Casino Capitalism as Usual

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Editor: John Feffer
September 30, 2009
Foreign Policy In Focus
www.fpif.org

Last week's Group of 20 (G20) meeting in Pittsburgh brought together leaders from the most significant players in the global economy and charged them with renovating the financial system at the heart of the economic crisis. Change was on the agenda, and the heads of state claimed to deliver. As the summit concluded, The New York Times hailed the meeting's final statement as a momentous shift, reporting that "Leaders of G20 Vow to Reshape Global Economy."

Unfortunately, the changes left off the table at the summit were far more significant than the modest reforms actually debated, and the few alterations that did make it into the final agreement are likely to be further watered down in implementation. Even the most common-sense reforms are being met with determined corporate opposition. Indeed, given the depths of the collapse one year ago and the volume of public outcry for change, the real surprise is how little transformation has yet taken place.

Late and Little

Many of the items on the Pittsburgh agenda were not bad in themselves. They were merely limited in scope and under siege by lobbyists. The G20 moved in the right direction by announcing that it would require banks and other financial institutions to have greater capital reserves. Mandating that a bank keep more in reserve for every dollar it lends out makes it less likely that the institution will be caught short and need a bailout. While such a change may sound arcane, it could mark a significant break from the past if done right and made part of broader regulations. After all, leveraging assets in order to obtain greater profits — whereby overextended firms made high-risk wagers with ever-greater amounts other people's money — went far in provoking the crisis.

While higher capital ratios and greater oversight would limit this kind of wanton speculation, the G20 statement is short on specifics about the actual requirements that financial institutions would be made to respect. And, sadly, the determined opposition of European bankers will likely keep changes to minimal levels. The difficulty with implementing even this most minor and reasonable of reforms shows how entrenched corporate power remains in post-crisis policymaking.

This bodes ill for the prospects of other heralded changes. On Wall Street's behalf, the Obama administration worked to curtail a French and German push for caps on executive pay — specifically controls on the outrageous bonuses given to top bankers whose institutions have lost billions. As a result, the G20 agreement forgoes any hard limits on compensation. It instead promotes guidelines that would somewhat delay when bankers receive their multi-million dollar payouts. Ostensibly designed to focus executives on long-term performance, this substitute measure is a far weaker alternative.

Why is the Obama administration going to bat for Wall Street firms at international meetings? It's hard to say, especially since this has not produced any apparent goodwill at home. Despite the White House's efforts on their behalf, the financial industry is fervently opposing the president's proposed Consumer Financial Protection Agency, which would protect Americans from predatory lending by credit card and mortgage companies. A representative of the U.S. Chamber of Commerce's Center for Capital Markets recently explained to McClatchy that the Chamber is "spending about $2 million on ads, educational efforts, and a grassroots campaign to kill the agency."

Such backlash against reform suggests that the global economy is still being run like a gambling hall. The betting limits at some tables may be modestly reduced and payouts to the highest of high-rollers slightly reined in, but we have not strayed far from Harrah's or the MGM Grand.

The Muscle Behind Market Fundamentalism

The G20 is only one component of the global economy's management. As it turns out, the activities of other bodies compromise the G20's declarations of reform. While agreements at the G20 are notoriously lacking in enforcement, financial institutions that can discipline and punish — such as the International Monetary Fund (IMF) and World Trade Organization (WTO) — appear notably unreformed and unrepentant.

After a previous meeting of the G20 in London last April, British Prime Minister Gordon Brown announced, "the old Washington consensus is over." However, key tenets of market fundamentalist economic policy that defined this consensus — including fiscal austerity and pro-corporate deregulation — still prevail.

At the April G20 meeting, world leaders vowed to provide as much as $1.1 trillion in new resources to the developing world to blunt the impact of economic downturn. However, much of this funding has yet to materialize, and only a fraction of it is slated to go to low-income countries (rather than middle-income states). Moreover, the bulk of these resources are to be channeled through the IMF, which has typically demanded that recipients of its loans accept harsh neoliberal polices as a condition of receiving money. While Fund officials claim to have changed with the times by relaxing "conditionality" and easing their previously stern attitudes toward countries that dare to buck the neoliberal Washington Consensus, many of their recent loans suggest that, in practice, their conversion has been quite limited.

