



Case Report

On Global corporate control, Federal Reserve, and the Great Theft 2007-2010

Victor Christianto* and Florentin Smarandache

Dept. of Mathematics and Sciences, University of New Mexico, Gallup, USA

Corresponding author email address: victorchristianto@gmail.com; fsmarandache@gmail.com

ABSTRACT

A common intuition among scholars and in the media sees the global economy as being dominated by a handful of powerful transnational corporations (TNCs). However, such an assumption has not been confirmed by numerical data until recently, in a report by Vitali, Glattfelder, and Battiston [1]. They gave a list of 50 most elite TNCs, which were called “super-entity”, along with other 97 TNCs which were not mentioned in their list. This super-entity is supposed to be more powerful than the core, consisting of 1,318 corporations. In this paper we expose for the first time that Vitali et al.’s finding on these super-entity TNCs apparently does not match exactly with recipients of secret funds given by the Federal Reserve Bank of USA (the Fed) during 2007-2010. Therefore, it seems that more investigations are needed on the nature of the financial corporate which received secret funds from the Fed, because those recipients of fund from Fed appear to be more powerful than the 147 super-entity TNCs. Although we give references on several papers which outlined the implications of this finding to global economy, in this paper we give no prescription on how to improve the global economy architecture. We reserve this issue for a future paper.

Keywords: Global economy, Numerical data, Financial corporate, TNC

INTRODUCTION

In a series of papers based on network analysis, Vitali, Glattfelder and Battiston [1][2] described their findings of the network of global corporate that controls about 80% of the world profits. Vitali, Glattfelder, and Battiston gave a list of 50 most elite TNCs, which were called ‘super-entity’, along with other 97 TNCs which were not mentioned in their list. This super-entity is supposed to be more powerful than the ‘core’, consisting of 1,318 corporations.

In this paper we expose for the first time that Vitali et al.’s finding on these super-entity TNCs apparently does not match exactly with recipients of secret fund which was given by the Federal Reserve Bank (Fed) during 2007-2010. Therefore, it seems that more investigations are needed on the nature of the financial corporate which received secret fund from the Fed, because those recipients of funds from the Fed appear to be more powerful than the 147 super-entity TNCs discovered by

Vitali et al. [1].

Although we give references on several papers which outlined the implications of such a finding from network analysis to global economy [5][6], in this paper we give no prescription concerning how to improve the global economy architecture. We reserve that issue for a future paper.

The Network of Global Corporate control

Vitali et al., 2011 begin their paper with a remark as follows: [1]

“We present the first investigation of the architecture of the international ownership network, along with the computation of the control held by each global player. We find that transnational corporations form a giant bow-tie structure and that a large portion of control flows to a small tightly-knit core of financial institutions. This core

can be seen as an economic “super-entity” that raises new important issues both for researchers and policy makers.”

Then they conclude their paper as follows: [1, p.6]

“In contrast, we find that only 737 top holders accumulate 80% of the control over the value of all TNCs (see also the list of the top 50 holders in Tbl. S1 of SI Appendix, Sec. 8.3). This means that network control is much more unequally distributed than wealth. In particular, the top ranked actors hold a control ten times bigger than what could be expected based on their wealth.”

Previously, Glattfelder and Battiston remarked in a separate paper [2, p.20], as follows:

“However, in contrast to such intuition, our main finding is that a local dispersion of control is associated with a global concentration of control and value. This means that only a small elite of shareholders controls a large fraction of the stock market, without ever having been previously systematically reported on. Some authors have suggested such a result by observing that a few big US mutual funds managing personal pension plans have become the biggest owners of corporate America since the 1990s.”

David Wilcock [3] summarizes Vitali et al’s finding about the network of Global Corporate control as follows:

“To review, 80 percent of the world’s profits are being earned by a ‘core’ group of 1,318 corporations. As we look even deeper, we find this ‘core’ is mostly run by a “super-entity” of 147 companies that are totally interlocked. 75 percent of them are financial institutions. The top 20 companies in the “super-entity” include Barclays Bank, JP Morgan Chase and Co., Merrill Lynch, UBS, Bank of New York, Deutsche Bank and Goldman Sachs. The 147-part “super-entity” has controlling interest in the 1318-part “core”, which in turn has controlling interest in 80 percent of the world’s wealth.”

