The Origin of the Global Iniquity Markets

A Scholarly Essay from The Encyclopedia^{TM}(with annotations)

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Social Foundations

When society finally came to know itself, certain problems which had hitherto eluded remedy were understood to constitute a natural part of its being. They are no more likely to be eradicated than the shortcomings of individual men, and attempts to do so enjoyed the same success. Once crime had been accepted as an inevitable and important part of the social fabric, ideological programs to eliminate it were no longer pursued. This is not to say that conventional mechanisms of suppression and redress were abandoned. Rather, the necessity of its existence was recognized. The structure and nature of law enforcement largely remained unchanged; however the imperceptible philosophical underpinnings had materially transformed. This resulted in both the adoption of more reasonable metrics of efficacy and a pragmatic approach to the allocation of resources. The performance of programs and officials was now judged against realistic goals rather than the extreme results that zealotry demands. Individual moral culpability remained, of course, and criminals were punished as ever. It is not our purpose to expound on the ensuing evolution of the penal code. Rather, we focus on the economic implications of this renaissance. To that end, we only consider crimes or criminal enterprises which have pecuniary motives. The effect of other activity is ancillary, and primarily manifests itself through an influence on laws and practices.

Early Evolution of Contracts

Most economically motivated crime is disorganized, consisting of innumerable acts of unplanned and petty theft. It represents a baseline noise whose level strongly reflects overall economic conditions and the local social distribution of wealth, and is not of direct interest from a market per-

spective. However, broader ventures such as complex heists, white collar crime, or ongoing criminal enterprises often require capital. Much like any business, they cannot start without a seed. Funds may be obtained by conventional methods, such as the aforementioned minor crime, but those often prove slow and risky. The probability of detection is far greater during the commission of several small crimes than a single large one. Smart criminals think big[1]. Naturally, no legitimate investors would fund such an endeavor if responsibility can be assigned to them. Fear of prosecution is often what prevents these individuals from becoming criminals themselves, and it would not behoove them to place their fate in the hands of strangers with no particular sense of loyalty. However once crime was understood to be an integral part of human intercourse and politicians were no longer blinded by doctrine, a remarkable new perspective arose. Why should only criminals benefit from crime? If a fixed amount of crime will occur despite the best efforts of law enforcement then why not allow ordinary citizens to reap the benefits of criminal enterprises[2]? The natural way to accomplish this is by immunizing investors against prosecution. This was first effected through the Baswort-Stega act. Though later amended in various minor ways, that law has essentially survived intact to the present day - largely due to its simplicity. Individuals can legally invest in particular criminal enterprises as long as they (i) have a clear contract, (ii) don't possess substantive details of the crimes to take place, and (iii) are not directly involved in the commission of the crimes or related activities.

The only practical mechanism by which all parties can be brought together in such a manner is through the agency of crime brokers. The latter are large companies that serve as middlemen, maintaining anonymity on both

[1]The trademark of one of the large anonymous criminal organizations in current operation.

[2]That this could be achieved without increasing the level of crime required considerable academic analysis. However, the reinvestment of legitimate proceeds into law enforcement through the introduction of a criminal investment tax proved surprisingly successful in this regard. Several decades of empirical data and research have demonstrated that fluctuations in the base rate of crime are almost entirely dependent on external phenomena and the system is self-limiting from a resource standpoint. See Ruger, et al, 2186 Journal of Financial Politics v.26, p.327 for an excellent review of the subject.

sides and matching individual investors with specific ventures. The extent of an investor's knowledge consists of a prospectus describing the proposed activities in general terms.

The Speculative Parties hereby pledge the sum of $20,000 to be immediately communicated through the Broker to the Active Party, less a contractual brokerage fee of $1500, for the purpose of engaging in the proposed Enterprise described below. Upon completion of the proposed Enterprise and in consideration of this investment, the Active Party will remit to the Speculative Parties from any net profit a sum equal to the greater of $65,250 and 20% of the proceeds. Notwithstanding any other part of this agreement, the Active Party's obligation shall not exceed the entirety of its net profit from the specific Enterprise referred to herein. In the event that the Enterprise is cancelled, the Active Party shall assume responsibility for the entire brokerage fee, and return to the Speculative Parties the original investment sum of $20,000 plus interest compounded at 8.5% per annum and measured from the date on this contract. This shall be accomplished no later than 30 calendar days from the Cancellation Date. The Enterprise shall be deemed to have been cancelled if not completed within 14 calendar days of the Target Date unless specifically provided for in the prospectus. The Speculative Parties agree that in the event of apprehension, the Active Party may use any remaining capital for the purpose of legal defense. The Speculative Parties understand all risks and may not hold any other party liable for damages under any circumstances excepting violation of anonymity by the Broker. In the event of nonpayment by the Active Party, the Broker shall not be held liable for any expected monies. No efforts at collection by the Broker on behalf of the Speculative Parties shall be deemed an abjuration of this immunity. The Speculative Parties shall not seek to establish the identity of the Active party nor shall they seek further detail of the activities described herein. This contract and the accompanying prospectus, their content, and existence are privileged and may not be disclosed, alone or in conjunction with other public information, nor may they be used in any manner that may adversely affect the Active Party. In all cases, as specified by law, the Speculative Parties shall not be liable for the actions of the Active Party.

