



A man walks behind an index board, showing the German DAX Index during a trading session on the floor of Frankfurt stock exchange. RALPH ORLOWSKI/GETTY IMAGES

Lessons learned amidst the financial business crisis

Commentary

By FLORIAN GODOVITS
Epoch Times Staff

As the new year swings into full gear, most of the world is mired in an economic recession. But there are two sides to each coin. Each crisis is an opportunity for change and renewal. Perhaps this period will be the impetus for thinking and acting differently.

"For years, the inflationary rates of price increases were three to five times higher than what is officially published," claimed Roland Baader, German economist and author of the Book Money, Gold and Gamblers—On the Eve of the Global Economic Crisis.

Indeed, A visiting associate professor at the Vienna University for Economic and Business Administration elicited the comment upon looking at the latest inflation number: "Not even my boss's wife believes his statistics."

Even the good man's wife doubted that present inflationary numbers, as circulated in many Western countries, represent the true spiraling figures.

Baader espouses a clear connection between "fiat money," which is money backed by physical commodities, such as gold, and "paper currency" that is often not backed by physical commodities, also called "inflation money." "Inflation money" flourishes when the state prints additional money not backed by gold or other assets. Under the latter, a crisis is inevitable.

"Paper money always returns to its original value—zero," as the philosopher Voltaire had so aptly observed during the 18th century.

The state as saviour

Aside from the current financial crisis, many see the inevitable inflation and hyperinflation bringing additional economic consequences for countries fighting the crisis with

“Destruction of the financial system destroys society”

more money.

"Destruction of the financial system destroys society," Baader wrote. This affects all levels of society, since people have already given themselves over to and are dependent on the state, as witnessed by the recent rash of federal financial bailouts.

The federal government now must oversee banks that have collapsed. Next, the State has to bail

out enterprises, especially those that scream the loudest, and let them be excused from responsibility for their actions.

Wake-up call

Almost everyone had a hand in pushing the stock markets to a system of greed and insatiability. The whole mess is a result of a deeper, underlying dilemma—cheap credit.

And don't believe that not spending money during times of crisis is a bad thing. In hindsight, few things turn out the way people assume, in your own household or in the state budget. Throwing good money after bad only delays disaster and makes it ultimately costlier. The credit crisis has taught us to immediately repay what we borrowed.

But, did we actually learn something?

Two people had already worked out the solution to these problems in the early 20th century. Economist and Nobel Prize recipient Friedrich August von Hayek and fellow economist Ludwig von Mises promulgated a gold standard that would be safe even in times of inflation. Inflation in its original definition means the increase in the quantity of money and has nothing to do with price increases.

Mises in his money and banking textbook *The Theory of Money and Credit* argued, "that business cycles are caused by the uncontrolled expansion of bank credit."

So where do we go from here? Let's focus on the "opportunity" side of this crisis and each do our own small part to affect change for the better.

U.S. judge allows Madoff to stay out of jail

NEW YORK (Reuters)—Accused swindler Bernard Madoff will be allowed to stay in his Manhattan apartment under house arrest, a U.S. judge ruled on Monday, rejecting a government request to throw him in jail.

The ruling gives Madoff, who has become one of the most vilified figures in America, more time in his \$7 million home before he pleads guilty or goes to trial, as authorities probe a \$50 billion investment fraud to which they say he confessed a month ago.

Madoff's lawyers have said their client is cooperating with government investigations following his Dec. 11 arrest for what would be the biggest Ponzi scheme in history—a fraud in which early investors are paid off with the money of new clients.

The government has until mid-February to convince a grand jury to bring an indictment against Madoff, a former chairman of the NASDAQ stock market and a figure for more than 40 years in a financial industry already reeling in crisis.

It is not unusual for people accused of white-collar crimes to be offered bail packages, and at this stage of the case, indictments could come at any time, legal experts said.

Monday's written ruling by Magistrate Judge Ronald Ellis of U.S. District Court in Manhattan said: "Aside from the bare assertion that there remains some risk of flight, the government has failed to articulate any flaw in the current conditions of release."

Prosecutors last week asked the judge to revoke bail, arguing that Madoff had violated a Dec. 18 court order freezing his assets by mailing more than \$1 million worth of valuables to relatives and friends.

They said he was a flight risk and could cause further economic harm to investors by dispersing his belongings.

Legal experts said it was hard for the government to argue that 70-year-old Madoff might flee.

"The guy is on electronic monitoring, he has a guard watching him every day, and the press is watching his every move," said Daniel Margolis, a partner at law firm Pillsbury Winthrop Shaw Pittman LLP and a former federal prosecutor.

"So fleeing the country under these conditions would require an escape plan of cinematic proportions."

Ellis turned down the government's bid to jail Madoff but imposed more curbs as part of the bail conditions—searches of his mail and ordering him to provide the government with a list of portable valuables, to be checked every two weeks.

"The decision speaks for itself," said Daniel Horwitz, one of Madoff's lawyers.

The U.S. Attorney's office in Manhattan declined comment.

Aside from parallel criminal and civil investigations, a court-appointed trustee is overseeing the winding down of Bernard L. Madoff Investment Securities LLC.