Therefore it appears that 80% of the world’s profit are being earned by a core group of 1,318 TNCs, which in turn these core TNCs are run by a super-entity of 147 companies. The Table S1 of S1 Appendix Sec. 8.3. in Vitali et al’s paper consists of 50 top TNCs which are mostly financial corporate, as follows [1, p.33]:

- 1 BARCLAYS PLC GB 6512 SCC 4.05
- 2 CAPITAL GROUP COMPANIES INC, THE US 6713 IN 6.66
- 3 FMR CORP US 6713 IN 8.94
- 4 AXA FR 6712 SCC 11.21
- 5 STATE STREET CORPORATION US 6713 SCC 13.02
- 6 JPMORGAN CHASE and CO. US 6512 SCC 14.55
- 7 LEGAL and GENERAL GROUP PLC GB 6603 SCC

- 16.02
- 8 VANGUARD GROUP, INC., THE US 7415 IN 17.25
- 9 UBS AG CH 6512 SCC 18.46
- 10 MERRILL LYNCH and CO., INC. US 6712 SCC 19.45
- 11 WELLINGTON MANAGEMENT CO. L.L.P. US 6713 IN 20.33
- 12 DEUTSCHE BANK AG DE 6512 SCC 21.17
- 13 FRANKLIN RESOURCES, INC. US 6512 SCC 21.99
- 14 CREDIT SUISSE GROUP CH 6512 SCC 22.81
- 15 WALTON ENTERPRISES LLC US 2923 TandT 23.56
- 16 BANK OF NEW YORK MELLON CORP. US 6512 IN 24.28
- 17 NATIXIS FR 6512 SCC 24.98
- 18 GOLDMAN SACHS GROUP, INC., THE US 6712 SCC 25.64
- 19 T. ROWE PRICE GROUP, INC. US 6713 SCC 26.29
- 20 LEGG MASON, INC. US 6712 SCC 26.92
- 21 MORGAN STANLEY US 6712 SCC 27.56
- 22 MITSUBISHI UFJ FINANCIAL GROUP, INC. JP 6512 SCC 28.16
- 23 NORTHERN TRUST CORPORATION US 6512 SCC 28.72
- 24 SOCIÉTÉ GÉNÉRALE FR 6512 SCC 29.26
- 25 BANK OF AMERICA CORPORATION US 6512 SCC 29.79
- 26 LLOYDS TSB GROUP PLC GB 6512 SCC 30.30
- 27 INVESCO PLC GB 6523 SCC 30.82
- 28 ALLIANZ SE DE 7415 SCC 31.32
- 29 TIAA US 6601 IN 32.24
- 30 OLD MUTUAL PUBLIC LIMITED COMPANY GB 6601 SCC 32.69
- 31 AVIVA PLC GB 6601 SCC 33.14
- 32 SCHRODERS PLC GB 6712 SCC 33.57
- 33 DODGE and COX US 7415 IN 34.00
- 34 LEHMAN BROTHERS HOLDINGS, INC. US 6712 SCC 34.43
- 35 SUN LIFE FINANCIAL, INC. CA 6601 SCC 34.82
- 36 STANDARD LIFE PLC GB 6601 SCC 35.2
- 37 CNCE FR 6512 SCC 35.57
- 38 NOMURA HOLDINGS, INC. JP 6512 SCC 35.92
- 39 THE DEPOSITORY TRUST COMPANY US 6512 IN 36.28
- 40 MASSACHUSETTS MUTUAL LIFE INSUR. US 6601 IN 36.63
- 41 ING GROEP N.V. NL 6603 SCC 36.96
- 42 BRANDES INVESTMENT PARTNERS, L.P. US 6713 IN 37.29
- 43 UNICREDITO ITALIANO SPA IT 6512 SCC 37.61
- 44 DEPOSIT INSURANCE CORPORATION OF JP JP 6511 IN 37.93
- 45 VERENIGING AEGON NL 6512 IN 38.25
- 46 BNP PARIBAS FR 6512 SCC 38.56

- 47 AFFILIATED MANAGERS GROUP, INC. US 6713 SCC 38.88
- 48 RESONA HOLDINGS, INC. JP 6512 SCC 39.18
- 49 CAPITAL GROUP INTERNATIONAL, INC. US 7414 IN 39.48
- 50 CHINA PETROCHEMICAL GROUP CO. CN 6511 TandT 39.78

Next we will see whether there is connection between the above 50 top TNCs and the recipients of the Fed's secret funds during 2007-2010.

