

Regulation vs. Transformation of our Financial and Economic System

von Prabhu Gupta

Regulation is essential for creating confidence, fair play and indeed the very possibility of widespread commerce and business. But does our current kind of regulation help solve the challenges facing humanity, or is it worsening our problems? For example, if we ask who the people are who have drawn up the new Basel II regulations, how they came to be the people drawing up these regulations, what is their education and experience, what they understand to be the purpose of the new regulations, and whether they see any need to relate such regulations to the global good, we will not be surprised that they have come up with a set of regulations that will strengthen the advantage of the richer countries and the bigger banks, against poorer countries and smaller banks.

The world economy has had the abolition of poverty as one of its ostensible aims, at least since President Kennedy's Inaugural address in 1960. I recollect his stirring words:

"If a free society cannot help the many who are poor, it cannot save the few who are rich. ..Our generation should be the first to extend the benefits of civilization to all mankind".

However, while America and the world have enjoyed an unprecedented boom in prosperity since then, with the occasional bout of inflation, deflation or uncertainty on the way, we have not merely failed to abolish poverty, we have not even managed to hold the line. Today, there are more poor people in America, and in the world, than there were at President Kennedy's Inauguration (3.1 million U.S. households suffer from actual hunger, including something like 2 million children; 10 million households - that is, 31 million people - risk hunger or food insecurity, including 12 million children; and 12.5 percent of the total U.S. population lived in poverty in 2003, according to the official US measure of poverty). We could expand this story from the US to the whole of the world by looking at material from the World Economic Forum, from other governments, from multigovernmental organisations and so on.

Governments, companies and individuals seem therefore to find themselves in a bind, unable to do the good that they would, doing the evil that they don't really want to - a dilemma to which St Paul drew attention some two thousand years ago.

What is the basic reason for this dilemma? It is that our aspirations for the global good clash with the economic, financial, corporate, government and multi-government structures which we have created.

For example, we talk of the need to ensure long-term sustainability or at least medium-term shareholder returns, but we have a *stock market system* which focuses in theory on

short-term quarterly returns but in practice on moment-by-moment news and rumours.

The *purpose of companies* has moved from that of reducing risk to that of maximising returns.

Technology has always promised us power and choice, but we are living in what may come to be called the ETC Century (that of *Erosion, Technological Transformation and Corporate Concentration*). "Technological power is becoming concentrated in a corporate elite that seems to be struggling for dominance over the rest of the earth", in the view of RAFI (Rural Advancement Foundation International):

"For every Luddite trying to establish social controls over the introduction of untested technologies, there is a much more powerful elite using social manipulation to market new technologies. *Any major new technology introduced into a society which is not by its nature just will exacerbate the gap between the rich and poor, and between aspiration and achievement in both environmental care and ethical transparency*". (my emphasis).

More fundamentally, the global economy is built on a *competitive race to grow*. This is, by definition, unsustainable in a world of limited resources - though some people argue that resources are not limited, and that the market always finds substitutes, given time. Of course, markets do sort many things out, so it is possible that we may have enough time to find corrective mechanisms. Equally we may not. In chess as in business, the winners are generally those who are cautious and conservative and weigh the positive possibilities as carefully as the negative ones.

Much of our so-called "growth" (national, corporate & personal) is driven by *debt*. In October 2004, there was much anguished debate in the UK when the "Debt in a Decade" report from the Skipton Building Society made it known that UK household debt had reached £1 Trillion. Interestingly, the UK government had, almost exactly 4 years earlier, in October 2000, established its Task Force on Tackling Over-indebtedness to "address concerns about consumer debt in the UK by considering ways of achieving more responsible lending and borrowing". However, as Professor Kevin Keasey, Director of the International Institute of Banking and Financial Services, at Leeds University Business School in the UK, wrote in the December 2004 issue of Finance Industry Solutions:

"*The problem the credit industry faces is that it needs debt levels to keep increasing if it is to meet its ongoing profit targets....transforming an industry built on pushing*

credit into one that is responsible in its lending will not be an easy task" (emphasis mine)

There is the further challenge for the current economic system that *what are called "goods" are not always good*. More and more is not necessarily desirable: Do we really need all that we produce in terms of industry and armaments?. Even in agriculture, the Common Agricultural Policy has historically consumed an enormous proportion of the EU's budget simply to store European over-production in beef, beer, milk, butter and so on, purely for the purpose of price-maintenance. Now the WTO wants us to change the world system so that subsidised rich farmers who over-produce by following unsustainable practices can dump their over-production on the rest of the world.

