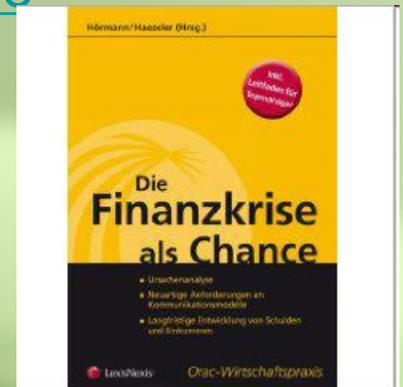
Lessons Learned from the Financial Crisis

from fraudulent systems to evolutionary economics

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Critics of the Basics

- If your only tool is a hammer, every problem tends to turn into a nail ([*Mark Twain*](#)).
- For mathematical equations there are only two possibilities: they are right or wrong. For models a third possibility exists: formally correct, but irrelevant ([*Wolfgang Pauli*](#)).



Critics of the Basics

- The Central Dogma of Economics:
 - “The Optimal Use of Scarce Resources”
 - → Scarcity only exists in the Mind of the Decisionmaker – it depends on it’s viewpoint and can ALWAYS be overcome using creativity
 - Optimality can never be determined in advance, because the future cannot be predicted (all future possible uses ought to be known in advance)



Critics of the Basics

- Financial Economics = Constructed Zero Sum Game
 - Each Zero Sum Game ends up in Fighting (Legitimate Wars)
 - Cooperation offers more possibilities than competition (Construction of Non-Zero Sum Games)
 - Sharing Resources can depend on different criteria (Humanity, Love, Dignity, ...)



Critics of the Basics

- What „is“ MONEY („should MONEY be“)?
 - Money is CREATED by (Central- and Commercial) Banks ALWAYS by creation of (interest bearing) Debt (it is “lent into existence”!)
 - → Therefore the quantity of money to pay interest never exists in the whole money supply → the money volume MUST increase (to pay back the interest) → again new money (as interest bearing debt) is newly created
 - Enterprises MUST go bankrupt, because they MUST earn profits → in a closed money system, growth is IMPOSSIBLE – the “GROWTH” is ONLY REDISTRIBUTION!



Critics of the Basics

- What „are“ MARKETS („should MARKETS be“)?
 - Markets were historical Institutions
 - Markets without TRUST can't exist → „anonymous“ (Stock-)Markets are impossible!
 - Alternative organisational Forms of Society: Family (Gifts, Neighbourship Help, Loans without Interest, ...)



Critics of the Basics

- [Crisis](#) of Financial Reporting (ENRON, WorldCom, DotCom-Bubble, ...)
 - Can the Business Value be Communicated to external Shareholders (True and Fair View?)
- Crisis of internal Planning
 - Getting rid of Budgets ([Beyond Budgeting Initiative](#) – Goal-setting and Forecasting with one and the same tool is not possible!)



Critics of the Basics

- Goals of Financial Statements in Business Reality:
 - Fullfilling Expectations of Stock Analysts
 - Getting your Bonus
 - Manipulating public expectations (Stock Rates)



Critics of the Basics

- Problem of increased change rates:
 - Is the „Corporation“ after 1-2 years still the same?
- Problem of System Boundaries:
 - Where are the Boundaries of the „Corporation“ (Suppliers, Customers, Consultants, Investors, ...)?



Problems of Financial Statements

- Single Valuation of Assets and Liabilities and Going Concern are a Contradiction
 - Single Valuation for a Going Concern is irrelevant – but you never can prove (or disprove!) a Going Concern!
 - ALL „rescued“ Banks published Financial Statements with UNQUALIFIED opinions of their auditors!



Problems of Financial Statements

- Historical Values from Financial Statements are ALWAYS outdated and therefore irrelevant
 - ... e.g. „current liquidity“ calculated from financial statement values = a joke!



Problems of Financial Statements

- Each and any financial valuation is a scientifically incorrect anticipation of future cash flows!
 - Historical Cost Values: Money, already spent still shown on the Balance Sheet!
 - Current Market („Fair“)Values: Money, belonging to different market participants, shown on the Company Balance Sheet!
 - Discounted Cash Flows: Money, not yet received (and that can't be forecast!), shown on the Balance Sheet!



Problems of Financial Statements

- Financial Statements as Relevance Filters:
 - What doesn't show up in Financial Statements (can't be valued) isn't (?) relevant
 - ... more than 40 logical defects of financial statements

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Crisis of Financial Audits

- DICPA (Danish Institute of Certified Public Accountants), 1984:
 - „An auditor’s certificate with no reservations does not guarantee that a company can avoid future financial difficulties and may have to suspend payments or go bankrupt. This has happened in real life and shows that it is not at all unlikely that a company may show a handsome owner’s equity and an auditor’s certificate correct and with no reservations and still be wound up in the course of the following year.“



Problems of Investment Theory

- No scientifically sound (= falsifiable!) method to forecast future cash flows exists
 - Future Cash Flows are „estimated“ („professional judgement“) → not a science, but medieval superstition



Problems of Investment Theory

- Net Present Values are irrelevant for a Decision Maker
 - The NPV stays in t_0 , while the world is moving on along the time axis!