A recent report from the Center for Economic Policy Research indicates that the IMF "has tied pro-cyclical, contractionary economic conditions on Eastern European countries to sorely needed loans." While struggling economies are desperately in need of government social spending and monetary stimulus, IMF agreements with Latvia, Hungary, and Ukraine demand slashed budgets and policy restrictions that look a lot like the "structural adjustment" of old. In advance of the April G20 summit, Gordon Brown had admitted, "Too often our responses to past crises have been inadequate or misdirected, promoting economic orthodoxies that we ourselves have not followed and that have condemned the world's poorest to a deepening crisis of poverty." Sadly, the IMF has yet to demonstrate that it is truly breaking from this established pattern.

The WTO is not helping things either, especially when it comes to reviving financial regulation that can protect the public good. As Lori Wallach, director of Public Citizen's Global Trade Watch Division, observed last week, "the G20 leaders have announced a very perplexing plan of action that calls for reregulation of the financial sector to try to avoid the next economic crisis while simultaneously calling for completion of the WTO Doha Round, which would require additional financial deregulation, including new WTO limits on accounting standards through a text the disgraced Arthur Andersen firm had a hand in formulating." New "free trade" rules may prohibit countries from shielding themselves from exotic derivates such as credit default swaps or from capping the size of mega-banks that threaten to take down the entire system when they fail.

Left Off The Table

That the G20 is not undertaking a more serious transformation of global financial structures might reflect the power of continued corporate lobbying. It does not, however, reflect a lack of good ideas. A broad array of financial experts and civil society organizations — ranging from the Stiglitz Commission tasked with making recommendations to the UN, to grassroots coalitions such as Put People First, the Citizens' Trade Campaign, and the labor network Global Unions — have advocated for sensible and needed reforms that could be easily enacted if the political will existed.

One example is the "Tobin Tax" — a small tax on international financial transfers first advocated in the 1970s by Nobel economist James Tobin as a way of cooling speculation on foreign currencies. ATTAC (the Association for the Taxation of financial Transactions for the Aid of Citizens), a leading organization for globalization activism in many parts of Europe, takes its name from this proposal and has pushed for it for over a decade. A version of the tax recently gained an even higher profile in Europe owing to the support of Adair Turner, the head of the British Financial Services Authority, which regulates UK banking. Oxfam argues that, beyond discouraging short-term gambling on currencies, a tax as small as 0.005% could raise between $33 billion and $50 billion per year. This pool of money could support sustainable development in places where the majority of people are still living on less than $2 per day.

Reform proposals also include debt cancellation for countries in the global South. Many poorer nations must spend substantial portions of their budgets on interest payments to the North rather than serve populations hit hard by the crisis. Often, their debts were unjust to begin with, accumulated by dictators who have since been thrown out of power. In most cases the countries' citizens have already sent back payments that dwarf the original loans. Rather than having to submit to the IMF to receive new loans, poorer countries should be allowed to keep their own resources as part of a just stimulus program.

Reflecting the widespread agreement that no corporation should be "too big to fail," citizen advocates have pushed for a much more aggressive application of antitrust and anti-monopoly laws. In this vein, the Stiglitz Commission recommended the creation of a "Global Competition Authority" to provide "adequate oversight of these large institutions" and to "limit their size and the extent of their interactions." These suggestions have a strong grounding in the public interest but are of course anathema to corporate chiefs. Accordingly, they have thus far remained off the table at the G20.

A Democratic Economy

A final demand is that real steps be taken to make the global economic system more democratic. Although leaders at the Pittsburgh summit lauded themselves for moving key discussions from the G8 to the larger G20 — which includes regional powers such as China, India, and Brazil — the international financial institutions with real muscle remain woefully undemocratic. The IMF is a perfect example. The United States, with a 17% voting share, retains the ability to veto all key decisions, because these require an 85% majority. In recent years the IMF has made high-profile announcements of changes to its voting structure. These changes, however, amount to token shifts of a few percentage points from still-dominant wealthy nations to countries such as China.

Ultimately, the goal of economic reforms must not merely be to revive a system that, until its bubbles burst, produced extraordinary wealth for a fortunate few. Rather, it must be to create living wage jobs and slash inequality. Yet that end is unlikely to be achieved if control of economic decision-making remains forever in the hands of the privileged. While the G20 has invited some new members into the club, decisions about the global economy are still made in elite and exclusive venues, where bailed-out executives still matter far more than the world's poor. In changing this, democracy will have to be a means as well as an end. For as long as the bankers rule, we will have little chance of breaking from a dispiriting state of affairs: casino capitalism as usual.

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