The kidnapping of a child for a ransom of $400,000 to take place within the next three months. The family in question is known to be of good financial standing and should easily be able to pay. Participants have experience in several prior such kidnappings and are familiar with various techniques for maximizing the probability of success. Strong possibility of violence. Investment will be used for scouting, surveillance, site acquisition, and possible sustained maintenance costs.

An excerpt from an actual contract. Most of the language is boilerplate[3]

[3]The numbers listed may seem high for historical sums, but the reader should recall that periodic recalibration of currencies was a common practice until a mean reverting system

The critical component necessary to make the entire arrangement possible was a law protecting broker-client confidentiality. This was first addressed in CBPA-OC, the Crime Broker Protection Act of 2118, a rather specialized piece of legislation, and later enumerated under the Husmann Communications Clarification Act of 2124 as one of the fourteen Class I privileged relationships that are considered inviolate[4]. This effectively placed it on par with spousal privilege until the demotion of the latter after the abuses resulting from generalized marriage contracts (see Appendix A).

Under no circumstance can a judge demand information from brokerage firms. This often proves difficult to bear when a particularly egregious crime has been committed. In fact, it is believed that the sample proposal above was the contract underlying the Bonhaffer kidnapping, in which an eight year old girl was mutilated and left to starve in a trunk when the family could not pay. During the three week period involved, the brokerage firm could have provided relevant information but did not do so because it would have violated the contract. Any such disclosure could have impaired the kidnappers' chances of success. Terribly callous as such a silence may appear, it is necessary. A breach of trust would allow resolution of a few immediate cases but result in the dissolution of the entire system. Stated more succinctly, this is information the police would not have had were the broker absent. The presence of human agency does not change anything. And according to the underlying social view, while the kidnapping in question may not have occurred were financing unavailable, different crimes would. Perhaps the active party would have robbed several convenience stores to raise the money. The concern of society is that the level remain manageable; the details are irrelevant. We do not care what is contained within the bottle as long as it does not spill out[5].

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was adopted. The reference level has not significantly changed in over 200 years.

[4]The need for explicit assignment of this right arose from the Supreme Court case of Adriane Brown vs Grace Capital Brokers, LLC. The court issued a narrow ruling which preserved broker-client confidentiality in that case but allowed further challenges. The Husmann act addressed this, and subsequent court rulings (most notably Merk & Larson vs Clear Conscience Fiduciary, Inc) have upheld its constitutionality.

[5]Initially, the major religious organs spoke vehemently against the criminal markets. However, in 2204 it was discovered that the single largest investor was the Vatican. Soon

Certain ironies are inevitable. An individual can inadvertently fund a crime in which he or his family is the victim. The most famous instance was that of Carl Sidonha, a case that inaugurated a heated public debate which ultimately reaffirmed the sanctity of the broker-client relationship.

By their nature, the criminal markets constitute a font of tragedy and yield myriad cautionary tales. Perhaps one of the most touching is that of Charles Sidonha, a Columbia Professor and father of two. As his older son approached college age, it quickly grew apparent that institutions comparable to that at which he taught lay beyond their economic means, an absurdity common in that profession . The young criminal enterprise market offered one of the few reasonable mechanisms by which a man of his station could amass the funds necessary to ensure a quality education for his son. After consultation with a financial advisor, he decided to invest in a number of criminal ventures. The first two involved an auto theft ring and an isolated attempt to smuggle prophylactics from Iran. These yielded mixed results. The car thefts proved lucrative, while the prophylactic smugglers proved characteristically violent and unreliable. After an unsuccessful attempt at interdiction by the Department of the Exterior, they dispersed and defaulted on their obligations. This experience almost deterred Dr. Sidonha from further investment. However, financial exigency proved a strong motivator and he ventured one more attempt, choosing to invest in a promising series of kidnappings. Shortly thereafter, both of his sons disappeared along with several classmates. Ransom notes followed, threatening the progressive amputation of body parts were timely payment not forthcoming. Several of the families paid and saw their children repatriated, but Dr. Sidonha could not – partly because his money had been invested. The timing appeared more than coincidental, and he drew the natural conclusion. From contact with the other victims' families, he knew that a number of them had paid. Therefore he begged the intermediary broker to advance him part of the return from the venture or offer a remission of the Active Party's obligation in return for the release of his son. They perfunctorily refused. In desperation, he went to the police but they could do nothing. As the successive deadlines passed, he received a slow stream of packages containing parts of his sons. He could not even console himself financially because he had violated confidentiality and forfeit the profit.

A selection from Bockord's *Popular Tales from the 11th Bench*

thereafter official religious opposition ceased. As with any social issue there remain vociferous opponents, but they have been marginalized.

