

MORE ADVICE FOR SUMMITEERS ON REFORMING THE GLOBAL CASINO

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US President Obama's decision to skip the first summit of leaders of the G-20 in Washington, November 15-16, 2008 reflected his understanding that the world economic order has changed. The new global players in the Group of 20, led by Brazil, China, India, and many other now powerful industrializing countries of the South will challenge Mr. Obama's own call for change. Let us be clear – the global financial system and the processes of economic and technological globalization over the past 25 years have not only failed but have brought greater injustice, widened inequality, increased social disruption and wreaked enormous ecological damage.

While the first Communiqué from the leaders was guarded and polite, it clearly signaled a new economic order. A new "Bretton Woods II process" will be launched on April 2, 2009 in London. Agreements were reached in Washington on many needed reforms of the global financial system and the crises the lack of regulation and oversight, excessive greed, risk-taking and leverage have caused. I have warned for decades how globalizing and interlinking all these 24/7 markets inevitably helped create chaos in the entire system.¹ While not naming the USA, the leaders blamed the crisis on "some advanced countries" "whose policymakers, regulators and supervisors did not adequately appreciate and address the risks building up in financial markets." US citizens feel betrayed by Wall Street and their trust has been shaken. The European leaders cited the need for new regulatory action to curb speculation, leverage, hedge funds, private pools of capital and derivatives such as the some \$60 trillion of credit default swaps which played a key role in the turmoil. The total of credit and derivatives contracts is estimated by the Bank for International Settlements (BIS) at \$683 trillion.²

The disgraced Wall Streeters and other financial players in the global casino are still in denial that financial sectors, particularly in the USA and Britain had metastasized to some 25% of their GDPs. Switzerland is in a similar condition, while the fate of Iceland looms as a lesson. An efficient financial sector should comprise much less than 10% of a country's GDP. The issue is how to downsize and deleverage all those illusory gains that have now become illusory losses that have corrupted money systems on which real productive sectors have come to rely. The power struggles concern who is going to take the losses: the players themselves who profited on the upside, the shareholders and bond holders or taxpayers? So far, in the USA, due to the

powerful Wall Street lobby's influence in Washington, the taxpayers are taking the hit. So much trust has been lost that President Obama has inherited a poisoned chalice.

Meanwhile, China, Brazil, India, Russia, South Africa and other powerful members of the G-20 are also concerned with "a new international financial order that is fair, just, inclusive and orderly" as stated by China's President Hu Jintao. On the table will be fairer representation of voting power in the IMF, the World Bank and the WTO so as to reflect the new global reality that the USA is no longer the locomotive of the world economy. Indeed, most of today's global GDP growth (an inadequate measure) is, nevertheless, now provided by China, India, Brazil and other emerging economies of the South. The USA, the world's largest debtor, controls 17% of the votes at the IMF, while China, the world's largest creditor, controls only 3.66%. Unfortunately, the Obama administration's top economic team: Larry Summers and Timothy Geithner bear heavy responsibility for the economic crisis and, together with former Treasury Secretary Robert Rubin, Jason Furman and Austan Goolsbee, they are trapped in old economic textbook models.³

The 2009 report of the private Group of 30 elite financiers, chaired by former US Fed Chairman Paul Volcker, stuck to a familiar list of reforms of global financial architecture: more coordinated, transparent, international regulation, standards, governance and accounting practices, as well as limits on leverage, compensation and perverse incentives for risk-taking. This Group of 30 representatives from Citibank, Morgan Stanley, JP Morgan Chase, AIG, Merrill Lynch and other now-humbled firms, has been studying the explosion of exotic derivatives for some two decades but has offered little useful advice other than calling for clearinghouses for over-the-counter contracts such as credit default swaps.⁴

An important underlying issue is how capitalism itself must evolve. The US-led model of economic growth, as measured by money-denominated GDP (see figure 1, GNP Problems), the so-called "Washington Consensus" of free markets and trade, open capital accounts, floating currencies, privatization, all dominated by mostly un-regulated global financial markets, has now clearly broken down. China led the new debate by calling its summit meeting in Beijing in late October, 2008, attended by all the European countries, as well as the G-20 and other African countries as well. The Bush administration's disdain for such multi-lateralism left the USA way behind the curve, not invited to such important gatherings, including the Shanghai Cooperation Organization which includes Asian and Central Asian countries, including Iran. Meanwhile China has formed close alliances worldwide, particularly with Europe, African countries and those in Latin America. The new G-20 demands for fairness include democratization as well as expanding the United Nations Security Council to include permanent membership for Brazil, Japan, India and important countries of the South, such as Indonesia and South Africa, including scrapping the veto still wielded by the old "permanent five" victors of World War II.

