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# 1

## Globalization: the House that Finance Built

Communities must protect themselves against an imperious international financial trust ... If international finance is to combine, the slavery of labour is inevitable, and the politics of the world will become the will of finance. Finance can command the sluices of every stream that runs to turn the wheels of industry, and can put fetters upon the feet of every Government in existence .... No community can be free until it controls its financial organisation ...

Ramsay MacDonald, Britain's first Labour Prime Minister, 1924, in *Socialism Critical and Constructive*. Quoted in Dalton (1935)

### **The international financial system – at the root of the crisis**

How did we get here? How did Anglo-American economies build up the mountains of debt and the historically high deficits that now threaten to destabilize the global economy? Our international financial system was, until relatively recently, stable, equitable and fair. Lending and borrowing was under control, with high rates of saving in OECD countries. Income inequality was at its lowest. The crisis of the 1920s and 1930s had taught western societies grave lessons about the folly of allowing 'the money-lenders to take over the temple' – the main theme of President Franklin D. Roosevelt's inaugural speech, in 1933 – at the height of the international financial crisis.

a host of unemployed citizens face the grim problem of existence, and an equally great number toil with little return. Only a foolish optimist can deny the dark realities of the moment.

Yet our distress comes from no failure of substance. We are stricken by no plague of locusts ... Nature still offers her bounty and human efforts have multiplied it. Plenty is at our doorstep, but a generous use of it languishes in the very sight of the supply. Primarily this is because the rulers of the exchange of mankind's goods have failed, through their own stubbornness and their own incompetence, have admitted their failure, and abdicated. Practices of the unscrupulous money changers stand indicted in the court of public opinion, rejected by the hearts and minds of men.

... Faced by failure of credit they have proposed only the lending of more money. Stripped of the lure of profit by which to induce our people to follow their false leadership, they have resorted to exhortations, pleading tearfully for restored confidence. They know only the rules of a generation of self-seekers. They have no vision, and when there is no vision the people perish.

The money changers have fled from their high seats in the temple of our civilization. We may now restore that temple to the ancient truths. The measure of the restoration lies in the extent to which we apply social values more noble than mere monetary profit. (Roosevelt, 1933)

Bankers, economists and politicians like Roosevelt had learned painful lessons. They later became the architects of a much more stable, just and regulated post-war system – the Bretton Woods system. It was by no means perfect, but it led to a period of economic and social stability for which there is today genuine nostalgia. Under Bretton Woods elected governments and their people were put in the driving seat. The movement of capital was regulated and, for a brief post-war period, provided the means and mechanisms for governments to set interest rates. Britain's Labour government, led by Clement Attlee, attempted a deliberate cheap money policy. Attlee's Chancellor Hugh Dalton, who succeeded in nationalizing the Bank of England, was, however, challenged by Finance, in the shape of the City of London. In his memoirs he wrote: 'The forces against me, in the City and elsewhere, were very powerful and determined ... I felt I could not count on a good chance of victory. I was not well armed. So I retreated' (Dalton, 1962, p. 239).

The Bretton Woods system also set controls and stabilizers which regulated trade and discouraged countries from building up massive trade deficits – or surpluses for that matter. Nevertheless, citing the WTO, the IMF notes that annual growth rates in world trade reached 12% a year between 1951 and 1975, but never rose above 10% after 1975 (IMF

Anne Krueger, May 2006). These conditions provided the framework for a period of peace, stability, trade expansion and economic growth.

Then, in the early 1970s, this international financial architecture was dramatically, and unilaterally, dismantled (Helleiner, 1994). President Nixon of the US headed up the demolition crew. This might surprise many who believe that the international financial system is 'natural' and has a life of its own; or that it is the construct of big business and the finance sector. It is important for our democracies, and for the empowerment of citizens, to understand that the system has been constructed by political process. It can only be transformed or dismantled by elected politicians, because it involves changes to legislation and regulation put in place by their predecessors.

The presidents, prime ministers, congressmen and -women, who dismantled Bretton Woods, were of course encouraged by the finance sector, by the new breed of neo-liberal economists and by unwise officials. Nevertheless it required elected politicians to make the big changes.

Together these people helped construct a liberalized, ultimately less stable international financial system which has come to be known as globalization. In contrast to the Bretton Woods system, globalization once again strips governments of key powers; prioritizes the interests of the finance sector, in particular creditors, through the free and unregulated flow of capital and trade, and through the implementation of deflationary policies, which lower wages and prices, but increase the cost of debt. This latest system of liberalized finance, globalization, has helped to marginalize the role of elected, democratic states and parliaments; has led to instability and financial crises, lower rates of growth in trade; to protectionism and rising nationalism; and has resulted in much lower real rates of economic growth across the world.

Under the new international financial system, just as under its nineteenth-century predecessor, the gold standard, governments have lost the power to control the flow of capital, to set short- and long-term interest rates; and to control the creation of credit. Just as in the nineteenth century, globalization has led to the de-regulation of trade, and to the build-up of surpluses and deficits. Individuals and corporations have been freed up (by governments, their politicians and officials) to pursue their own interests, regardless of the broader interests of their community or country, or indeed of the global economy.

Globalization has immensely expanded opportunities for both rich and poor countries. However, it has also led to tensions between trading nations, to the demise of multilateralism and to the rise of nationalism and protectionism. (Such nationalism and protectionism is often blamed

on local, short-term problems. Francis Fukuyama, for example, suggests that the chaotic outcome of the war in Iraq is feeding US economic nationalism and isolationism (*Guardian*, 21 March 2006). It is much more likely that the economic insecurity encouraged by globalization is feeding US nationalism and isolationism – just as it did before World War I, and in the 1930s.)