Equity Exchanges, Pools, and Funds

Once individual investors were allowed to divest themselves of culpability, corporations endeavored to followed suit[6]. However, no simple metric for risk assessment existed, a prerequisite for significant corporate entry into any business. By their nature, criminals are hardly trustworthy.

This issue was addressed through the advent of a new institution. While an independent and largely unregulated over-the-counter criminal funding market still exists, the majority of current investment is effected through criminal enterprise exchanges. The first of these aptly emerged in Chicago. The exchanges allow the trading of pools of individual enterprise contracts and assign them quality ratings based on past performance of the participants. Criminals with a record of success and reliability can command competitive terms from their investors. The motive now existed for there to indeed be honor amongst thieves. Or at least between thieves and their underwriters. Large professional societies formed to serve as buffers. Some are managed by traditional syndicates, with according levels of violence[7], while others closely resemble unions. Often, membership requires a lengthy application and approval process[8]

[6]This required little effort, as they already possess the rights of citizens. However, the considerable capital they command posed a problem. Brokerage firms were geared toward individual transactions and could not handle large investments in a simple manner. A few corporations engaged managers, often erstwhile brokers, to make myriad small investments, but in most cases this was infeasible.

[7]It was also possible for investors to have the broker retain a collection agency. However, depending on the methods used, the latter could be classified as a criminal enterprise itself. In one sensational case, an investor was convicted for an amputation committed by such an agency. Immunity does not extend to efforts at collection, and the practice of using criminal agencies was quickly abandoned.

[8]Such groups are not protected by any laws, and hence are subject to the usual betrayals and infiltration. However, the better funded organizations employ their capital to protect against this to the extent possible. Despite all precautions, spectacular collapses have occurred. Large criminal organizations tend to be efficient at generating revenue, benefiting from high capitalization and the immunity it can buy, but are also more susceptible to detection than their smaller counterparts. Simple statistical analysis demonstrates an exponential increase of the probability of apprehension with the number of participants. Investments also are susceptible to hidden correlations. Often, disparate ventures are managed by the same

The most spectacular example of the effect of hidden correlations was the Barruto crash of 2127. For many years, the Greenwich Cosa Nostra had proved impervious to prosecution. Under the leadership of Almadar Barruto it had grown into the most powerful criminal organization in the United States. Naturally, this success translated into arrogance, and opportunities arose for infiltration. In April, 2127 over 340 individuals were arrested and successfully prosecuted, leading to 43 sentences of Capital Punishment with Duress and the seizure of over $4 trillion of assets. Among the affected operations were several drug smuggling rings, a major arms importer, three universities that had served as money launderers, one private hospital, and a well-known department store chain. In the ensuing financial meltdown, a number of prominent corporations were bankrupted, along with two county governments (most notably, the exclusive enclave of Paterson, NJ found itself impoverished overnight). They had all invested in highly leveraged portfolios that had deceptively appeared diverse. Risk assessment is difficult in the world of crime.

The Barruto Crash

In the usual interplay between individual investors and corporations, the public also wished to enjoy the stability of pools. Criminal enterprise funds were born. These are high quality pools with large prospectuses warning "unsophisticated investors" of every conceivable risk except the extreme boredom of reading such prospectuses. As the general populace remained unscathed, there arose a large variety of funds with differing goals and levels of risk. Today, over thirty thousand such funds are available. Some are termed "socially conscious" and focus on non-violent crime, crime that doesn't involve the elderly, or crime that only hurts insurance companies and large corporations. Many funds solely invest in other funds. Such "funds of funds" offer greater diversity, though they largely have been supplanted by the Global Iniquity Indices.

As criminal enterprise funds grew ubiquitous, many institutions began to view them as a means to hedge various social and economic risks. This particularly applied to those involved in or affected by criminal activity, such as insurance companies, political parties, hospitals, and law enforcement. Geographically local funds have proved an excellent protection for

large organization, a relationship that understandably is obscured. This problem is accentuated by the necessary level of secrecy. As a result, seemingly diverse investment portfolios may be exposed to significant specific risks.

police departments[9], as the means to fight crime grow in proportion to the amount of it.

Naturally, a large host of structured and derivative products evolved as well (see Appendix C for a detailed discussion). Today, iniquity-related trading accounts for over 90% of all market activity.

Bubbles and Scandals

While investment was based on individual contracts, capitalization issues did not arise. However once liquid criminal equity and debt markets had been established, large institutional investors altered the landscape. The introduction of vast reservoirs of capital lowered yields and drove a number of speculative bubbles.