All this is a rude awakening for many in the USA. At least the Obama team is reversing the Bush administration's ignoring of other countries' interests and going it alone. Today, most US citizens now realize that we need the world and the United Nations and that, indeed, the global financial crisis which began on Wall Street now requires global cooperation to solve. This is the true dimension of change that President Obama must now face. Former Assistant Secretary of

the Treasury under Ronald Reagan, Paul Craig Roberts, warns President Obama that the Bush bailouts and the new \$1 trillion-plus recovery plans must take a new course if the US dollar's value is to stabilize. Roberts warns that the \$ trillions spent on fighting Bush's unnecessary wars in Iraq and Afghanistan will bankrupt the fragile US economy and urges Obama to end both these senseless occupations.⁵ Bank of Sweden Prize winner Joseph Stiglitz estimates the Iraq war alone will cost \$3 trillion,⁶ and in a recent editorial called for the US to take over its large, insolvent banks.⁷

Reforming the un-regulated global casino must be addressed promptly if further harm to the innocent, poor and vulnerable is to be prevented.. The Communiqué from the G-20's 2008 Washington summit clearly cited increased cooperation between nations as essential, particularly oversight of global banks and other financial players. Cooperation is necessary to avoid "beggar-thy-neighbor" policies trying to advantage any one country, but this no longer can be couched in old "free trade" slogans. Sovereign countries have rights to protect their citizens from private sector exploiters without being accused of "protectionism." British Prime Minister Gordon Brown suggested a "global collegium of regulators." However, no mention was made of the most urgent priority: to tackle the up to \$3 trillion of daily currency trading, over 90% of which is speculation. Bouncing currencies have led to much of the turbulence and excessive volatility in world markets as "contagion" spreads in minutes in this 24/7 around-the-clock trading. A small, less than 1% tax on all trades has been advocated since the 1970s when it was proposed by economist James Tobin and in 1989 by former US Treasury Secretary Larry Summers.⁸ Not only would this reduce speculation, but it would raise over \$300 billion annually to meet UN Millennium Development Goals and fund needed public goods.

Such a currency-exchange tax would be simple to collect using a computerized system which can be installed on trading screens, such as the Foreign Exchange Transaction Reporting System (FXTRS).⁹ This system operates like an electronic version of Wall Street's venerable "uptick rule," enacted in 1934 but repealed during the Bush II administration. Today's Wall Street traders themselves are calling for its re-instatement to curb naked short-selling. The FXTRS computerized "uptick rule" gradually raises the basic, less than 1% tax whenever a bear raid starts attacking a weak currency. Such bear raids are rarely to "discipline" a country's policies, as traders claim, but rather to make quick profits. In the transparent FXTRS system, traders selling falling currencies begin to see that the rising tax is cascading into the country's currency stabilization fund and cutting into their gains. Seeing no further profit, traders can voluntarily exit the market and search for some other currency or arbitrage opportunity. The funds collected from such currency exchange taxes would, along with another issue of special Drawing Rights by the IMF, raise hundreds of billions of dollars. (See www.HazelHenderson.com click on FXTRS.)

Hopefully, the April 30, 2009 summit will take up such proposals and lead to the rapid implementation of other Action steps to regulate financial markets already cited, including criminalizing tax avoidance and tax havens and exposing to shame countries that do not comply with the International Financial Action Task Force (www.fatf-safi.org), as well as harmonizing of regulations and standards between countries to prevent regulatory and tax regime arbitrage. Professional groups, including the International Accounting Standards Board, IOSCO and others

can be recruited to the task, as well as the companies in the UN Global Compact and the UN Principles of Responsible Investing.