Problems of Investment Theory

- The comparative value (interest rate) always simulates some commercial paper with fixed interest rates
 - When interest rates change, the values change dramatically!



Problems of Investment Theory

- Return Rates („Internal Rate of Return“) are illogical:
 - When positive and negative CF happen, no IRR exists or multiple IRR (take one!)
 - When the same change is done in BOTH projects, the profitability of the projects shifts!



Illusions of Business Values

- (1) Business Valuation using Terminal Values simulating eternal Cash Flows are logically inconsistent and therefore dangerous!
- (2) US-american methods are a mixture of incompetence and fraud: deficient mathematics (Brealey/Myers/Allen), faked data („In Search of Excellence“), etc.
- (3) Eternal Cash Flows pervert the very idea of Present Values (the CF with the highest risk determines 70% to over 100% of the „Business Value“.
- (4) Can Businesses have a „Value“ at all (not, if you model them as a social net)?



Illusions of Business Values

- (5) „For innovative Businesses no interest rates exist“ → Net Present Values cannot be calculated!
- (6) ANY form of financial valuation lacks scientific foundation (cannot be falsified a la Popper!)



Money as Debt and Compound Interest

- a) Commercial Banks CREATE 97% of money lent (fractional reserve system) – but against collateral and compound interest!
- b) The money to pay interest doesn't exist in the economy → business going bankrupt in the fight for scarce money = „healthy competition“



Alternative View at Accounting

- Financial Planning Approach:
 - „... a system of accounts should basically be regarded as a system to calculate the financial consequences of the actions of organizations.“ (Henning Kirkegaard, 1997)
 - Accounting must model reality as a causal chain:
 - expectation → agreement → claim → payment



Alternative View at Accounting

- Accounting Definition from Kirkegaard:
 - „Accounting is theories (ideas) and methods (procedures) for describing, explaining and predicting the financial consequences of the activities of an organization.“



Alternative View at Accounting

- Traditional Accounting only deals with claims (Claims & Liabilities) as well as payments.
 - Payments without claims: Gambling, Bribery
 - Claims without agreements: Blackmail, Fraud, ...
Taxes!
 - → Behavioral foundations of human cognition!



Alternative View at Accounting

- In electronic networks (ACN – Autonomous Cooperating Networks) PLANS, CONTRACTS and PROCESSES are centrally stored.



Alternative View at Accounting

- Using electronic networks (Communities) whole regions can self-organize...
 - ... and even create their own money systems (electronic receipts, Credit Clearing etc.)!
 - Money can be created by the communities (and be spent into existence, not lent!)



Alternative View at Accounting

- What Criteria would be needed to create (shape) monetary systems?
 - CybernEthics (Heinz von Foerster)
 - Communities (Societies) viewed as Communication Processes
 - Information flows best between equal nodes (like in our own neural net of the brain) – an „equal society“ might be an absolute necessity in the light of communication processes



Alternative View at Accounting

- First Steps for a New Science of Social CybernEthics:
 - Simulation of alternative monetary systems on an aggregate level (e.g. using models formulated in [PROLOG](#))
 - Simulation on an agent level (to test emergent phenomena, e.g. using [NetLogo](#))
 - Implementation of democratically controlled money systems (including a cooperational network for “learning societies”, e.g. using [OODB](#) and “the cloud”)



Literature

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[Gelderzeugung für Eliten durch die Deutsche Bank](#)

[Geldschöpfung in öffentlicher Hand \(Monetative\)](#)

[Reinventing Money](#)

[Neues Geld](#)

[Geld, Geldpolitik, Geldreform](#)

[The Ecology of Money](#)

[Bernard A. Lietaer zur Krise](#)

[Bernard A. Lietaer \(weitere Publikationen\)](#)

[American Monetary Institute](#)



Weblinks

[Creating Community Currency](#)

[Complementary Currency](#)

[Online-Datenbank weltweiter Komplementärwährungen](#)

[Regionales Wirtschaften](#)

[Regio-Netzwerk](#)

[Stiftung für Reform der Geld- und Bodenordnung](#)

[Chiemgauer](#), [Rheingold](#), [Roland Regional](#), [Talent](#),

[Waldviertler](#), [Ithaca Hours](#), [Toronto Dollar](#),

[Douglas Social Credit](#)



Weblinks

[Grundeinkommen.Tv](#)
[Neue Arbeit \(Frithjof Bergmann\)](#)
[Nuoviso.Tv](#)
[Zeitgeist – The Movie](#)
[Zeitgeist Movement](#)
[Venus Project \(Jacque Fresco\)](#)