After the collapse of a minor bubble in the Institutional Religion sector, investors were wary of equity and sought alternate investment vehicles. Negative interest rates simultaneously provided ready cash for speculation and a dearth of high yield fixed income instruments. A number of Wall Street firms, beginning with Serpinsky Associates, responded to the demand for high yields by introducing and aggressively marketing the higher coupon, lower credit pieces of structured criminal equity products. This was accomplished masterfully, and the demand for "junk crime" soon greatly outweighed the supply. A decline in the risk premium propagated through the entire criminal debt market. At the peak of the craze, criminal enterprises could borrow at better rates than established corporations or municipal governments. The market's saturation and growing capitalization led to another issue as well. The motives which induce criminal enterprises to honor their contractual obligations require a modest scope. With boundless capital available, the size of individual operations grew dramatically. Existing credit models did not account for the exponentially increasing probability of default with size. A track record is irrelevant if one can retire after a single crime, and greed is stronger than fear. The public frenzy had obscured the credit grades as well, allowing inexperienced and unproven hoods to raise unwarranted amounts of capital, and rendering obsolete the established system of reputation and approval. Moreover, the very syndicates that had hitherto overseen those small operations now found it profitable to directly engage in large ventures themselves. (con't)

The Bubble of the 30's

[9]They supplement revenue from the criminal enterprise taxes. The latter is collected and allocated by the federal government, which is notoriously unreliable in such matters.

By the 2130's, the iniquity markets, as they had now come to be known, comprised over 80% of economic investment. This set the stage for the scandal of 2141 which plunged the economy into chaos.

Certain anomalies followed. Large venerable firms such as Axion Dynamics were purchased using capital from the bubble. This allowed arbitrary expansion of the criminal markets, as their debt effectively absorbed part of the ordinary equity market. Some enterprises engaged in wholly legitimate activities, using their favorable borrowing rates to finance ordinary corporations.

> *A minor scandal arose when Luthtor Corporation, a major supplier of polymeric computer components, was found to have borrowed through a fictitious criminal enterprise subsidiary, using the money solely for legitimate purposes. Guilty of an infraction in so doing, they posited that they had in fact engaged in criminal enterprise. It was quickly noted that the chartered activity involved meat smuggling and lay far afield of financial fraud. Regardless, such a paradoxical argument would clearly have failed the Turing test, resulting in a default adverse judgment. However, this attempt proved an inspiration for the far cleverer Serpinsky scandal.*

The inevitable collapse was expedited by a predictably unpredictable piece of malfeasance. Apparently, Serpinsky Associates had been actively engaged in fraud, misrepresenting risk to its clients. Worse yet, it had surreptitiously underwritten its own criminal activity. This violated the core contractual obligations separating investors from participants, but was in fact behavior consistent with a criminal enterprise engaged in fraud. Because of the market bubble, Serpinsky Associates had been able to obtain ten to one leverage on its debt and could absorb substantial amounts of money. It had reinvested this in itself, creating a bubble in its own stock and paying executives and traders enormous bonuses. When the dust settled they had made $490 billion, while the economy lost about $2.2 trillion in the subsequent economic meltdown. Historians have analyzed the complex tangle of legal agreements and subsidiaries involved and reached a consensus that no individual guilt could be attached to the executives of Serpinsky Associates, though many of their actions certainly skirted gray areas of the law. Despite this, and as is common when the public's coffers have suffered, the two most prominent figures in the scandal, Jack Cheng and Arthur Beyopold, were excoriated, tried, and convicted.

The bubble of the 30's (con't)

A slew of remedial legislation followed, from which two major pieces ultimately emerged. The first was the Pitzer-Sandrif act, which explicitly established the types of underlying activities allowed, their sizes, and myr-

iad other operational details, inaugurating a trend toward the inordinately specific and complex code already typical of other markets. Today there are close to one million pages of criminal enterprise code and the system has necessarily been placed under the CompLaw mandate.

As the legal system grew in complexity, the natural balance between mandatory and discretionary judgment grew inoperable. In a world where vast resources aim to circumvent principle, and precision is the necessary byproduct of scale, a fair covering of all contingencies was required. Ambiguity could not be tolerated and human involvement, though important, devolved into an executive function. In fact the word judiciary came to belie its own meaning, for no judgment could be exercised. Every set of facts, once determined by a jury, must result in a single invariate outcome. The natural mechanism for this was to automate the legal system. However, the cost proved prohibitive and the project was continually deferred. By the 2250's, the body of law in most areas had far exceeded the comprehension of any human. A number of notable public inconsistencies arose and pressure mounted for legislative reform. The CompLaw initiative was born. Beginning in 2261, specific areas of law were codified as computer programs. Over the next twenty years, almost all areas of law were converted. The only exception was federal Tax Law, which proved to violate Godel's hypothesis and could not be resolved by any computer. This continued to be administered in an impressionistic manner. Today, the human readable legal code has been discarded and all new legislation is proposed and voted upon as computer code.

The CompLaw Initiative

The second law was the Iniquity Market Oversight (IMO) Act, which itself has two major components. First, it effectively granted the Attorney General's office control over the admissible level of crime. Social theory establishes that a minimum equilibrium level is necessary and unpreventable. Were it socially or economically desirable to do so, higher levels can be induced by throttling law enforcement efforts and controlling the criminal tax rate. Rather than separate these mechanisms, they were concentrated in the hands of the Attorney General. This allows control of criminal credit spreads through market capitalization and serves as a valuable economic lever. In fact, the Attorney General soon became a predominantly economic figure, his earlier duties largely assumed by the FBI. The second effect of the IMO was to establish the Iniquity Exchange Commission (IEC) to regulate the markets themselves. Notably, the IMO is the first official

use of the term "Iniquity Market"[10].