Never before have so many people been so rich, and yet felt so poor. Sixty four per cent of respondents, who had an average wealth of \$38 million, feel financially *insecure*. (The U.S. Private Bank's 2000 Study on "Wealth with Responsibility", from Deutsche Bank's Forum magazine, 6/2000, page 24). One key reason is that greater globalisation of business means greater opportunities to make money quickly because of the scale of new opportunities which the traditional multinationals were in the past not properly poised to exploit...but it has become a more *volatile* world (how much is Bill Gates worth today?)

It has now been scientifically established that there is *no correlation between happiness and wealth*. People who are very poor do become happier with each additional dollar till a certain threshold is reached, then additional money adds to the sum of happiness with decreasing effect, till another threshold is reached, when the correlation reverses, and the more money you have, the unhappier you get. No wonder Bhutan and Brazil are experimenting with replacing the notions of GNP and GDP with the measurement of a Gross Happiness Index. No wonder King David prayed "Do not give me poverty or I will be tempted to steal, and do not give me wealth or I will become proud and unhappy. Please give me just enough, O Lord, to enjoy myself in moderation today" (I paraphrase, from the book of Psalms). No wonder the only prayer that Jesus the Lord ever taught asks: "give us *this day* our daily bread".

The same Bible of course enshrines the principle "he who does not work, let him not eat". By contrast, since the late nineteenth century a class of people has begun to emerge, which has now grown global (generally called "*the global elite*") which has enough assets to live very well just off the interest.

The whole international financial system is now based on *usury* (or the taking of interest for the use of money) - which is specifically forbidden in the Bible, in the Koran, in the Indian Scriptures, in Chinese tradition, among the Greeks, Romans, Native Americans, et. al. Usury inevitably creates a system which grows faster and faster and eventually grows cancerously fast...creating, finally, a financial and economic system in which economic efficiency comes to be pitted against what is morally right, socially advanta-

geous and psychologically beneficial. That is, an interest-based economy is programmed to grow faster and faster till it crashes. We need to understand *the relationship between usury and the domination of our economies by the notion of growth*. We need to understand that if we want to have a sustainable (i.e. steady-growth) future, the re-abolition of usury is essential. As has been pointed out by researchers based at the Jubilee Foundation in Cambridge, England, the Jewish Bible outlines in effective detail the sort of economic system which enshrines low but steady growth (as distinct from the sort of volatile booms and busts we have in our economic and financial system today), and we must remember that, according to the Jewish understanding of their own history, God pulled them out of high-growth economies such as Egypt and Mesopotamia, so that He could give them His message about "shalom" - peace and health and prosperity in the whole of life - economics, politics, and the rest. "Shalom" in fact described what we refer to when we talk about "holistic". Such a holistic or shalom economy has, in our own time, been famously called the "R' economy" or the "relationships economy" by Dr Michael Schluter, the ex-World Bank economist: it is not the value of our shares, bonds and other material assets that has the primary power to make us happy, it is our relationships (with God, with others, and with nature) that have the primary power to make us happy.

If the abolition of usury seems a step too far to you, you might want to take on an examination of the specific reasons why *pension funds*, whose job it is to provide relatively sustainable long-term returns for pensioners, end up investing on such a short-term basis.

Further, it is clearly established that *fiat currencies* expand growth faster, though at the cost of greater inflation. By contrast, asset-based currencies (provided that the asset base is not being manipulated, as at present in the USA) are better at providing slower but more solid growth. Bernard Litaer's proposal for a properly asset-based currency therefore would be a good one to adopt in the current conditions of the world economy, provided a representative group of assets was included (including household value, for instance). It is also clearly established that the abolition of fiat currencies combined with the abolition of usury (see above) would more or less completely eliminate the boom-bust cycle, which is one of the key difficulties of our modern economic system, as well as eliminate the dependence of the world on ever-faster growth and the consequently increasing threats to the environment that we have had since WWII.

