Changing values: Transforming the global economy

Prabhu Guptara

Professor Prabhu Guptara is Executive Director, Organisational Development, Wolfsberg (a subsidiary of UBS – one of the largest banks in the world) and a Freeman of the City of London and of the Worshipful Company of Information Technologists. He is Hindu follower of Jesus the Lord. He writes here in a private capacity and his remarks have nothing to do with any of the companies or academic institutions with which he is or has been connected.

EVERY SOCIETY HAS ALWAYS HAD GREEDY PEOPLE. HOWEVER, EVERY SOCIETY HAS ALSO HAD MECHANISMS BY WHICH THAT GREED HAS BEEN LIMITED, CONSTRAINED AND DISCOURAGED.

We live for the first time in history in a society where institutions that have traditionally performed this role are either seen as irrelevant (e.g. the Church), or are breaking down (e.g. the family), or positively encourage, rather than actively discourage, greed (e.g. government through the legislative system). In the West, we have established greed as the ruling feature of our time and it has become institutionalised. At the same time, there is now a culture of debt, which is a consequence of a global culture of greed, and an obsession with short-term gain. This has fuelled the current economic crisis.

All this raises fundamental questions about the values we want to live by as a globalising society. How do we counter this culture of debt and greed? What measures can be put in place to transform the global economy and put it on a sounder basis? This is a vast field to traverse and in order to provoke thought I will indulge in some exaggeration and simplification.

Institutionalised creed

Step 1: Fiat currencies

One of the most recent steps in the institutionalisa-tion of greed was the debasement of currencies by the acceptance of fiat money, money that a government has declared to be legal tender, despite the fact that it has no intrinsic value and is not backed by physical reserves, such as gold or silver. These days, however, currencies are liberated from such tangible reserves. This means the amount of paper money in circulation is manipulated more freely and flexibly. This has speeded up economic growth but at the cost of greater inflation.[1] The question is, have we been growing cancerously fast? There is an urgent need to re-establish limits on the amount of money that can be printed, in order to relate money supply to something like the value of goods and services produced.

Step 2: Manipulating Statistics

Governments have probably always been 'economical with the truth'. Such 'economising' was usually in relation to defence and the security of the country, or some other such national crisis, or at least life-and-death matter. However, in the USA, particularly under President Clinton, changes were introduced in the way that, for example, the Consumer Price Index (CPI) was calculated. So, instead of calculating what it cost to buy a pound of lamb in year X and comparing it to what it would cost to buy a similar pound of lamb in year Y, the argument was that as the price of lamb went up, the ordinary citizen would start buying hamburgers – so, in year Y, we should not take into consideration the price of lamb but the price of hamburgers. These kinds of tricks kept the CPI from looking too bad. At the same time, it was relatively easy to keep the lid on the prices of consumer goods until now as a result of the productivity improvements offered to us by technological improvements, and the biased terms of trade, on the basis of which the developed world gets cheaply the raw materials that it needs to make consumer and other goods. The use of such government tricks meant that, by 2006, inflation in the USA was already being under-reported by about seven per cent.

Step 3: The start of structured financing

Historically, banks had to keep on their books any mortgage loans they issued. From the 1970s, asset securitisation began when the US Department of Housing and Urban Development used a mortgage-backed security, followed quickly by the Government National Mortgage Association (GinnieMae) selling securities backed by a portfolio of mortgage loans.[2] By 1985 securitisation techniques had spread to car loans; by 1986 to credit cards, and by the 1990s to insurance and reinsurance markets including life and catastrophe insurance. By 1997 there was the first public securitisation of Community Reinvestment Act loans to low and moderate income borrowers and neighbourhoods.

What was the total amount of money involved in securitisation? Who held the eventual risk? In October 2004, the Joint Forum,[3] established to deal with issues common to the banking, securities and insurance sectors, published their study entitled 'Credit Risk Transfer'. The study contained the following remarkable statement: 'The Working Group spent considerable time discussing with market participants the related questions of *how much risk is actually being transferred* via credit derivatives transactions, as well as the ultimate sources of risk protection ... In general, the Working Group believes that it would be impractical to develop a precise answer to these questions, because it would require a comprehensive survey of a very large number of market participants, including many private fund managers, and a detailed analysis of many different structured products.' In other words, not only was the answer to such questions not known, the answers *could not be known*. The risk was too huge to be calculated and no one knew who held it or what would happen in the case of a sudden problem.