The IEC

In a theoretical sense, the iniquity markets consist of two separate, supposedly decoupled, components: the underlying activities, and the markets. There had always been the possibility of overlap or feedback, but the establishment of the IEC with a set of rules that could be broken by investors led to the real possibility that some firms would function in both capacities[11].

The IEC was modeled on its elder siblings, the SEC and REC. Initially it was manned by economists and focused solely on creating a fair, productive mechanism to address the myriad conflicts arising from such a complex financial and legal framework. In this capacity, it functioned more as arbiter and consultant than policeman. However, with time its character changed. In keeping with the theory behind the iniquity markets, it is inevitable that there is a certain degree of corruption and misbehavior. As long as the level remains below a certain threshold, internal regulations and remediation suffice. However, egregious cases of excess result in scandal and popular outcry. Internal market controls are declared inadequate and draconian legislation is introduced to pander to the public's appetite for reform, whereas the observed instance is simply a statistical fluctuation. The IEC grew to deem itself an instrument of public indignation in an ambiguous ideological struggle, and rapidly devolved into a procrustian watchdog. However, its ascent was short lived. In attempting to usurp authority from the FBI, it found the latter far more experienced at such maneuvers and consequently was discredited and absorbed by that agency.

[10] This has been adopted as the formal name for all such investment venues, though "criminal enterprise market" remains in common use as well.

[11] In fact, there are funds that solely invest in criminal violations of IEC rules. Of course, confidentiality prohibits the funds or the IEC from knowing the identity of the malefactors. It is likely that in some cases this is the parent company of the fund itself, an excellent way of leveraging capital and an act that is specifically illegal.

The Global and Emerging Markets

For close to sixty years the iniquity markets were a uniquely American phenomenon, frowned upon by the remainder of the civilized world. However the underlying ideas eventually propagated, as did a clear perception of the economic benefits to be derived. China, Thailand, and Argentina were the first to adopt analogous systems. Eventually, less developed regions such as Western Europe followed suit. A few countries, most notably Canada, lack the necessary level of crime to develop a functioning market. Naturally, the distinctions between various countries' markets faded over time and, with the emergence of large multi-national criminal enterprises, true globalization was achieved. Distinctions between the legal systems of the leading countries also vanished as the stricter nations found themselves unable to compete. In order to attract criminal activity, they needed to adopt a more permissive attitude.

In many of the less developed emerging markets, the distinction between criminals and the government is blurred. Often the two have an uneasy collaboration, sometimes they are the same. Oddly, politically unstable countries find it easier to attract criminal enterprise investment than legitimate business. The short horizon of such ventures renders them immune to insurgence and strife. In fact, they often benefit from it. It is also more difficult for the government to arbitrarily interfere with foreign investment or default on debt.

Because criminal enterprise has certain unpleasant concomitant qualities, most affluent individuals prefer to invest overseas. In recent times, the leading nations have all maintained close to the minimum socially admissible crime levels[12]. Emerging market crime has proved sufficiently lucrative to satisfy the market appetite for now, though demand may move the Attorney General to raise the crime rate in the near future.

[12]Of course, there is more wealth to steal in economically advanced nations. On one occasion, Bangladesh attempted to fund crime in the United States in violation of legal limits, effectively establishing a black market in crime. This was treated severely as an act of war.

The most remarkable instance of a national government defrauding investors is that of Sweden. The improbability of the culprit greatly aided the endeavor and permitted the affair to achieve a scale that astonished even its perpetrator. A weaker nation, Sweden had never satisfactorily regulated crime. As a result, criminal operation largely went unchecked and a thriving market developed. In 2234, Orkund Avson assumed the position of Minister of Domestic Tranquility. His first act was the creation of the SCG, an undercover agency modeled after the American FBI. It's mandate was the infiltration of organized crime, but corruption and bureaucracy rapidly eroded it into a farce. The failure of a major new initiative to quell crime emboldened criminals, and the society rapidly descended into chaos. A large corporate police presence by firms with financial interests prevented a complete meltdown and the country was slowly brought back to a state of normalcy. However, the lesson had been learned and Sweden's criminal enterprise market grew dramatically. The foreign private police charged exorbitant fees to maintain order, and none of the profit was reinjected into Sweden. This changed on June 14, 2237. At that time, Orkund ordered a crackdown by the SCG. It had successfully feigned incompetence for 3 years to detect the roots of all major criminal organizations in the country. In one day (termed Bloody Wednesday), 43,276 criminals were executed and $1.3 trillion of assets confiscated – much of which represented foreign capital. Condemnation was universal, and few pointed out that these monies had been dedicated to the pillage of the Swedish people. Rather, accusations of conspiracy were vetted. Orkund was charged with economic terrorism and condemned by the UN in absentia. Sweden refused to hand him over. After some months of negotiation and threats, the UN finally voted to take action and a limited sanction was imposed (see Appendix B for a description of the sanction system). The virus took a week to kill 24 million individuals and cripple or neurologically impair most of the remaining 60 million. Another 31 days allowed reemergence of a healthy subset of the population, in this case approximately 2 million individuals. The French firm Vingt-Anneu won the contract to rebuild and manage the nation. Though Orkund's motives remain the subject of perennial controversy, the message had a clear effect. There has been no recurrence.