The 800-pound elephant still not acknowledged is the need for monetary reform of fractional reserve banking itself, which allows banks to create most of a nation's money-supply as debt – out of thin air. Restoring the right of democratic nations to coin their currency directly (as required in the US Constitution) is now essential, particularly in the USA where debt is now crushing every sector and the Federal Reserve along with the Treasury are now printing money in clear sight of taxpayers. In Britain, there are many such proposals for reforming the Bank of England, including those of the New Economics Foundation, banking experts James Robertson and those of Canada's Committee on Monetary and Economic Reform (www.comer.com). The American Monetary Institute has introduced a bill in the US Congress to achieve the gradual change needed in our banking system (www.monetary.org).

The market-fundamentalists abetted by the economics profession and the Bank of Sweden have waged a 30 year campaign to portray economics as a science. They succeeded in persuading the Nobel Committee to set up a \$1 million prize in the 1960s with the late Milton Friedman of the laissez-faire Chicago School as its early recipient. This so-called Bank of Sweden Prize in Economic Science in Memory of Alfred Nobel is now being criticized by many, including Nobel's heir, lawyer Peter Nobel, Nassim Nicholas Taleb, author of The Black Swan (2007), myself and many mathematicians including Ralph Abraham, Benoit Mandelbrot and other scientists.¹⁰ Too many of these subsequent Bank of Sweden "Nobel Memorial" prizes have been awarded to laissez-faire economists, particularly those whose research purported to prove (using specious mathematics) why central banks must be free of all political control – even by the most democratically elected governments. Today we see central bankers out of control, printing money, awarding favored treatment to large banks, reckless insurance companies like AIG, and claiming the privilege of secrecy. The US Federal Reserve Board even refused Freedom of Information requests by Bloomberg, Fox News and other media with questions as to which companies have been so favored and by how much. Now that the US Treasury is at last disclosing where the first \$350 billion of TARP funds went, perhaps the Fed will follow suit.

More fundamentally, the failures of global monetary systems are rooted in the expansion of human knowledge and innovation as we transition from the early fossil-fueled Industrial Era to the cleaner technologies of the information-rich Solar Age (see figure 2). Just as the gold standard failed to provide enough “bandwidth” for all the growth, innovation and new communication and transactions of the Industrial Age, so today's money circuits cannot provide enough bandwidth for the greatly expanded communications and trading of today's growing Information economy (see figure 3).

The disruptive technologies rapidly displacing those now unsustainable, polluting Industrial Age technologies have already burst out of the existing money circuits and narrow central banking regimes. Money is merely one form of information, and now the pure information-trading platforms are providing the needed extra bandwidth for trading, including that exclusively for socially and environmentally responsible investors and companies helping grow the green, sustainable economy world wide¹¹ (see Ethical Markets' Advisory Council which includes leaders of the Calvert Group, the Social Investment Forum, Green America, Innovest Strategic

Value Advisors, Capital Missions Company, the World Business Academy and Iowa Progressive Asset Management, the leading US broker-dealer firm for socially responsible investing. Many, including Ethical Markets Media, LLC, are signatories of the UN Principles of Responsible Investing, which represents pension fund and other institutional asset managers \$15 trillion under management.

Beyond securities trading on secure internet platforms like Archipelago, Instinet and such networks as Wall Street Without Walls, prosper.com and others, we have seen the explosion of internet trading (B2B, peer-to-peer, C2B, etc.) since 2000. They include such major companies as e-Bay and Amazon, social networking sites like MySpace, Facebook and LinkedIn, as well as all the new electronic barter and gifting sites, Craigslist, Freecycle, Global Giving, Green Grants as well as thousands of similar electronic trading systems, cell phones, radio programs and local scrip "currencies" used to match needs and resources and clear local markets starved of credit. Wall Street's single-minded focus on money led to its demise. Money was equated with wealth and ignored all the other forms of wealth, from human skills, networks and ingenuity to the productive systems of nature in which all economies are embedded. Money, like gold, will remain a useful store of value and medium of exchange, but now as part of a new broader, more inclusive regime dominated by pure, information-based markets.