Lastly, we need to consider the fundamental *transfer of risk from government and from financial institutions to households like yours and mine*. Think of what has happened in the area of pensions or of health provision. Think of areas such as hedge funds and derivatives, where the classic Sharpe ratio should be abandoned, since it ignores the asymmetric risk component of fund positions. The problem is that there is no good substitute. Though some theoretical solutions have been proposed,

as yet they lack computational constraints and robustness. Think of credit risk transfer, where the biggest questions are being ducked. I quote from a paper on "Credit Risk Transfer" published in October 2004 by The Joint Forum established to deal with issues common to the banking, securities and insurance sectors, by the Basel Committee on Banking Supervision, the International Organisation of Securities Commissions, and the International Association of Insurance Supervisors:

"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 the 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.

I read that as an admission that no one knows how much credit risk is actually being transferred to whom; nor does anyone know the implications of this lack of knowledge; moreover, that the task "is too big to perform"! Of course, credit risk is only one kind of risk.... We have shifted from an asset and ownership based economy to one based on access and flow (interest payment is one such flow). That is why risks - and their transfer - are so crucial.

We really are living in a house of cards, in terms of the economics of our world.

By now, you may have become curious about an interesting question: how come we have created such structures which generate unsustainability? Specially when the traditional wisdom of all our societies sought to steer us away from the creation of such structures?

The reasons are our fear, greed, and lust for power. In other words, our self-orientation which is often wrapped up in fine language and imagery to do with secularism, rationalism, individualism, "freedom" and so on, rather than true God-orientation or, as we might put it in practical terms, thankfulness-towards God, love towards other human beings, and responsibility towards nature.

For example, the notion that borrowing, and by implication debt, is bad has been the received wisdom for many generations, coming straight out of the Biblical tradition. Post-War indoctrination into what I call "Popular Darwinism" or "Evolutionism" ("evolution as religion or doctrine or dogma") was a principal contributor not only to the rise of Fascism and Nazism but also to the enormous decline of

faith and ethics which has taken place since then, and has changed the culture to the extent that, for example in the UK, the rules governing official credit allocation were changed in 1971, and those concerning hire purchase agreements and the personal financial services marketplace were changed in 1982. Indeed, most legislative restrictions on the charging of interest, were removed between the 1950s and the 1990s across the world. This has transformed borrowing into something not only "acceptable and necessary" but has made consumption the only meaning in life for many people. No wonder that, as the world "develops", debt continues to rise and rise across the world and in all sectors (except, from time to time, in the corporate sector). In most societies today, you can legally charge any amount of interest that some foolish or desperate customer is willing to bear. In India's case, this has resulted in the continuing serfdom (virtual slavery) of tens of millions of people to my caste, which began to be reversed with the Evangelical Revival and the work of the Clapham Group that turned the East India Company from a "gang of looters" into at least a partial blessing for India.

Similarly, our global financial and economic challenges have cultural, intellectual, psychological and emotional roots which can be countered by the right kind of spirituality. The difficulty is that most of today's spiritualities are merely individual or selfish - and it is not enough for spirituality today merely to help individuals with negative emotions. It is necessary also for spirituality to address the concrete question of how to deconstruct the structures to which I have drawn attention. Someone who is exploring that is Dr. Peter Heslam FRSA, with his Research Project on Capitalism at the University of Cambridge in England.

I would merely suggest that there are at least five varieties of spirituality, in terms of their economic and financial impact. First, there are individualistic spiritualities that are aspirin-like (including Eastern spiritualities and techniques such as yoga, tai-chi, various forms of meditation, and so on). Second, there are jujube-like spiritualities. American Fundamentalism and Indian bhakti-worship are good examples of this kind of spirituality: sweet, but perhaps too sweet. Most contemporary spirituality, Eastern and Western, remains stuck at the level of spectator sport (come to the temple or mosque, and don't bother with whether and how this relates to work or to the world). Much of contemporary Christianity betrays its own spiritual roots by being incense-like - it considers the primary purpose of life to lie in "worship" (as in the song: "the reason I live/ Is to worship You"). Actually, as far as I can understand the teaching of Jesus the Lord, a relationship with Him is meant to be dynamite-like or (to use his own imagery), like yeast or like a tree growing, breaking up everything around and making something new and greater instead: we are here to be revolutionised and to revolutionise work and the workplace and the world, while of course doing our assigned job well.

This kind of spirituality is what is required as the basis of our emerging global economic and financial system if it is to be transformed to produce the results that we all desire.