The Swedish Sanction

The potential for manipulation of foreign governments through criminal investment-induced instability was fairly evident from an early stage in market development, but was formally postulated by Art Housta[13] in 2227. The first acknowledged effort in this direction can be credited to the administration of Arthur Zao. It is likely that prior to that point the global criminal markets had not achieved sufficient size to merit attention; however, intelligence reports indicate that such considerations were clearly on

[13]Proceedings of the Societe Political, Winter 2227, page 411.

the horizon. The CIA's initial ventures were cautious and half-hearted, achieved little of note, and discouraged further efforts for some time. In 2241 the US made its first full attempt to undermine a country, in this case Costa Rica.

The first attempt by the US to subvert a sovereign nation through manipulation of the iniquity markets took place in 2241. Arms, drugs, and religion had served the Agency well for over three hundred years, and the markets represented a potent new tool. To avoid a repetition of earlier debacles and prove the efficacy of criminal market subversion, the government injected far more capital than was necessary. Success followed, but at a high cost. Costa Rican society degenerated and the currency inflated to astronomical levels. For several years, the country boasted the highest murder rate per capita in the world and proved a hotbed for insurgent movements. Eventually the regime was overthrown and, after a decade of civil war, a sympathetic government found its way to power.

The Costa Rican Fiasco

Similar attempts have been made, more or less successfully, by other nations. Most notably, England and France have invested heavily in one another's criminal markets in a continuation of their perpetual strife. This accomplished little as both markets were saturated and highly regulated. International law does not address the practice of criminal investment subversion and it is left to each country to guard its own economy.

A word should be said about the only known attempt to subvert the American economy. This was authored by Rupert Holmes' regime in Australia. America considered this an act of war and prepared to respond unilaterally, since the UN could take no official stance without appearing inconsistent. The world feared a repetition of the Belgian fiasco; however, Australia surprisingly escaped military rebuke. It experienced a coup, arrested and executed Holmes and the entire parliament, and abjectly apologized for its behavior before Congress could authorize action. The sheer audacity of the attempt and the rapid expiation of guilt led America to declare that it had been the work of a madman and show uncharacteristic clemency. Nonetheless, appearances dictated that Australia be penalized. It was demoted to provincial status for several years before quietly being restored.

The Australian Situation

Current State

"War is the extension of politics" and crime is the extension of economics. This is now true in a very real sense. Short sighted economic interests frequently lobby to increase crime and eliminate law enforcement. However, such incentives must be weighed against the benefits of social stability. At some level of permissiveness, the ability to collect revenue from criminal enterprises is itself impaired and random baseline crime interferes with the professional activities of skilled criminals. The Attorney General's office has managed to balance these concerns and achieve a reasonable compromise so far.

Today, the global iniquity markets see close to $40 trillion of annual trading. Perhaps counter-intuitively, the financial professionals involved in these markets are no less scrupulous than their more traditional ilk. Somewhat less surprising is the complex interaction between markets and the underlying ventures that has blurred the line between financial firms and criminal enterprises. With advances in social and mathematical understanding, the levels of abstraction will continue to grow until securitization itself is a pure and platonic notion, decoupled from all else. Perhaps even the concept of securitization will itself be securitized. One can only wonder what the next exciting step along this path will reveal.

Appendix A: Generalized Marriage Contracts

The first Generalized Marriage Contract was invented in 2142 as a means to insulate certain corporate transactions from inconvenient scrutiny and the prosecution this might engender. Though the institution did not endure, it is worth examining both the spectacular arc of its life, and the significant philosophical issues it raised. In fact, it was the presence of these hitherto unexplored aspects of econosocial philosophy, and society's inability to adequately address them, that led to its artificial and premature demise. Had the novelty been allowed to pursue its natural course to completion, we could very well live in a different society. The world moves forward in unexpected leaps of genius, if it has the courage to allow them.

To understand the nature and advent of the Generalized Marriage Contract, it is necessary to examine the hierarchy of privileged relationships that resulted from our intricate legal system. Each protection was gleaned from countless disparate laws and cases, and as such there was no simple foundation for the enumeration until its explicit codification in the Husmann Act. The primary protected relationships are, in increasing order of sanctity: corporate communications, doctor-patient, priest-confessor, psychiatrist-patient, laird-thrall, national security, and spousal. The critical element to note is that all but the last two are imperfect and may be circumvented in a variety of circumstances.