The Great Theft by the Fed between 2007 - 2010

It is discovered after being audited by GAO, that the Fed secretly gave fund to a very short list of financial corporate both inside USA and from foreign countries, in a spectacular amount, i.e. about \$16,000,000,000,000 (sixteen trillions of US dollar). We propose to call that event as the Great Theft, because it is basically a massive theft of US tax payers' wealth during the financial crisis, when many middle-income families suffered.

According to O'Leary [4, p.13]

"A partial audit of a limited period of time - the first audit of any kind in its near 100 year history - took place in July 2011 when, as part of the Dodd-Frank reform legislation, the Fed was forced to reveal whom it had lent money to during the financial debacle beginning in late 2007. The audit was carried out by the General Accounting Office (GAO) and is available on-line. To say that its shocking findings have been under-reported by the media is a gross understatement."

"During the period December 1, 2007 through July 21, 2010 the Fed created sixteen trillion (\$16,000,000,000,000) dollars' worth of credit (loans) to US banks and corporations and (notwithstanding its supposed jurisdiction as an agency of the United States) to foreign banks. These were secret bailouts engineered to prevent the borrowers from insolvency or bankruptcy; the money was loaned at nearly zero percent (.01%) interest."

The recipients of the Fed's secret loan during 2007-2010 are as follows [4, p.14]:

- Citigroup, Inc (Citibank): \$2.5 trillion
- *Morgan Stanley: \$2.04 trillion
- *Merrill Lynch and Co.: \$1.949 trillion
- *Bank of America Corporation: \$1.344 trillion
- *Barclays PLC (United Kingdom): \$868 billion
- Bear Stearns Companies, Inc.: \$853 billion
- *Goldman Sachs Group, Inc.: \$814 billion

Royal Bank of Scotland PLC (UK): 541 billion

*JPMorgan Chase: \$391 billion

*Deutsche Bank AG (Germany): \$354 billion
 United Bank of Switzerland AG: \$287 billion
 Credit Suisse Group AG (Switzerland): \$262 billion
 Lehman Brothers Holdings, Inc. - NYC: \$183 billion
 Bank of Scotland PLC (UK): \$181 billion

*BNP Paribas SA (France): \$175 billion
 Dexia SA (Belgium): \$105 billion
 Wachovia Corporation: \$142 billion
 Dresdner Bank AG (Germany): \$123 billion

*Societe Generale SA (France): \$124 billion

The asterisks (*) are intended to mark companies which also appear in the list of top 50 TNCs of Vitali et al. [1, p.33].

From the two lists above, we can conclude that there are 9 (nine) out of 19 (nineteen) recipients of the Fed's money between 2007-2010, which also appear in the Vitali et al.'s list of top 50 TNCs. Therefore we can also conclude that apparently the Fed is behind almost all of the top 50 TNCs. That is why some people think that the Fed is the most powerful private entity all over the world.

DISCUSSION

The owners of the Fed remain mystery, although from history it is known that the Fed was formed after a Jekyll Island meeting.

"The Federal Reserve System was allegedly conceived at a secretive, confidential "duck hunting" Jekyll Island meeting of people related to J. P. Morgan, Kuhn, Loeb and Company, the Rothschilds, the Rockefellers, and the Warburgs." [7, p.22]

However in recent years, there have been enough leaks to confirm the identities of the key banking families who founded the Federal Reserve [3, p.37]. J. W. McCallister, an oil industry insider with House of Saud connections, wrote in The Grim Reaper that information he acquired from Saudi bankers cited 80% ownership of the New York Federal Reserve Bank- by far the most powerful Fed branch- by just eight families, four of which reside in the US.

They are the Goldman Sachs, Rockefellers, Lehmans and Kuhn Loeb's of New York; the Rothschilds of Paris and London; the Warburgs of Hamburg; the Lazards of Paris; and the Israel Moses Seifs of Rome.

CPA Thomas D. Schauf corroborates McCallister's claims, adding that ten banks control all twelve Federal Reserve Bank branches.