Separately on Monday, a bankruptcy court granted trustee Irving Picard the powers to subpoena witnesses and documents. Picard had asked the court for the added powers, contending that the vast scope of the purported fraud made them necessary.

Madoff has not formally answered one charge of securities fraud in court. He is the only person the government has so far accused.

Fraud experts said the purported scheme was too complicated and went on too long to have been carried out by Madoff alone.

Wealthy investors, banks, hedge funds and charities worldwide have all declared themselves victims of the purported fraud. A hedge fund manager, a

Frenchman, committed suicide in his New York office last month in distress.

If convicted, Madoff would face up to 20 years in prison and millions of dollars in fines. According to court documents, he confessed to his sons a month ago that for many years he ran a "giant Ponzi scheme" with losses of \$50 billion.

The items mailed by Madoff and his wife in late December included a diamond necklace, 13 watches, an emerald ring, two sets of cuff links, a diamond bracelet and diamond brooches, according to court papers.

Madoff's lawyer argued that he "simply did not realize" that sending personal items would contravene the court order freezing his assets.

The case is 08-02735 USA v. Madoff in U.S. District Court for the Southern District of New York.



Members of the media gather outside of Bernard Madoff's Manhattan residence January 12, 2009 in New York City. DANIEL BARRY/GETTY IMAGES

Speculative real estate bad for market, says CEO

By JOSHUA PHILIPP
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NEW YORK—David Michonski was named one of the Top Ten Realtors in the United States by Today's Realtor Magazine. He is the chief executive officer of Coldwell Banker Commercial and has analyzed the real estate market since 1984. The Epoch Times had the pleasure of speaking with Michonski about the current real estate market.

With every eye glued to falling real estate prices, many home buyers are wondering if now is a good time to buy or a good time to sell. According to Michonski, this speculative mentality is among the reasons why so many are suffering in today's market.

"I think the markets are obsessed today with this market timing. I think it's tragic because this market timing just really doesn't work," Michonski said. "You don't buy it just because it's on sale. You buy it because you need it. That's where, today, the housing market needs to be."

"Market timing is something nobody is ever good at. People are venturing here into a losing proposition because of where they're coming from," he said. "Don't speculate and don't turn it into an investment product."

A home is a home, not an investment

The market needs to return to one that's need-based, explained Michonski. Both buyers and sellers need to stop and take a clear look at the reasoning behind their decision. If home buyers are only planning to stay for a year or two, then they shouldn't buy. If you plan on staying for more than a few years and need a home, then buy one, as chances are the market will change in a few years.

According to Michonski, buying a home shouldn't be a decision



David Michonski is the chief executive officer of Coldwell Banker Commercial and has done market analysis since 1984. JOSHUA PHILIPP/THE EPOCH TIMES

But the market's health depends on how much speculation is taking place. "We're not going to see the market recover until the very speculative mindset I've been talking about is gone."

A welcome change

"Although times are now difficult for many, there's also a bright side to things. We have lived since the Reagan era, for the last thirty years now, with 'a more is better' mentality. Real estate is an example of that," he said.

"I think one of the great positives about this is the inward reflection that has caused so many people to say, 'Do I really want to be on that treadmill? Are these really my values? Am I what my house looks like with the four pillars out front or is there not something more to me?' If we can get to that point then this is probably something worthwhile."

"It's a value readjustment and that's a good thing. I think we've been going in the wrong direction for a while."

Michonski feels the state of the market today is helping people remember again what's most important in life. He used his own community as an example.

"I live in Greenwich, Connecticut; I think the first or second wealthiest community in the United States. I had to live there because I was managing a Coldwell Banker office and Coldwell Banker required me to live in the town. But I found it to be a perfectly miserable place to live for 15 years, that I was somewhat trapped there," he said.

"Today, it's a far more humane place. Bernie Madoff and Nowell and all these people's net worth have been cut in half, or ninety percent, and it's become a much more human place to live, as opposed to a showy place to live. We've somewhat gone from Broadway theatrics to the reality of human life. That's a good thing."

World Bank chief urges special fund for poor states

KUWAIT (Reuters)—World Bank President Robert Zoellick told Arab leaders on Monday that he would push for a special emergency fund to help the world's poor developing countries that cannot afford bailouts in times of crisis.

Zoellick said he would raise the issue in April at a meeting in London of the so-called Group of 20, a club of key wealthy and developing nations.

"As part of the global response to these dangerous times, I will be urging the G20 to support a 'vulnerability fund' to assist developing countries that cannot afford bailouts and deficits," he said in the text of remarks prepared for delivery at an Arab League economic summit in Kuwait.

The fund, he said, would help finance "investment in infrastructure projects that can create jobs while building a foundation for future productivity and growth."

It would also help provide financing for small and medium-sized enterprises to help with job creation, he said.

He added that the economic crisis had turned into an unemploy-



Palestinian President Mahmoud Abbas (R) meets with World Bank President Robert Zoellick. OMAR RAHIDI/VOA/GETTY IMAGES

ment crisis for Arab states.

Zoellick said that even though the Arab world has historically been poorly integrated into the

global economy—apart from its role as an oil provider—it has been feeling the impact of the global financial crisis.