Prof. Prabhu Gupta

is Executive Director, Organisational Development, at Wolfsberg - The Platform for Business and Executive Development (a subsidiary of UBS, one of the largest banks in the world). He is also Chairman of ADVANCE: Management Training Ltd Switzerland. A member of the Jury of numerous literary, business and management competitions in the UK and the Commonwealth, he has been a

guest contributor to all the principal newspapers and radio and TV channels in the UK as well as numerous such media in other parts of the world. He continues to supervise PhD research and lecture to MBA classes, and is included in Debrett's *People of Today* (UK) as well as in *Who's Who in the World* (USA). A CD-ROM has just been issued of his lecture at the Professorenforum, University of Zurich, titled "Making the World Better - Why it does NOT happen...and what TO DO about it" (further information available from rbadertscher@coba.ch; please note that all proceeds from the sale of the CD-ROM are given to charitable purposes in India).

CHAPTERS IN BOOKS

- "Management of Change", in Milan Zeleny (Ed.), *The IEBM Handbook of Information Technology in Business* (Routledge, U.K., 2000)
- "IT/S Strategy", in Milan Zeleny (Ed.), *The IEBM Handbook of Information Technology in Business* (Routledge, U.K., 2000)
- "Kenichi Ohmae", in Malcolm Warner (Ed.), *The International Encyclopedia of Business and Management*, 2nd edition, Thomson Learning, U.K., 2001
- "One CSR World", *Corporate Responsibility: A View from India* (EU-India CSR Network, Brussels, Belgium, 2002)
- "The Future of Democracy: An Indian Perspective" in Hans-Joachim Hahn et al (Eds.), *Erreicht oder reicht uns die Demokratie?*, Verlag des Professorenforums, Giessen, Germany, 2004
- "Managers' Lives, Work and Careers in the 21st Century" in Cary L. Cooper (Ed.) *Leadership and Management in the 21st Century*, Oxford University Press, U.K., 2004

ARTICLES IN JOURNALS AND MAGAZINES

- "Globalisation Confronts Switzerland", *Geneva News and International Report*, Feb 2000
- "Spirituality in Business", *Faith In Business Quarterly*, U.K., Autumn 2001, vol 5, no 3
- "A New Agenda for Progress at the UBS Group", *Strategic HR Review*, U.K., July/August 2002
- "E-Surveys: The Pitfalls", *Organisations & People*, U.K., August 2003

REVIEWS

- Review of *Encyclopedia of Indian Philosophy* (several volumes, different editors) published by Motilal Banarsidass, Delhi, India, published in *Asian Affairs* (journal of the Royal Society for Asian Affairs, U.K.), June 2000