The Generalized Marriage Contract was a mechanism to move corporate communications to the level of marital speech. In order to enjoy the highest level of protection afforded by the law, firms formed spousal relationships with their clients. As corporations were legally considered to possess the same rights and obligations as individuals, this odd interpretation was surprisingly effective. By forming multiple subsidiary corporations on both the client and broker sides, any issues of polygamy could be avoided. Gender specification was not a real issue because marriage is allowed between any combination of sexes; formally the partner corporations simply assumed gender roles. Actual marriage certificates were is-

sued and notarized by judges, complete with standard symmetric prenuptial agreements. Upon dissolution of the relationships, formal divorces were granted, or to ease the assumption of assets in the case of default, a death certificate could be issued for one of the partners. This practice could have evolved into a standard piece of corporate law with interesting ramifications elsewhere, much as the incarnation of corporations had redefined the path of economic development two centuries earlier. However the dangers of widespread misuse proved fatal. In particular, there arose the abuse termed " inversion", a use of similar tactics by individuals for the purposes of forming multiple real marriages. The consequent accessibility of polygamy raised a moral furor and, rather than solely address those contingencies, lawmakers explicitly forbade all such unions. However, they failed to address the broader issue of Generalized Marriage Contracts as abstract vehicles.

A similar approach could be taken to any business or personal relationship. The world began to fill with myriad entities designed as protective interfaces between individuals. Naturally, this concerned the government as it impaired surveillance. However, the difficulty and expense of creating Generalized Marriage Contracts limited their ubiquity and the vast majority remained affiliated with large corporations. The matter would have ended there, with well-endowed lobbying efforts thwarting legislative action. However, the entire dynamic changed when Jorge Hasberg invented MB technology. Aptly named Marital Bliss, this program generated automatic spousal wrappers around every piece of information transmitted electronically. Integrated with encryption, this posed a major threat to surveillance and prosecution. Previously, the government could subpoena encrypted information deemed material to an investigation. The potential for all information to be both indecipherable and legally inaccessible was unacceptable. A progressive outcry developed, fueled by a few highly publicized abuses. The Quayman-Speeger act of 2148 decisively put an end to the entire matter. It's wording was so strong that for some years even the status of traditional marriage remained unclear and that venerable institution has never recovered.

Appendix B: Punitive Response Tiers

The organic philosophy of morals arose in the late 22nd century in opposition to the Pasquian Second Humanistic ethics prevalent at the time. The premise of organic morality is that one must view actions in the context of their appropriate scale. Derived from the theory of hierarchical complexity endemic to scientific inference, it posits that the laws governing interactions amongst equals vary at different levels. Cells, men, families, cities, corporations, and nations each engage their own. An interaction cannot be morally judged unless it is between equals or of sufficient scope to be effectively so. A man may not commit a moral transgression against a cell. A city may destroy individuals without moral implication, and so on. This is logical and avoids the distasteful inconvenience of tallying individual deaths in a world of exponentially increasing size and complexity. The deaths of hundreds of millions today is comparable to the deaths of tens of millions in the 20th century or the deaths of hundreds in ancient Norway. Indeed, the grand epics of old involve minor skirmishes among handfuls of men. An enormity in one time and place is a triviality in another. In modern times, we speak of city-level deaths. The annihilation of a hundred cities is morally comparable to the deaths of a hundred men in the fourteenth century. It is likely that we will soon grow accustomed to national deaths as well.

The Organic Theory of Morals

A brief review of the levels of sanction may shed some light on the relative perceived severity of the transgression for which they are applied. According to UN charter revision 1288b, passed in 2173, there are 4 levels of official sanction:

(1) Reprimand: Aimed at inducing small scale economic disruption, this is usually a holding penalty to induce cooperation or reprimand misbehavior. A number of options exist: short term sporadic bombing of civilian targets, destruction of a major industrial facility, or application of an incommunicable biochemical agent designed to induce crippling or encumbering ailments. Reprimands may be applied repeatedly, with increasing severity as needed.

(2) Rebuke: This is an isolated warning and cannot serve as either punishment or censure. It is analogous to the traditional "shot across the bow". Most commonly, this has involved geographically localized nuclear bombardment such as the destruction of one major city. On several occasions,

an incommunicable biochemical agent has been employed to randomly sterilize or impair a large fraction of the populace.

(3) Censure: This serves as either a defensive or lesser punitive response rather than a prohibitive one, and aims to remove regenerative capabilities for one generation. The usual mechanisms are large scale nuclear bombardment or the release of a lethal biological agent. The target is a 90% reduction in population, removal of all military and industrial capacity, and cultural extirpation. To this end, specially engineered biological agents have been developed. The most common is G50-31, a virus engineered to cease replication after 50 cycles or 31 days. This allows saturation of approximately 10 million hosts at a viral load of 100 million on average. After expiration the virus lyses and poses no threat, allowing for safe application with proper quarantine procedures.

(4) Penal: The most severe response entails complete extermination of every human being in the country, as well as all citizens abroad. The latter can prove troublesome. Generally, a genetic proximity test is used for ethnically homogenous populations and a simpler descent test otherwise. In practice, the application of these is left to individual countries.

The rarity of the penal sanction arises from practical considerations, as its application proves extraordinarily expensive and dangerous. The willingness of the UN to apply various levels of sanction has been amply demonstrated and there is no reform value in destroying an entire nation, so little can be said in favor of a frequent application of penal sanction[14].