'Transferring risk' is not the same as 'eliminating risk'. The risk is eventually held somewhere and if the risk is held by the whole system then the whole system is at risk. In October 2008, the total amount of outstanding derivatives, hedge fund transactions, Credit Default Swaps and so on the USA economy, added up to $1,144 trillion. To put that figure in perspective, it is worth remembering that such amounts are expected to produce a liability of around five per cent in 'normal' times. However, even at five per cent, that amounts to a 'real' liability of more or less the whole of world Gross Domestic Product, which is, in round figures, $50 trillion. This amounts to a kind of global gambling on the entire economic and financial structure of the globe, thus turning the global economy into a 'casino economy'.

Step 4: The removal of the Glass-Steagall Act

The Glass-Steagall Act (the 1933 version that became the Banking Act) was introduced directly as a result of the 1929 crash. This piece of legislation separated commercial banking from investment banking on the basis that speculative activity should not take place with the savings of ordinary people. However, this restriction was removed in 1999 with the adoption of the Gramm-Leach-Bliley Act. Consequently, speculators suddenly had access to more money (including that originally given by savers and investors for other purposes), and the financial services world as well as the global economy grew more rapidly.

Step 5: Profit maximisation

This brings me to the next step: with the influence of Milton Friedman and others, the goalposts were moved regarding the purpose of the existence of companies. Historically, companies *existed* in order to serve customers and to make a reasonable profit. Risk was limited. However, because of the influence of the Chicago School (among others), the watchword became not 'reasonable profit' but 'maximum profit'; not risk minimisation but profit maximisation.

On the basis of 'maximum profit' in monetary terms, it does not make sense to be involved in marriage, bringing up kids, have an evening at a restaurant enjoying a nice meal, or listening to music, or painting or interior design, or any of the things that make life worth living. I am exaggerating, but not that much: just consider how marriage and children have become culturally unfashionable, and how art and music have been taken out of school curricula. I know of young people who are slaves to the corporate model. They don't have time to take a holiday or relax properly. They don't even have time establish meaningful relationships with people outside of the workplace.

Step 6: A Culture

The final step I want to mention is the political sponsorship of greed as the new culture of the West. For example, in the UK, Margaret Thatcher systematically and frequently preached the slogans 'Greed is good' and 'There is no such thing as society.' She was, of course, merely parroting what President Reagan's government had made the official philosophy of the USA. The reference was to Adam Smith's notion of the Invisible Hand and the fact that if everyone operates in her or his self-interest, the economy seemed to be able to curiously to look after itself. However, just because it looked after itself in Adam Smith's time does not mean that the economy is going to look after itself nowadays. Why? Because Smith was talking about a relatively moral market within single countries where the rule of law was established, and within a 'Christian culture' in which people believed in providing the best product or service for a reasonable profit. None of that is true in today's global economy. So it is a bit naïve to expect the economy to look after itself. The so-called 'free market' was actually about who got tax breaks, what was believed and seen and done by central bankers, accountants and rating agencies, what was legalised or subsidised, and at what cost and to which crony's benefit. Money was confused with real wealth. All this was the result of having successfully promoted the illusion that private greed equals the common good. While private greed may 'increase economic efficiency', this is at the cost of the very basis of society: trust, respect, environmental care and minimum standards in society. And such considerations were swept aside by the likes of Thatcher and Clinton (who, curiously, inherited President Reagan's mantle).[4] As long ago as 1998, Professor Jeffrey Sachs, Director of the Institute of International Development at Harvard University, was quoted in *The Economist* as saying that we are 'facing a world of greater income inequality than ever before in history',[5] and the situation has only got worse since then. According to the World Bank's figures, by spring 2008 over 100 million people had been freshly thrust below the poverty level because of the global economic crisis. Since then, the number of poor has continued to rise.

