

THE EUROPEAN FINANCIAL CRISIS: SOME REFLECTIONS

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The immediate causes of the current European crisis lie not in Europe but in the economic and cultural leader of the world - the USA - though of course Europe was guilty of following that lead voluntarily:

first, the USA removed the Glass-Steagall Act in 1999, allowing financial institutions to gamble with money not only from the rich (as had been the case till then) but also to gamble with money from ordinary people, municipalities and nations;

second, the USA refused to register "big deals", and allowed them to be combined with the possibility of unlimited leverage, resulting in a "shadow" (or "black") economy which ballooned unbelievably: the value of all the goods and services produced in the world GDP is something like US\$60 trillion, but the most conservative estimate of the size of the shadow economy at the start of the crisis was 610 trillion, though the most authoritative estimate was 1,200 trillion (BIS), while the highest estimate that I saw put together by experts was 1,440 trillion. However, as it is a "shadow", who knows? And who knows where the effects of that shadow will erupt next? That is why it explodes unexpectedly in different places whether that be Lehmann Brothers or Goldman Sachs or Iceland or Greece. That is why we have the current discussions about "re-regulation", and the questions are: will the new regulations be the right ones, will they be sufficient, and will they avoid being unnecessarily onerous? Incidentally, many people (including myself) were writing and speaking on these matters from the 1990s on, but who wanted to listen?

However, the deeper causes of the crisis are spiritual, political and cultural: the choice made in the 1980s, in the name of productivity, modernity and progress, to privilege the rich rather than act justly for the poor: all possible profit went to the providers of capital, and there was no real rise in wages for workers while giving them the illusion of greater spending power by creating a balloon in the availability and price of housing, and making it easy for people to borrow against that - in other words, the provision of credit/ loans to encourage people to consume more than they were actually earning, while persuading people that greed is good, that there is no such thing as society, that the problem is the government, that lack of rules will make it easier for the economy to flourish, and that it is desirable to take huge risks (with slogans such as: "no risk no fun" and "no pain, no gain"). This high-risk political and cultural gamble worked extremely well for three decades or so since the 1980s (and particularly after

the fall of the Berlin Wall), producing more apparent wealth than the world had ever seen in the entire history of the world before that. But when the consequences of the system eventually struck, it produced what is already the second biggest economic collapse in history – and we are of course not yet anywhere near the end of the crisis (all that has happened is that a "floor" has been put under the crisis by the billion-dollar bailouts provided by governments), and the worst may be yet to come because governments themselves are now near-bankrupt while the creation of the "floor" has increased the ballooning of the shadow financial system. In other words, governments may be unable to do anything about the coming consequences without becoming bankrupt themselves. For example, it remains to be seen whether EU governments will be able to raise the proposed Euros 440 billion for the new European Financial Stability Facility Company.

So what are we to say about the way the crisis is being handled?

Real solutions do need to be put in place:

those that are being thought of (such as the examination of the incentive and reward systems in the biggest companies, the creation of transparency by the registration of all deals, the Volcker rule which would effectively reinstate the Glass-Steagall Act, banning of "naked short selling" or speculation, the elimination of the "too big to fail" syndrome, and the introduction of bank taxes (at least in the EU – though, ideally, globally); and

those that are not yet being taken seriously (counter-cyclical provisioning, complementary currencies, transparency of the finances of governments).

Note that the current "rescue packages" further penalize the average person: David Cameron, the UK Prime Minister, just launched today (Monday 7 June) a campaign to prepare Britain for an era of "public sector pain", hoping to prepare the ground for decisions that will "affect our economy, our society – indeed our whole way of life"; a proper rescue package would, instead (or alongside this), reinstate taxation of the rich. Getting to that point, and to genuinely addressing the crisis will require a spiritual and cultural transformation.

The best way forward for the European (and indeed global) economy is by global rules that enable a genuinely free market to be created around the world: taxation of commercial broadcasting and narrowcasting in order to enable public service broadcasting and narrowcasting to be able to play its proper role, the banning of research by private companies so that all intellectual property belongs to the public, no subsidies by any government for any activity, minimum pay for workers around the world, minimum standards for health, safety, pensions, and environmental care, and a guaranteed minimum standard of

living for everyone in the world (two pairs of clothes, one square meal a day, minimum housing appropriate for the weather, minimum education for children, and minimum health care). Instead of the current tilt of the global economy towards those parts of the world that have no proper standards (for example, in environment, health and safety), such global rules would provide a global level playing field in which there can be genuinely free competition across nations in agriculture, manufacturing, robotics and other innovative and creative technologies which might enable us to address global poverty, the diseases of the poor, the boredom of the average worker, and the anomie of the rich.

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