He names N.M. Rothschild of London, Rothschild Bank of Berlin, Warburg Bank of Hamburg, Warburg Bank of Amsterdam, Lehman Brothers of New York, Lazard

Brothers of Paris, Kuhn Loeb Bank of New York, Israel Moses Seif Bank of Italy, Goldman Sachs of New York and JP Morgan Chase Bank of New York.

Schauf lists William Rockefeller, Paul Warburg,

Jacob Schiff and James Stillman as individuals who own large shares of the Fed. The Schiffs are insiders at Kuhn Loeb. The Stillmans are Citigroup insiders, who married into the Rockefeller clan at the turn of the century.

According to O'Leary [4, p.5]

"To begin with, the Federal Reserve system is neither Federal nor does hold its own capital as bank "reserves". The Federal Reserve is a private institution owned by private bankers which has no reserves other than what it creates for itself . . . out of nothing."

O'Leary continues [4, p.6]

"The Federal Reserve Act, passed by Congress just prior to its annual Christmas recess on December 22, 1913, was signed into law the very next day by President Woodrow Wilson. It transferred the right to print currency from the United States sovereign government to a bank which is quasi-federal in form but private in operation. The Fed was created by the powers of international capital, known in the 19th century as The Money Trust, and given a clever but deceptive name which disguises the fact that it is a private money monopoly owned by its member banks but controlled by a handful of super-banks which are conveniently described as "too big to fail"."

Furthermore he writes [4, p.7]

"The larger the member bank, the more Federal Reserve corporate stock it owns, the greater degree of control it exercises over the Fed's policies. The major New York banks own a majority share of the Fed. Since Federal Reserve Banks are not governmental agencies, their employees do not fall under Federal Civil Service."

Now we know that it is possible that the Fed is owned by a handful of very powerful international banks, which also may form the 'super-entity' group, as reported by Vitali et al. [1].

O'Leary also explains why the Fed was never audited.

"The secrecy surrounding the operations of the Federal Reserve is phenomenal. Its actions are even more secret than the CIA's. The Federal Reserve System has never been audited. This bears repetition: the Federal Reserve has never been subject to a full and complete independent audit. No government official has the power to require the Fed to open up its books to public scrutiny. The only power the government has is to modify the Fed's charter by an act of Congress. Attempts to legislate a full and complete audit have always been vehemently opposed by the "powers that be". [4, p.13]

Since money created by the Fed is not backed up by anything except by the US Government and all US

citizens, they are called 'fiat money'. According to Hoppe [8, p.64]:

"Since abolishing the last remnants of the gold commodity money standard, he realizes, inflationary tendencies have dramatically increased on a world-wide scale; the predictability of future price movements has sharply decreased; the market for long-term bonds (such as consols) has been largely wiped out; the number of investment and "hard money" advisors and the resources bound up in such businesses have drastically increased; money market funds and currency futures markets have developed and absorbed significant amounts of real resources which otherwise-without the increased inflation and unpredictability-would not have come into existence at all or at least would never have assumed the same importance that they now have; and finally, it appears that even the direct resource costs devoted to the production of gold accumulated in private hoards as a hedge against inflation have increased."

In the last analysis, if money is created by the Fed without permission of US Congress, then it can be called as an act of theft.

"In history, sovereigns and states have stolen the wealth of their subordinates and citizens a zillion of times, and they will do so again and again if they consider it necessary. Often monetary policy and instruments effectively amount to more or less obvious ways to plunder the public." [7]

Now we can conclude that not only 9 out of 19 TNCs are recipients of the Fed's secret loans between 2007-2010, but they also belong to the top 50 'super-entity' list of Vitali et al' [1]. Therefore we can conclude that they participate in the Great Theft act of the Fed, and the Fed is at the center of this massive fraud of US economy. Now it seems that this discovery demands thorough investigations on the Fed's part and also on the nineteen recipients of secret loans from the Fed between 2007-2010.

One thing should be kept in mind, that the Fed has become the center of the problem, that is why it will lead to financial crises in the future, especially if the financial integration will be implemented. As concluded by Stiglitz [12], a full financial integration may be not desirable. Stiglitz also writes that the "centralized" lending architecture may be more vulnerable to shocks to the "centers" (illustrated by the global impact of the US credit crisis) [12].