So, where should the G-20 begin in April at their London summit? China and the European Union's lead in October 2008, convening 40 leaders for the 7th Asian-European Meeting in Beijing, included representatives of the 27 European countries, 10 ASEAN countries, the European Commission, China, Japan, South Korea, India, Pakistan and Mongolia. China's foreign ministry spokesman Qin Gong said "China maintains that the international community should strengthen cooperation and jointly handle the current financial crisis on the basis of equal consultation," as reported by analyst Antoaneta Bezlova in Other News, October 22, 2008. UK Prime Minister Gordon Brown proposed the global system of collegial financial supervision, including empowering the IMF to monitor global markets.

French President Nicholas Sarkozy, who commented on the financial meltdown as: "an act of treason against the values of capitalism," will announce the report of his Commission, headed by Joseph Stiglitz and Amartya Sen (also a Bank of Sweden Prize winner) on how to correct GDP and incorporate health, education, environment and poverty indicators. This agenda was endorsed by EU Commission President Manuel Jose Barroso at the European Parliament's BEYOND GDP conference convened by EC Commissioner Stavros Dimas, EUROSTAT, the OECD, the World Wildlife Fund and myself, representing the Club of Rome (see proceedings at www.beyond-gdp.eu). My company also funded London-based GlobeScan's opinion survey in ten countries which found large majorities in all ten countries (Australia, Brazil, Canada, France, Germany, Great Britain, India, Italy, Kenya and Russia) favoring the inclusion in GDP national accounts of available health, education, environment and poverty indicators (see www.ethicalmarkets.com and www.globescan.com).¹²

Clearly, the world's money systems have been corrupted, and the basic value of trust which underlies all markets has been shattered. We are now learning that not all our transactions can be trusted to money systems and that in today's Information Age there are the many new, pure, information-based trading systems mentioned earlier, including international barter,

"countertrade" between governments, trading between global companies of everything from media and telephony to commodities. Information and money are equivalent mediums of exchange and equally valuable. Many investors are now bypassing Wall Street and big money centers in favor of private equity on trusted electronic liquidity and trading networks. Such insights into the use of information and trading networks, including local currencies, barter and people-to-people lending are part of the emerging information-rich Solar Age economies now superseding the earlier fossil-fueled Industrial Age.¹³

As the USA will play catch-up at the April summit, there are some additional reforms they might sponsor:

* **Imposing globally-harmonized currency exchange taxes** is an obvious step. Promoted, as mentioned, for decades by economists from James Tobin, Bank of Sweden's Nobel Memorial prizewinner, to former US Treasury Secretary Larry Summers, this below 1% tax on the \$3 trillion daily currency trading would reduce some of its 90% speculative activity. Recent levels of turbulence in currency markets are not sustainable, and Ben Bernanke's selling US dollars to buy other currencies was unprecedented. Only global regulation of currency markets, by the FXTRS or similar systems, can address the problem of weaker currencies leading countries to default.

* **To reduce the over \$1 trillion annually countries spend on military hardware, the summiteers can agree on the proposed United Nations Security Insurance Agency (UNZIA).** Militarism is ever-less useful in resolving today's conflicts in Iraq, Afghanistan and other guerilla insurgencies. This UNZIA proposal, backed by four Nobel laureates, would allow countries which wished to follow Costa Rica's lead in 1947 and abolish their armed forces. Instead, countries could buy the insurance of a peacekeeping force from the UN Security Council (expanded and veto-less). Their premiums would be determined by insurance industry risk assessors contracted to see that the country had no WMD or secret weapons and did not teach militarism and xenophobia. Countries, say those in Central America, that decided to all buy UNZIA insurance would all get lower premiums. The premiums would fund a standing, properly trained UN peace-keeping force and complimentary contingents of NGO peace-making conflict-resolution groups. The UNZIA proposal is taught in many university programs and was debated in the UN Security Council in 1996 (see [UNZIA](http://www.hazelhenderson.com) at www.hazelhenderson.com). This and other proposals, including the FXTRS, are also described in The United Nations Policy and Financing Alternatives, (1995).¹⁴

These two global reforms could be introduced at the London summit, debated in the UN General Assembly and ratified by member countries. Many other reforms discussed earlier should be on the agenda:

- Reform of ill-designed monetary systems based on debt (see www.ethicalmarkets.tv "[Money as Debt](http://www.ethicalmarkets.tv)" and the American Monetary Reform Act of 2008 at www.monetary.org); in the UK, monetary reforms proposed by banking expert James Robertson at www.jamesrobertson.com and those of the New Economics Foundation at www.neweconomics.org). This includes raising capital reserve requirements for banks and reducing leverage used by all financial players.