[14]For a dissenting opinion on this see Proskauer, et al in the Journal of American Psychology Issue 412, page 67.

The only instance of penal sanction so far occurred in 2254 in the infancy of the sanction system and was later repudiated in 2262 by UN vote. In that case, France, Canada, and Lebanon were in rotation chairing the security council. Israel had been characteristically petulant in arguing against tariffs on technology outsourcing to its Arab population, widely acknowledged to be amongst the best and cheapest computer engineers in the world. In an instance of ill-timed hyperbole the Minister of France proposed a Full Sanction against Israel. Despite his attempts to retract it, procedure dictated that the proposition be voted upon. Israel had generated a great deal of ill will over the years because of its belligerent Prime Minister, and a number of UN members felt they would make a harmless point by voting in favor of the proposal. In an exhibition of the dangers of closed voting, these members as well as Israel's perpetual enemies proved a slim majority and the sanction was carried. UN guidelines provided no mechanism for repeal, but the US signaled a clear displeasure with the outcome and threatened to unilaterally defend Israel. The borders were irradiatively sealed pending action, but nothing happened for a year while the US negotiated a solution. As an agreement appeared to be in sight, the population of Israel began to sicken and die. Apparently, 3 contagions had been released - two immediately after the edict and one within the last week. Their communicability, incubation times, and onset speeds were engineered to guarantee that nobody escaped. Within a month, the entire population was dead. Most countries surrendered members of the condemned population for UN processing but several did not. The United States was furious, but could not risk incurring significant economic damage through purely retributive action. The entire exercise proved quite costly, however, as the UN was required to stockpile large quantities of engineered anti-viral agents in case quarantine proved ineffective.

The Israeli Case of Penal Sanction

Appendix C: Emergence of the Debt Markets, Structured Products, and Derivatives

Criminal enterprise contracts confer beneficial ownership in each venture's profits but also can be viewed as providing a return on the investment capital. As such, they possess characteristics of both equity and debt[15]. Although the first liquid markets happened to focus on the former, debt markets soon followed suit. Criminal enterprise pools and funds behave much like their corporate equity counterparts, though the underlying associations are of shorter duration. Equity instruments are notoriously difficult to analyze, particularly when based on such transient and heterogeneous activities. This limited the appeal of the criminal enterprise market, and most conservative institutional investors would not participate. Naturally, a solution was needed. As a result, the major rating agencies began to rate pools of criminal enterprises[16].

Beginning with Kyrkos Brothers, a number of top tier financial firms began to underwrite criminal enterprise debt offerings. Each such institution adopted a set of complex models to compute an appropriate yield from the aggregate parameters of the underlying contracts[17]. Through a combination of hedging and diversification, they could minimize risk in a manner inaccessible to small investors. The behavior and risk of a bond can be specified using a few standard parameters[18] Aside from a few minor features such as embedded options, a credit spread universally characterizes the premium that investors demand due to non-market risks[19]. Thus the

[15] A telling oddity is that despite the form of the contract, investors typically refer to criminal enterprises by their "effective yield" – a decidedly debt-like perspective.

[16] Though it would appear more natural to assess the underlying entities, the necessary information to do so is inaccessible.

[17] Many models were developed to compute such yields, the most famous being the Doolan-Sterwitz algorithm. It and the Kween ratio are the standard means of pricing a bond portfolio.

[18] The key economic parameters of any pool are the expected return if successful (ρ), the risk of default (ξ), the risk of abandonment (η), and the risk of failure (κ). In addition, each pool is classified by a number of qualitative characteristics: type of crime, level of violence, geography, etc., rendering it directly comparable to counterparts in other markets.

[19] Interest rate risk is common to all bonds of a given duration and is embedded in the base

resulting debt offerings are amenable to analysis using a plethora of existing tools.

Within four years of its advent, the criminal debt market had grown to subsume 90% of all traded volume. Because debt pools are large, specific, and underwritten by particular banks, such activity is entirely negotiated. Small investors may participate through the purchase of shares in debt funds, introducing yet another alternation of the debt-equity structure. It should be noted that the emergence of separate debt and equity markets was rather artificial. Investors prefer instruments analogous to those with which they are familiar. However unnatural in this case, the dichotomy has persisted.

As with most markets, a number of derivative instruments evolved. The first of these were structured obligations, tiered by risk. A CCO, or collateralized crime obligation, consists of a set of pools with repayment priority allocated to investors in a specific order. More complex products followed, the most notorious being the Inverse Principal Only bond which acts as an insurance policy and only pays that portion of the initial investment that is lost in each venture[20]. Traders created CCOs or attempted to recombine them into underlying pools as conditions dictated. Futures and more esoteric derivatives also emerged, but these remain illiquid and highly speculative.

"risk-free" yield required by the market, whereas the credit spread distinguishes between bonds of a given duration.

[20] Originally structured as a hedging instrument, this bond has an unjustly pernicious reputation. This arose from several instances of injudicious speculation, the most spectacular of which resulted in the complete loss of Harvard's legendary endowment.