- Review of *Agrarian History of South Asia* by David Ludden (Cambridge University Press, U.K.), in *Contemporary South Asia* (UK), vol. 9 (2), 2000
- Review of *Conceiving Companies: Joint-Stock Politics in Victorian England* by Timothy L. Alborn (Routledge, USA), published on the Internet, on the homepage of *EH.NET* (Economic History Network), August 2000
- Review of *Japanese Consumer Behavior* by John McCreery (University of Hawaii Press, USA), in *The Journal of Japanese Trade & Industry* (Tokyo), September/October 2000
- Review of *The Invisible Continent* by Kenichi Ohmae (Harper-Business, USA), in *Financial Times*, 4. September 2000
- Review of *The Indian State: Fifty Years* by C P Bhambri (Shipra, Delhi) in *Contemporary South Asia*, vol. 8, no.3, 2000
- Review of *Apocalypses: Prophecies, cults and millennial beliefs through the ages*, by Eugen Weber (Hutchinson, U.K.), in *Third Way* (UK), January 2000
- Review of *Islamic Finance: Theory and Practice* (Macmillan, UK) in *ACE Journal* (U.K.), no. 27, 2000
- Review of *Something New Under the Sun: An Environmental History of the Twentieth Century* by John McNeill (WW Norton, USA) in *The New Statesman and Society*, 4 November 2000
- Review of *A Business History of Britain 1900s to 1990s* by David Jeremy (Oxford University Press, U.K.), *ACE Journal* (UK), Nov 2000
- Review article of four books (*The Third World in the Age of Globalisation*, by Ash Narain Roy; *Global Sustainable Development in the 21st Century* edited by Keekok Lee, Alan Holland and Desmond McNeill; *Global Futures: Shaping Globalization* edited by Jan Nederveen Pieterse; and *Globalization and International Financial Markets* by Hak-Min Kim) published as "Age of Globalisation : Problems and Prospects" in *World Affairs*, October-December 2000
- Review of *Faith in Leadership* by Robert Banks & Kimberly Powell (Jossey-Bass, USA), *Third Way* Magazine, UK, March 2001
- Book Review of *Missionaries, Rebellion and Proto-Nationalism: James Long of Bengal, 1814-1887* by Geoffrey Oddie (Curzon Press, U.K.), in *The Indian Economic and Social History Review*, 37, 4, 2001
- Book Review of *E-Board Strategies: How to Survive and Win* by Ram Charan and Roger Kenny (Boardroom Consultants, USA), published on the Wolfsberg website (www.wolfsberg.com)
- Book Review of *Cultural Pessimism: Narratives of Decline in the postmodern world* by Oliver Bennett (Edinburgh University Press, U.K.) in *Third Way*, August 2001
- Book Review of *Globalisation and the Kingdom of God* by Bob Goudzwaard (Baker Books, USA), in *Third Way*, September 2001
- Book Review of *The Economic Development of Modern Japan, 1868-1945*, edited by Stephen Tolliday (Edward Elgar Publishing, U.K.) in *The Journal of Japanese Trade & Industry*, November/December 2001
- Book Review of *The Twilight of American Culture*, by Morris Berman (Duckworth, UK), in *Financial Times*, weekend edition 15/16 December 2001
- Review of *The Moral Universe*, edited by Tom Bentley and Daniel Stedman Jones (Demos, U.K.), published in *Corporate Citizenship Briefing* (U.K.), number 62, Feb/March 2002
- Review of *Usury in Judaism, Christianity and Islam* by Susan L. Buckley (Edwin Mellen Press, U.K.), in *Faith in Business Quarterly* (UK), Spring 2002
- Review of *Economic Reform in Japan: Can the Japanese Change?* by Craig Freedman (Edward Elgar, U.K.), in *Journal of Japanese Trade & Industry* (Tokyo), July/August 2002

- Review of Changing India by Robin Thomson (B.R. Publishing Corporation, New Delhi, India), in Asian Affairs (the official Journal of the Royal Society for Asian Affairs), October 2002
- Review of The European Union and Globalisation: Towards Global Democratic Governance by Brigid Gavin (Edward Elgar, U.K.), in Journal of European Area Studies, Vol. 10, No.2, 2002
- Review of America's Real War by Rabbi Daniel Lapin (Multnomah Publishers, USA), in SoulCompany (e-zine: www.qualitylife.co.za), July 2, 2003
- Review of Christianity, Poverty and Wealth: The Findings of 'Project 21' by Michael Taylor (WCC Publications, Geneva, Switzerland), in Faith in Business Quarterly, Spring 2004

INTERVIEWS/ CITATIONS

- Interviewed by Süddeutsche Zeitung (Munich, Germany) and quoted by them in the article "Riester-Produkte sollen grösseren Durchblick bieten", 12 June 2001
- Interviewed by the U.S. journal, Executive Talent for the article "It takes inspiration to keep high-flyers", Summer 2001
- Quoted in Financial Times supplement on "Spirituality in Business", 21 September 2001
- Interviewed by Finnish Television for a documentary on Finnish Government policy regarding renting property to the army, universities and so on, broadcast on 26 November 2001
- Interviewed by Economic Times (India) on the theme, "Knowledge Management and More", issue of 1 December 2002
- Interviewed for and quoted in the article "How to Avoid Being the 'Ugly American'" by Andrew Rosenbaum, published in in the Harvard Management Communication Letter (Harvard Business School Press), December 2002.
- Interview: "A European Perspective on Global Business", Ethix: The Bulletin of the Institute for Business, Technology and Ethics (USA), issue 33, Jan/Feb 2004
- interview: "The Gods of Business" broadcast on National Public Radio, USA, September 2004 (still available on the Internet site http://speakingoffaith.publicradio.org/programs/2004/09/02_godsofbusiness/)
- Interview: "The Future of Democracy", The International Indian magazine, Dubai, UAE, issue 12.4, 2004
- Interview: "Geld nachhaltig einsetzen", Bausteine zeitschrift, Switzerland, 8/2004, December 2004