CONCLUSION

In accordance with David Wilcock [3] and O'Leary [4], there was the Great Theft event, when the Fed secretly gave funds to US and foreign financial companies, at breathtaking amount of trillions of US dollar.

The fiat money created by the Fed is deeply flawed [7][8][10][11]. Another flaw is the fractional reserve

banking (FRB) practice all over the world, which only leads to great business cycles and crises. The fractional reserve banking system is defined as one in which only a fraction of the demand deposits are held in reserve; the remainder is in the form of long term loans, or illiquid assets [10, p.46]. There is a singular group of economists who concede that all FRB systems that have ever existed may have been equivalent to theft [10, p.47].

This problem of FRB has been discussed by many economists especially from Austrian school; see for instance [9], [10] and [11]. The crises in Cyprus can be tracked by to this FRB practice (see Appendix). If this tendency of FRB practice continues, it only leads to hyperinflation. According to Hoppe [8, p.59]:

“The result would be hyperinflation. No one would accept paper money anymore, and a flight into real values would set in. The monetary economy would break down completely and society would revert back to a primitive, highly inefficient barter economy. Out of barter then, once again a new (most likely a gold) commodity money would emerge (and the note producers once again, so as to gain acceptability for their notes, would begin backing them by this money).”

A number of solutions have been offered by economists in order to find a way out of the many crises and business cycles; to mention a few of them:

Applying theories of complex systems into economics, especially in order to assist decision makers[6].

Going back to gold-backed currency, which is perhaps not so realistic; see [7][11]. According to Hoppe [8,p.74]: “Only a system of universal commodity money (gold), competitive banks, and 100 percent reserve deposit banking with a strict functional separation of loan and deposit banking is in accordance with justice, can assure economic stability and represents a genuine answer to the current monetarist fiasco.”

Going to full-reserve banking, this is also not so realistic; see [11].

Accepting the nature of business cycles and repeating financial crises, as promoted by Svozil [7]. This means that someday there will be a Great Crash as a consequence [11].

According to some analysts, there is no solution to the present problems of world economy; see [11]. This seems to support Svozil’s argument that there is no alternative to present situation of the fiat money and fractional reserve banking: “Thus, for pragmatic reasons, the only remaining alternative appears to be fiat money not directly backed by any commodity.” [7, p.4]

Note: This paper is not intended to give a prescription on how to improve the global economy architecture. We leave this issue to a future paper.

REFERENCES

- [1]. Vitali S, Glattfelder JB, Battiston S (2011). The network of global corporate control, arXiv:1107.5728 [q-fin.GN] 36p., URL: <http://arxiv.org/pdf/1107.5728.pdf> ; [1a] J.B. Glattfelder, <http://www.newscientist.com/article/mg21228354.500-revealed--the-capitalist-network-that-runs-the-world.html>
- [2]. Glattfelde JB, Battiston S (2009) Backbone of complex network of corporations: The flow of control, Physical Review E 80, 2009, also available at arXiv:0902.0878 [q-fin.GN] 24p., URL: <http://arxiv.org/pdf/0902.0878.pdf>
- [3]. Wilcock D (2012). Financial Tyranny: Defeating the Greatest Cover-up of all time, February 13, 2012, URL: http://www.vigli.org/FINANCIAL_TYRANNY_Defeating_the-Greatest_Cover-Up_of_All_Time_David-Wilcock_Feb-13-2012.pdf, [3a] see also: <http://divinecosmos.com/start-here/davids-blog/1023-financial-tyranny>
- [4]. O’Leary PV (2012). The Federal Reserve System, Fiat Money and Fractional Reserve Banking, URL: http://www.perseus.ch/wp-content/uploads/2012/03/The_Federal_Reserve_System.pdf
- [5]. Krause SM, Peixoto TP, Bornholdt S (2013). Spontaneous centralization of control in a network of company ownerships, URL: <http://arxiv.org/pdf/1306.3422.pdf>
- [6]. Doyne Farmer J et al. (2012). A complex systems approach to constructing better models for managing financial markets and the economy, Eur. Phys. J. Special Topics 214, 295–324, 2012, URL: <http://www.allariz.uc3m.es/~anxosanchez/ep/EconFinancialFuturITC16.pdf>
- [7]. Svozil K (2008). An apology for money. arXiv: 0811.3130 [q-fin.GN]. URL: <http://arxiv.org/pdf/0811.3130v6.pdf>
- [8]. Hoppe HH (1994). How is fiat money possible? – or, the Devolution of Money and Credit, The Review of Austrian Economics Vol.7, No.2, 1994:49-74, URL: http://mises.org/journals/rae/pdf/rae7_2_3.pdf
- [9]. Rothbard M (2008). The Mystery of Banking. 2nd ed. Auburn, Ala.: Ludwig von Mises Institute, 2008. URL: <http://mises.org/books/mysteryofbanking.pdf>
- [10]. Block M (1988). "Fractional Reserve Banking: An Interdisciplinary Perspective," in Man, Economy, and Liberty: Essays in Honor of Murray N. Rothbard, Walter Block and Llewellyn H. Rockwell, Jr., eds., Auburn, Ala.: Ludwig von Mises Institute, 1988
- [11]. URL: http://wiki.mises.org/wiki/Criticism_of_fractional_reserve_banking
- [12]. Stiglitz JE (2010). Risk and Global Economic Architecture: Why Full Financial Integration May Be Undesirable, Am. Econ. Rev. Papers and Proceedings 100 (May 2010): 388–392, URL: [www.aeaweb.org/articles.php?doi=10.1257/aer.100\(2\):388](http://www.aeaweb.org/articles.php?doi=10.1257/aer.100(2):388).

