

Financial Viscosity Augmentation as a Macro-Economic Stabilizer

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Abstract: The steadily increasing volatility of the financial markets, due to the generalization of information and computerization, will end up to catastrophic financial scenarios in times of crisis. In this paper, a fundamental strategy is discussed, which is a novel way to hold back such scenarios. It is based upon a strong augmentation of the financial viscosity of transactions. Different kinds of viscosity augmentation are discussed, and the ways how they can be applied by governments.

Keywords: Location (finance), time (finance), premium (finance), viscosity (finance).

1. Dysfunctions and the increasing volatility of financial markets

Two hundreds of years ago, a ship of a certain Nathan Rothschild had appeared at the horizon and had raised a flag. Nobody but Rothschild knew what the outcome of the overseas' Waterloo battle was. Rothschild went to the bank and tried to subtly sell quite important English stocks. Immediately, everybody began to sell these stocks. There was total panic. After a while, Rothschild bought all the stocks back for a bargain.

With this example it is clear that having the right information is crucial to trade in shares. But time is even more crucial: knowing it before anyone else.

Since the advent of the computer, financial transactions became easier to effectuate. The arrival of the Internet strongly increased that possibility and allowed to any organization or individual to get immediate information about any event in the world. Every profit warning from a company is immediately reflected in a change of the financial markets, not only for the stock value of the warning company, but also for the stock value of the whole sector. Companies sometimes have an "annus horribilis" but have monstrous gains one year later. CEO's protect themselves by such a tactic, but this strongly influences the financial markets.

Computers are automated for immediate selling, switching positions when the markets move too much. Such factors make the markets uncertain and highly volatile.

2. Crises are caused by speculators

Economists don't understand the markets. When I read Paul Krugman's book 'The return of depression economics and the crisis of 2008', I mainly found a readiness to accuse economists and governments who dealt improperly with crises, but himself didn't give any unambiguous solution to the Brazilian crisis, the Argentinean, the Mexican, the Japanese, the Thai, and others.

After the facts, it is easy to explain that governments should have operated differently against a crisis.

But the truth is that each time, speculators disrupted the economy. Of course, they are not the only cause, but it is similar to the silting up of the highways, which only depends from the excess of only five to ten percent of cars.

As Krugman puts it, the relatively small governmental dysfunctions alone couldn't cause such disastrous results by their own.

In early 1997, Soros' funds were shorting Thailand's currency, the baht, and Malaysia's currency, the ringgit. The organized crime of speculation against local economies has never been punished, or even not openly seen as a crime. But to force economies on their knees indeed is a crime, and obliging millions of people to lose their lay-by, their job, their short and medium future is a great crime. Nowadays, the total world economy, not just a small and insignificant foreign country as Greece, is fluctuating between hope and despair. In 2011, the south of Europe has again been attacked by hedge funders who bet on defeating currencies by buying high amounts of shorting future contracts, and by helping via the media and via money flows, to really make it difficult for these economies to rent money at reasonable interest prices. The hedging tool misuses the knowledge that the amount of available money is limited. When the limits are near to be reached, prices become astronomical. The hedged profits become astronomical as well.

3. Contract types and their location-, time- and premium-dependence

In the first paragraph I explained the importance of time in the trade stocks. Today, with a few mouse clicks from my home, I can buy a call option of \$ 5,000 and sell it one hour later, on the base of a real-time price, or I can switch it to a put option.

When I want to spend \$ 100,000 for an option however, I will have some difficulties to immediately find the seller for such an

amount. Maybe I will have to split the amount and try to find 20 contracts of \$ 5,000 or I will have to phone to a broker who gathers the contracts for me.

With futures, I even can intend to buy for thousands of tons of grains, rice, oil, dollars or euros, without having much money. Just with a few mouse clicks.

A financial organization with a staff, relations and connections, can find huge amounts and take positions very quickly.

But when I want to buy a house, say for \$ 300,000 it will need go looking by myself, so, I need time to find it, pay an advance, contact a notary, and finally become the owner. The notary costs are of about 10%, depending from the house and the country, and that amount is of course sufficient to avoid a resell within, say ten years. It is true that in the case of a quick resell, a partial refund of the notary costs is provided.

So, time is the major factor for the performance of financial transactions. The shorter the time, the more financial operations can occur, the more companies can make profit within a year, and the more financial companies can be created. Nowadays, about 25% of the Western economy is financial, and most of the financial activities –expressed in money value- concern speculation. A number of decades ago, that amount was not even 10%. In fact, speculators benefit from the slowness of the large mass of small investors and small savers.

But is it all bad? Obviously, when a contract can be made on a regular basis, upon an *a priori* win-win basis, the deal is not suspicious. But when there is one of the parties who is not a freely acting party, there is no deal but a hacking of financial values, generally those of the taxpayer. And in most of the cases, this happens when a state economy is in a weak position, due to events that aggravate when the government is doing the wrong things, and paradoxically, can aggravate as well if the government is doing some right things. That will surprise you, but remember, Krugman couldn't tell, for any of the many state crises that occurred, what was the right thing to do. Every case, how much identical it seemed, couldn't be analyzed by him *a priori*, but only *ad hoc*. Krugman just recalled what historically happened, and said that the inverse had to be done of what the government did at certain moments. But there is no line whatsoever in his 'magic' *ad hoc* solutions.

However, economy might seem very complicated, but it isn't. It just is extremely complex, because of the obscure and sneaky operations of very wealthy individuals and organizations. Say, criminals.

4. The financial viscosity and its advantages

The viscosity of a financial transaction is related to the difficulty, the distance, the cost and the time that is needed to perform that transaction. Most of the financial transactions have an extremely low viscosity, dangerously low. As shown above, many transactions occur by an *a priori* win-win attitude.

The purchase of a house has a very high viscosity, as well by its fixed location, its time schedule, as by the notary costs. It allows one to take a financial decision, not as a speculator or a predator, but as an investor. When a house has been bought too cheap, the buyer will get the visit of a tax controller. So, black money also will be limited. In other words, there is a reasonably good control on this transparent transaction.

For some transactions, especially those that affect the economy of a state and so their nationals, the governments can find ways to increase the viscosity of some transactions. They can introduce supplementary difficulties by asking people to fly over when they operate for high amounts of money, introduce investigations regarding the honesty of the transaction, waiting times before a transaction is allowed to take place, and finally, introduce a large premium for unfriendly transactions. Especially for financial transactions that can disrupt local economies, like the money market of small economies.

5. Conclusion

Governments of smaller economies are facing the problem that financial attacks are not internationally seen as criminal activities. Besides, the grey zones of proof of malicious intent are difficult to draw, and anyway, court cases only comes when it is too late. Consequently, governments should learn to use the tool of the financial viscosity to better regulate the gigantic and inconsiderate money flows, and being totally opposed to what Soros and other speculators, predators and financial disruptors, demand: the application of the pure laws of the market.

The tools for tuning the financial viscosity are the location of the transaction, the time needed for an approval, and the premium to be paid for that transaction. These tools can successfully be used to strongly augment the viscosity of financial transactions, and so, avoid unwanted disruptions.

References

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