- Criminalizing of tax arbitrage and avoidance in tax havens, including those non-cooperative countries and territories black-listed by the US Treasury and many central banks (see the international Financial Action Task Force [NCCT Initiative](#) at www.fatf-gafi.org).
- Regulating and requiring full disclosure of hedge funds, private equity funds, sovereign wealth funds, credit derivatives and "dark pools" of capital. Harmonizing market rules to prevent arbitrage between major securities markets. Changing incentives toward long-term investment goals and limiting compensation by giving shareholders a voice on this and other social, environmental and governance issues now clearly material to stock valuations. Rating agencies should only accept fees from investors, not issuers of securities.
- Repealing Basel II rules which allowed banks to assess their own risks, the failure of which helped bring on the crisis. Raising capital adequacy and reserve ratios and reducing margins on all transactions. Leveraging standards on banks operating internationally are also needed. Many of these proposals are by law professor Daniel K. Tarullo, an advisor to President Obama, in [Banking on Basel](#).¹⁵ Raising margin requirements and increasing Basel II capital reserve ratios also reduce speculation in all markets and futures and derivatives exchanges.

All these regulations, as we have learned, are to re-balance the roles of private and public sectors now that governments have been forced to intervene using taxpayers money. The new rules must be by international agreement lest market players skip from state to state "arbitraging" different jurisdictions and tax regimes. Even the World Economic Forum in Davos in January found a consensus of both government and business leaders for such global-level agreements and standards. The UN Principles of Responsible Investment are calling for similar reforms. At last, this global financial crisis brings the opportunities discussed for decades to reform today's global casino and restore finance to its vital but limited role in facilitating real production and innovation in the world's real economies.

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Figure 1

Gross National Product Problems

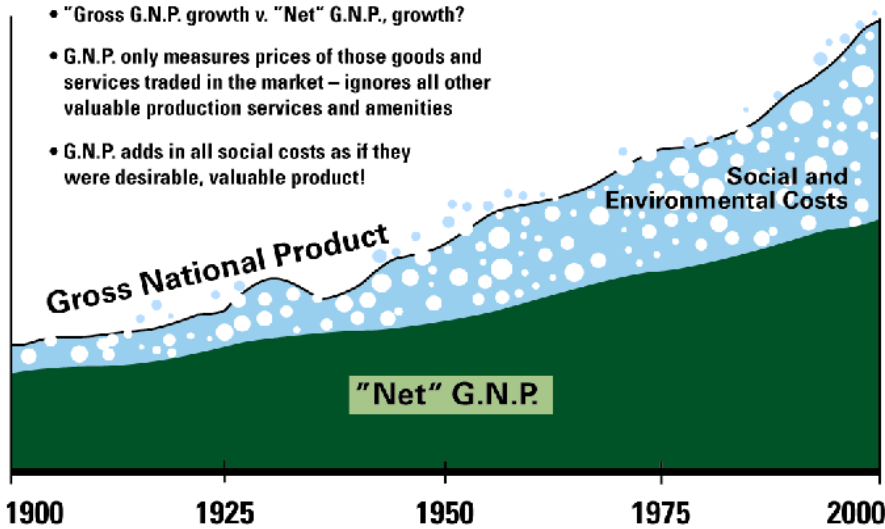


Figure 2

Energy Transition From the Fossil Era to The Age of Light

Emerging Lightwave Technologies (Photonics)

Fiber optics, Optical scanners, Lasers, Holography

Solar technologies

Optical computers, Multiprocessor, parallel computers and neural net computers, Imaging technologies