Appendix:

Source: <http://www.zerohedge.com/news/2013-03-31/visualization-modern-fractional-reserve-banking-and-how-cyprus-fits>

How Cyprus Exposed The Fundamental Flaw Of Fractional Reserve Banking Submitted by Tyler Durden on 03/31/2013 18:03 -0400

In the past week much has been written about the emerging distinction between the Cypriot Euro and the currency of the Eurozone proper, even though the two are (or were) identical. The argument goes that all €'s are equal, but those that are found elsewhere than on the doomed island in the eastern Mediterranean are more equal than the Cypriot euros, or something along those lines. This of course, while superficially right, is woefully inaccurate as it misses the core of the problem, which is a distinction between electronic currency and hard, tangible banknotes. Which is why the capital controls imposed in Cyprus do little to limit the distribution and dissemination of electronic payments within the confines of the island (when it comes to payments leaving the island to other jurisdictions it is a different matter entirely), and are focused exclusively at limiting the procurement and allowance of paper banknotes in the hands of Cypriots (hence the limits on ATM and bank branch withdrawals, as well as the hard limit on currency exiting the island).

In other words, what the Cyprus fiasco should have taught those lucky enough to be in a net equity position vis-a-vis wealth (i.e., have cash savings greater than debts) is that suddenly a €100 banknote is worth far more than €100 in the bank, especially if the €100 is over the insured €100,000 limit, and especially in a time of ZIRP when said €100 collects no interest but is certainly an impairable liability if and when the bank goes tits up.

Said otherwise, there is now a very distinct premium to the value of hard cash over electronic cash.

And while this is true for Euros, it is just as true for US Dollars, Mexican Pesos, Iranian Rials and all other currencies in a fiat regime.

Which brings us to the crux of the issue, namely fractional reserve banking, or a system in which one currency unit in hard fiat currency can be re-deposited with the bank that created it (as a reminder in a fiat system currency is created at the commercial bank level: as the Fed itself has made quite clear, "The actual process of money creation takes place primarily in banks") to be lent out and re-re-deposited an (un)limited number of times, until there is a literal pyramid of liabilities and obligations lying on top of every dollar, euro, or whatever other currency, is in circulation. The issue is that the bulk of such obligations are electronic, and in its purest form, a bank run such as that seen in Cyprus, and pre-empted with the imposition of the first capital controls in the history of the Eurozone, seeks to convert electronic deposits into hard currency.

Alas, as the very name "fractional reserve banking" implies, there is a very big problem with this, and is why every bank run ultimately would end in absolute disaster and the collapse of a fiat regime, hyperinflation, and systemic bank and sovereign defaults, war, and other un-pleasantries, if not halted while in process.

Why?

One look at the chart below should be sufficient to explain this rather problematic issue of a broken banking system in which trust is evaporating faster than Ice Cubes in the circle of hell reserved for economist PhD's.