

# POST SCRIPT

## G-20 declaration on financial crisis - Too little, too late

Dr. Yash Tandon, Executive Director, South Centre, Geneva in this review of the G-20 Declaration says there is need for a better response to the Global economic meltdown than a three-hour effort of a group of 20 who were apparently acting out a script

On 15 November 2008, at the invitation of President George W. Bush, a group of 20 countries (G20) -- selected by the President -- met at the White House, and following three-and-half hours of discussion, issued a Declaration on "Financial Markets and the World Economy". There was very little new or inspiring about the Declaration. The G20 leaders made "a commitment to free market principles, including the rule of law, respect for private property, open trade and investment, competitive markets, and efficient, effectively regulated financial systems."

Their analysis of the "Root Causes of the Current Crisis" boiled down to blaming "market participants" for seeking higher yields "without appreciation of the risks"; in a world of "increasingly complex and opaque financial products"; "inconsistent and insufficiently coordinated macro-economic policies"; and "inadequate structural reforms" -- all of which contributed to "excesses and ultimately resulted in severe market disruption." Accordingly, the G20 leaders agreed to take some "immediate steps" to stabilize the financial system, unfreeze credit markets, and ensure that the International Monetary Fund (IMF), the World Bank (WB), and the multilateral development banks (MDBs) have sufficient resources. Also, they agreed on five "common principles" of transparency, sound regulation, promoting financial integrity, international cooperation and reforming International Financial Institutions. These were followed by an "Action Plan" aimed at removing existing weaknesses in the accounting and disclosure procedures, credit rating agencies, procyclical regulatory policies, etc.; and the shortcomings of the Bretton Woods Institutions including the IMF, the WB, the Basel Committee, and the Financial Stability Forum.

This is the sum total of the G20's unconvincing Declaration. In barely camouflaged ideological assumptions that are both historically and logically flawed, the Declaration lacks empirical correspondence to the reality on the ground and theoretical depth. South Centre argues that it is imperative that the South decouples itself from the crisis-prone system of the North. This is particularly urgent in the present phase of financialised capitalism when financial markets are privileged

over production; when house mortgages, consumer spending, the commodity market, the oil market, the food market, etc. are all subject to asset securitization and speculation in the uncontrollable futures market; and when profit maximization by mostly Western banks and corporations, sometimes in collaboration with Southern large corporations, have disembowelled and weakened the resilience of smaller enterprises in the South and thrown them out of their domestic markets.

The sub-prime housing crisis which started with the US and then got "globalised" (to a greater degree in Europe than in Asia, Africa and Latin America) through inter-bank collateralised securities was not a product of "severe market disruption" as the G20 Declaration argues, but endemic to the present system of capitalism, as part of its inner logic. In the 1990s the then British Prime Minister Margaret Thatcher coined the phrase "There is No Alternative" (to neo-liberalism), or TINA. In 2002, a new word entered the financial lexicography of housing mortgages -- NINA (No Income, No Assets). People with neither income nor securities were provided mortgages by happily whistling bankers. These twin maids -- TINA and NINA -- have caused untold misery to the poor of both the North as well as of the South.

This is only one side of the coin -- the side of globalised financialised market of housing, stock, and dot-com bubbles.

The South must not forget another side of the coin. In 1997 during the Asian financial crisis, Mahathir Mohamed, then Prime Minister of Malaysia, called for greater international control on the speculation of hedge funds such as George Soros' Quantum Fund. Northern "experts" pronounced him "mad". But Mahathir saved his country from the prescriptions of the IMF which brought the economies of Thailand, Indonesia and South Korea crashing down. As this was happening, curiously but not surprisingly, two hedge fund economists, Robert Merton and Myron Scholes, were awarded the Nobel Prize for their "sterling work" in risk-free financial management. The Black-Scholes model was eagerly lapped up in university MBA curricula, and commodity and currency exchanges. In 1998, tragedy struck. The Long Term Capital Management (LTCM) of



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which Scholes and Merton were partners crashed. At the time, the LTCM had capital of \$4.8 billion, a portfolio of \$200 billion built from credit lines with all the major US and European banks, and derivatives with a notional value of \$1,250 billion. Its CEO was the legendary hedge fund trader, John Meriwether, who when asked if he believed in efficient markets, replied, "I make them efficient."