Countering the culture of creed and debt

There is a good chance that the global economy will avoid a systemic collapse. But it is difficult to see how we will avoid a painful period of contraction, structural adjustment and regulatory reform. But will that be enough? Don't we need to think of more fundamental practical actions to put the global economy on a sounder basis? If the global economy is to grow steadily, rather than in the sort of 'global boom-global bust' that we have seen since the fall of the Berlin Wall, some quite simple actions can dampen the booms as well as the busts.

We urgently need a wide debate about counter-cyclical mechanisms that might be most efficacious in countering the global culture of greed and debt. Some of the mechanism we might consider include:

- Standardisation and transparency regarding all securitisation products.
- Agreed rules and limits regarding hedge funds, derivatives and structured products.
- The abolition of special vehicles and the emplacement of agreed global rules, in order to assess public and company debt in a fair and transparent manner.
- Re-establishing limits on the amount of money that can be printed, in order to relate money supply to something like the value of goods and services produced.[6]
- A global requirement on, say, the richest 1,000 families in the world to invest one per cent of their income in any of the least developed countries of their choice.
- Agreement whereby the top 1,000 families in every World Trade Organization country are required to invest say two per cent of their income in any micro-credit or micro-investment company of their choice in their own country.
- Reintroducing limits on chargeable interest rates worldwide.[7]
- Global standards regarding the environment, pensions, health and safety.
- The encouragement of complementary currencies that are specifically designed to be counter-cyclical.

These are just a few of the measures we should consider and I am not arguing for the introduction of any single one of these mechanisms, let alone all of them.

It is clear that the collapse in financial market confidence, and the deleveraging which is still underway, has already done colossal damage. Only the application of further counter-cyclical mechanisms can hope to limit the extent and duration of the damage that is still likely to be caused. The application of such counter-cyclical measures needs to be supplemented with wider cultural measures – e.g. (a) restoring education to its function of nurturing citizenship and genuine personal fulfilment and moving away from the present function of training people for employment by the elite; (b) restoring the media to the function of truth-telling, by removing the obsession with entertainment,[8] (c) agreeing a global minimum wage and/or guarantees need to be introduced for food, clothes and shelter – this is easily affordable;

and
(d) liberating fundamental and even applied research from the trammels of private sponsorship.

Conclusion

When a culture stops trusting God, it loses its way and ends up trusting in a variety of idols, such as money and possessions. If secularists think that it is ridiculous to have faith in God, they might want to reflect on the fact that we all not only have faith in, but actually live our lives on the basis of, the much more nebulous thing called the market. My prayer is that there will arise people who will receive, as from God, a vision to clean up our new global society from over-reliance on greed, debt, fear and mere money. We need a new generation of people willing to be transformed as individuals, willing to create a new sense of community, ready to pay the cost of working for the continued transformation of our global society, and of transforming companies so that they work to produce wealth for the globe, not just for those who are already rich.

Notes

1. It was the miraculous increase in the money supply, engineered by Federal Reserve Chairman Greenspan (who has recently begun to acknowledge his mistakes), which helped house prices in the USA rise by more than 70 per cent between 2000 and 2006.

2. Securitisation, in its most basic form, is a method of financing assets. Rather than selling those assets 'whole', the assets are combined into a pool, and then that pool is split into shares. Those shares are sold to investors who share the risk and reward of the performance of those assets.

3. That is, the three bodies who together are supposed to oversee the whole of the world's finance and economics – the Basel Committee on Banking Supervision, the International Organisation of Securities Commissions, and the International Association of Insurance Supervisors

4. See Jeff Faux's book, The Global Class War: How America's Bipartisan Elite Lost Our Future – And What it Will Take to Win it Back (Indianapolis, IN: John Wiley & Sons, 2006).

5. The Economist, 12 September 1998.

6. The USA has printed roughly $15 trillion, when the value of its goods and services is roughly $14 trillion – no wonder the dollar is in difficulty.

7. Real traditionalists such as myself would argue for the entire abolition of loans, in order to encourage and allow only investment.

8. This could partly be achieved through global quantity controls, and partly by introducing competition for the commercial sector from socially sponsored media responsible for quality alone.

For permission requests, please email permissions@biblesociety.org.uk or telephone Bible Society on 01793 418100.