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Regulation vs. Transformation of Our Financial and Economic System

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Item Type	Article
Authors	Guptara, Prabhu
Publisher	Observatoire de la Finance
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Download date	2026-06-11 02:26:06
Link to Item	http://hdl.handle.net/20.500.12424/173487

R egulation vs. Transformation of Our Financial and Economic System

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This paper is written entirely in a personal capacity, and should be held to have no relationship to the views of Wolfsberg, of UBS, and of any of the universities and other organisations with which Professor Prabhu Guptara is or has been connected.

La régulation est essentielle à la confiance, au fair play et à un commerce élargi. Mais nous n'avons pas réussi à abolir la pauvreté : notre système de régulation actuel aide-t-il à résoudre les défis auxquels doit faire face l'humanité ou aggrave-t-il les problèmes ?

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 are the people 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.

Between the good and the evil

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 atten-

L'objectif des entreprises est maintenant de maximiser les profits, alors qu'auparavant il consistait à réduire les risques. Gouvernements, entreprises et individus semblent dès lors se trouver dans une impasse, incapables de faire le bien qu'il devraient faire, faisant le mal qu'ils ne souhaitent pas vraiment faire. La raison principale de ce dilemme est due au fait que l'aspiration au bien commun entre en collision avec les structures économiques, financières, commerciales et gouvernementales.

tion 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 focuses in practice on moment-by-moment news and rumours.

Living in the ETC Century

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.

'Goods' that are not always good

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 four 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 Uni-

Plus fondamentale-
ment, l'économie glo-
bale est construite sur
une course compétitive
à la croissance. C'est,
par définition, incom-
patible avec un monde
caractérisé par des
ressources limitées. Ce
qui est appelé « biens »
n'est pas réellement
« bien ». La politique
du « toujours plus »
n'est plus valable :
avons-nous vraiment
besoin de tout ce que
nous produisons sous
forme de biens indivi-
duels et d'armements ?

Jamais auparavant
autant de personnes
n'ont été si riches et se
sont senties si pauvres.
La raison principale
tient au fait qu'une
plus grande globali-
sation du monde des
affaires entraîne des
occasions plus nom-
breuses de faire de l'ar-
gent rapidement, à la
mesure des nouvelles
opportunités dont les
multinationales tradi-
tionnelles n'étaient pas,
par le passé, en posi-
tion de tirer parti... Or,
le monde est devenu
plus volatile.

versity Business School in the UK,
wrote in the December 2004 issue of
Finance Industry Solutions: 'The prob-
lem 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 re-
sponsible in its lending will not be an
easy task' (my emphasis).

There is the further challenge for the
current economic system that what
are called 'goods' are not always
good. More and more is not neces-
sarily 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 European Union
(EU)'s budget simply to store Euro-
pean over-production in beef, beer,
milk, butter and so on, purely for
the purpose of price-maintenance.
Now the World Trade Organization
(WTO) wants us to change the world
system so that subsidised rich farm-
ers who over-produce by following
unsustainable practices can dump
their over-production on the rest of
the world.

No correlation between happiness and wealth

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, p.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 tra-
ditional 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 estab-
lished that there is no correlation be-
tween happiness and wealth. People
who are very poor do become hap-
pier 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 Bra-
zil are experimenting with replacing
the notions of GNP and GDP with
the measurement of a Gross Happi-
ness 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 won-
der 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 (gen-

erally called 'the global elite') which has enough assets to live very well just off the interest.

The re-abolition of usury is essential

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 advantageous 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 understand-

ing 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.

Transfer of risk to households

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

Le système financier international dans son entier est à présent fondé sur l'usure. Une économie basée sur l'intérêt est programmée pour croître de plus en plus vite jusqu'à sa chute. Si nous voulons un futur durable, la ré-abolition de l'usure est essentielle.

Ce n'est pas la valeur des parts, des titres et d'autres biens qui fait le bonheur, mais les relations (avec Dieu, les autres et la nature).

La suppression des monnaies de réserve combinée à l'abolition de l'usure mettraient fin plus ou moins complètement au cycle de faillites qui est l'un des principaux points faibles du système économique moderne, et éliminerait la dépendance du monde par rapport aux menaces sur l'environnement apparues depuis la Seconde Guerre mondiale.

Personne ne connaît la part du risque de crédit effectivement transféré, et à qui, ni les implications de ce manque de données. On est passé d'une économie fondée sur les capitaux et la propriété à une économie basée sur l'accès et le flux. C'est pourquoi la problématique des risques - et de leur transfert - est essentielle.

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 World War II.

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.

Living in a house of cards

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 com-

mon 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 unsustain-

Nous vivons réellement dans un château de cartes, en termes d'économie mondiale. Comment en sommes-nous arrivés à créer des structures qui génèrent une telle précarité? Les raisons en sont la peur, la cupidité, et la soif de pouvoir, en d'autres termes : la laïcité, le rationalisme, l'individualisme, la « liberté », et ainsi de suite, plutôt que la gratitude envers Dieu, l'amour envers les êtres humains et la responsabilité à l'égard de la nature.

Les défis globaux financiers et économiques, qui ont des racines culturelles, intellectuelles, psychologiques et émotionnelles, peuvent être relevés par une spiritualité adéquate. La difficulté réside dans le fait que, de nos jours, la plupart des spiritualités sont individualistes ou égoïstes.

ability? Specially when the traditional wisdom of all our societies sought to steer us away from the creation of such structures?

Our fear, greed, and lust for power

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.

Debt, slavery, individual or selfish spirituality

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

Une relation avec Jésus est le type de spiritualité requise comme base du système économique et financier global en voie d'émergence, si l'humanité veut réaliser ses objectifs.

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.

Five varieties of spiritualities

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. Thirdly, 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).

Fourthly, 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'). Finally, 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 into producing the results that we all desire.



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Finance & the Common Good/Bien Commun

(Financial Ethics Review - Revue d'éthique financière)

<http://www.obsfin.ch/finance&thecommongood-biencommun.htm>

is a publication of the Observatoire de la Finance
32, rue de l'Athénée, 1206 Geneva, Switzerland, Phone +41 (0)22 346 30 35, Fax +41 (0)22 789 14 60,
Email office@obsfin.ch, Website: www.obsfin.ch

ISSN 1422-4658