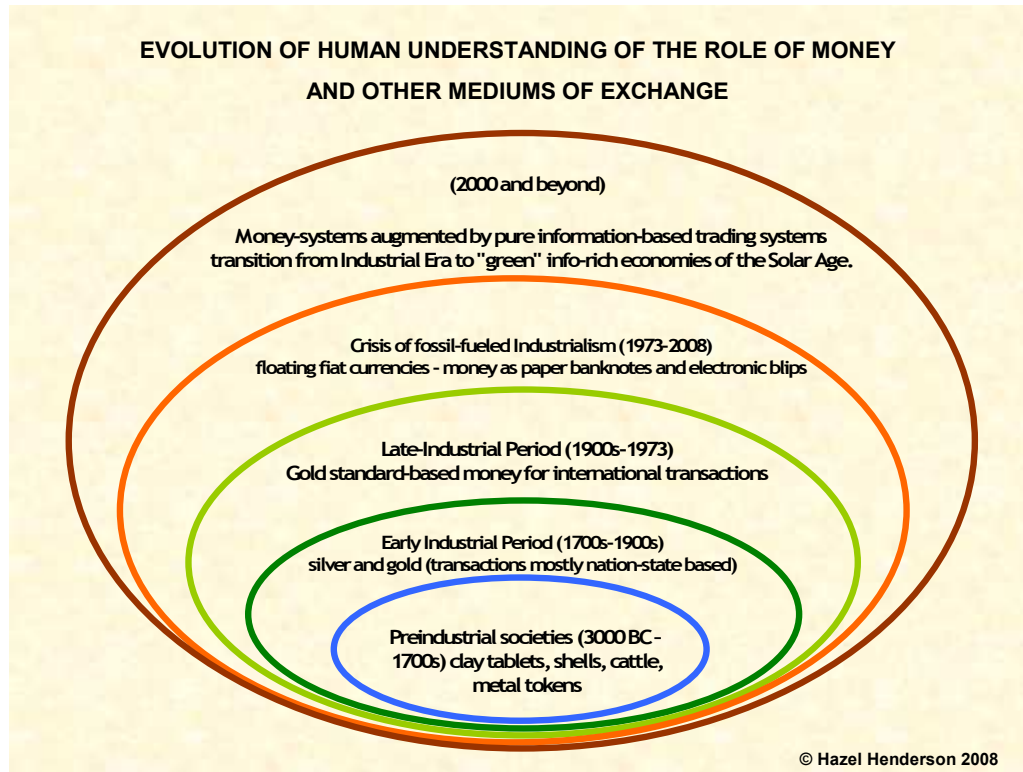
Biotechnologies

Gene machine, DNA sequencers, Tagging and tracking chemicals and genes, Nano technologies

Photons (sunlight) falling on the Earth supply enough energy in 10 minutes to put our entire six billion population in orbit!

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Figure 3



End Notes

- ¹ See for example Henderson, H. Building a Win-Win World, Barrett-Koehler, 1996; Paradigms in Progress, Barrett-Koehler, 1995.
- ² Bank for International Settlements, Basel, Switzerland, December 2008.
- ³ Henderson, H. "Come Clean Larry Summers about Your Role in the Credit Default Swap Mess." www.EthicalMarkets.com November 2008.
- ⁴ Financial Reform: a Framework for Stability, Group of 30, chair – Paul Volcker, Washington, DC, January 2009.
- ⁵ Craig-Roberts, Paul. "Is It Time to Bail Out of the US?", The Tyranny of Good Intentions, Random House, 2008.
- ⁶ Stiglitz, Joseph. The Three Trillion Dollar War, W.W. Norton, 2008.
- ⁷ Ibid. How to Rescue the Bank Bailout. www.CNN.com, Jan. 26, 2009.
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- ¹¹ Henderson, H. "Re-designing Money Systems to Reduce Greenhouse Gases and Grow the Green Economy" Keynote speech for UNEP launch of its Green Economy Initiative, Geneva, Switzerland, www.EthicalMarkets.com December 1, 2008.
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- ¹³ Henderson, H. The Politics of the Solar Age. Doubleday, NY, 1981, 1988.
- ¹⁴ The UN: Policy and Financing Alternatives, eds. H. Henderson, Inge Kaul, and Harlan Cleveland, Elsevier Scientific, UK, 1995, 1996.
- ¹⁵ The Peterson Institute, Washington, DC 2008.