In 1999, encouraged by US Federal Reserve Governor Alan Greenspan and US Treasury Secretary Robert Rubin, the Congress repealed the Glass-Steagall Act. This opened up a bonanza for US banks. They started snatching all kinds of assets from insurance companies, pension funds, finance houses, mortgage companies, etc. What we are witnessing today is no ordinary "cyclical crisis". It is deep-seated systemic crisis that cannot be resolved by a little patch-up work, fiscal injection and counter-cyclical measures suggested by the G20 Declaration inspired by President Bush's last minute effort to save "free market" capitalism.

The South must not forget also that most of the present woes of many countries in the South stem from the conditionalities (such as the Structural Adjustment Programme) imposed on the countries that borrowed from the IMF and the WB. The IMF bailouts were not aimed at protecting the

economies of the South. The objective, or at any rate the effect, of these was to bail out the hard-pressed American financial and banking interests, and to create conditions for further control by American (and allied) capital over the national economies of the developing countries in distress. In other words, these developing countries were placed in distress through debt burden, trade liberalisation, and other conditionalities of donor funding, and then to get them out of the distress, IMF moved in and cleared the way for American-European-Japanese capital to take over. This, at least, is what evidence showed on the ground. Even the London-based Economist had to admit that IMF's Korea foray after the financial crisis of 1997/98 proved that the IMF had become an "adjunct to US foreign policy". (The Economist, December 13, 1997, page 80). It went on to say that the US also had a "big hand" in dictating IMF conditions for bailing out Mexico and Indonesia. In the IMF, The Economist concluded, it is "politics in command". Larry Summers, the intellectual power behind US economic foreign affairs, said: "In some ways the IMF has done more in these past months to liberalize these economies and open their markets to US goods and services than has been achieved in rounds of trade negotiations in the region." ("American Farmers: Their

Stakes in Asia, Their Stake in IMF," Office of Public Affairs, US Treasury Department, Washington DC, February 23, 1998).

In a study undertaken by a group of researchers from both the North and the South in 2002-2003, initially with World Bank blessing (later the Bank withdrew from it), found that the effects of SAPs on the economies of Bangladesh, Ecuador, El Salvador, Ghana, Hungary, Mexico, the Philippines, Uganda and Zimbabwe were "disastrous". It led to loss of policy space, privatisation of public assets (the reverse of what the Western governments are now doing in nationalizing private banks and other assets), fiscal discipline (as opposed to fiscal leniency now adopted by Western governments when their own economies are in distress), deindustrialization, unemployment, poverty, collapse of social safety nets, food importation, and the creation of economic refugees and emigration.

The G20 Declaration aims at restoring the legitimacy of the IMF by pumping money into it. At least it is an admission of the IMF's lack of legitimacy. However, no amount of replenishing the IMF's diminishing liquidity will restore its legitimacy in the eyes of the millions that have suffered under its disastrous policy prescriptions of the last nearly three decades. It is for these reasons that we must advise the countries of the South, especially the smaller and vulnerable ones, to challenge the simplistic analysis of the G20 Declaration on the current crisis, its ill-conceived ideology of free market liberalism, and its proposed remedies.

If the leaders of the seven countries of the South, who went to Washington and after barely three-and-half hours of discussion on a precooked text, endorsed the G20 Declaration out of courtesy to the outgoing President of the US, then there is still hope. Diplomatic courtesy is part of South's culture. This said, a serious debate is urgently needed in the South itself -- between its political leaders, its academic and intellectual community, its civil society and above all, between all of these and the movements of the people on the ground who are at the receiving end of all ill-conceived policies done in their name. This is the democratic transparency that is needed, not the top down financial and banking "transparency" of the G20 Declaration. People do matter.