Globalization has polarized wealth; it has enriched the rich countries, while the poor have become poorer – both within countries, and also between nations.

It has triggered international debt crises (in e.g. Mexico, Russia, Thailand, South Korea, Brazil, Indonesia and Argentina); and has encouraged the build-up of personal, corporate and governmental debts. It is widely recognized as fragile. Like the levees of New Orleans, the current international financial architecture is unlikely, without some regulation, to withstand coming financial hurricanes – at least according to the bank of central bankers – the Bank for International Settlements in the conclusion of their June 2005 report.

### **The house that Finance built**

The basic concepts underlying the international financial system are comprehensible to anyone who has ever gambled, managed a budget; taken out a mortgage or loan; and handled the exchange of money into foreign currency. Statistics are more challenging. Understanding how statistics are manipulated is a highly developed skill in itself, requiring years of study. Nevertheless it is possible to understand, analyse and follow the workings of the international financial system, by simply grasping the key underlying concepts, and then developing a judgement about the array of statistics that assail us each day.

First, however, it is necessary to briefly survey the recent historical background. In doing so, this chapter will necessarily skate over and simplify many debates taking place within the political and economic spheres. Readers interested in these debates are referred to experts in the reading list at the end of this and other chapters.

The purpose of this chapter is to unravel and analyse one key theme in international financial systems since the nineteenth century – the role of the finance sector in international economic and political crises. This theme is often overlooked, denied or simply ignored by economists, and economic and political historians.

### **The fantastic machinery of the gold standard**

The gold standard put a fantastic machinery of global self-regulation into place.

Block (2001)

The story of how today's international financial system was created goes back some way.

To understand our current system, we need to recall that we are living through just one of a succession of periods defined as globalization – a term that embraces the free, global movement of money, trade and information – but not, on the whole, people. While many of its advocates argue that there is no alternative and that because of new technology globalization cannot be ended abruptly, in fact recent history provides evidence of three abrupt and very unpleasant endings to previous waves of global financial, trade and labour liberalization.

The first wave of globalization began early in the nineteenth century, and was spurred on by the role played by Britain's finance sector in bankrolling railway, commodity and mining projects around the world.

To protect their assets or loans, London bankers needed an international financial system that would guarantee the value of loans made to investors/speculators and/or dictators in far-off places, and that would guarantee the value of the debt repayments too. This was challenging, because investors/speculators/dictators wanted to repay debts in their own local currency (in which they paid wages and purchased supplies). However, the value of these currencies (especially in the emerging markets of that time) could fluctuate in value – depending on domestic political and economic circumstances or external shocks. London bankers could not have their loans or debt repayments fluctuating in value. That would not do. So, to overcome the problem that strangers in far-away places exercised national control over currencies, and therefore over the value of international debts and other assets, they designed what was to become an international monetary framework known as the gold standard – that would effectively bypass national monetary systems and economic policies.

### **Gold and the British empire**

Britain's Bank Charter Act of 1844 decreed that Bank of England notes were to be backed by gold. Under this law, the Bank issued notes, and guaranteed that they could be redeemed by a certain amount of gold.

This, together with a fixed price for gold, laid the foundation for the gold standard. The gold standard, in turn, became the central mechanism for creating and guaranteeing debt – both within Britain, and also internationally.

Over the next century, British foreign policy was to focus on the need to expand London's ability to act as the world's creditor, by expanding gold reserves – the basis of this lending. In effect, this meant that British foreign policy focussed on discovering and extracting gold from colonies, and depositing this gold within the finance sector's vaults in the City of London.

Expanding London's gold reserves enabled the City of London to expand credit internationally, maintaining its pivotal position as the world's banker. This in turn meant extending Britain's old empire into a new, 'virtual' empire of countries like Russia, Argentina, Peru and Uruguay – countries which were not directly occupied, but which became clients of the finance sector.

In 1886 the world's largest known gold reserves were discovered on the Witwatersrand, in the Transvaal, South Africa. London's powerful finance sector, led by Cecil John Rhodes and Lord Alfred Milner, then set about using all the instruments of imperial power, including war, to extract and transfer that gold from South Africa to the vaults of London. In 1887, just one year after the discovery, Rhodes registered and boldly named a new company in London: 'Gold Fields of South Africa Ltd'. In 1899, local resistance from Afrikaner Boers (farmers) led to war, and to the defeat of the British in 1902. But Britain's finance sector went on to win the peace. For by World War I Britain had secured sole purchasing rights to all of South Africa's gold production.

### **The gold corset**

Under the international monetary system of the gold standard established by London's bankers, a nation's credit was linked to the amount of gold stored in the central bank. With time, most countries (even those with few reserves of gold) participated in the system of the gold standard, because a) they needed credit, and/or had individuals or firms that needed credit and b) they needed to repay foreign debts in gold.

To participate in this system, countries had to follow three simple rules of the game. First their central banks had to set the value of the currency in relation to a fixed amount of gold – and had to commit to buying and selling gold at that price.

Second, each country had to base its domestic money supply on the quantity of gold held in the central bank's reserves. In other words, the local money supply rose or fell according to the rise and fall of gold reserves in the central bank. When gold flowed out of the country, for example in repayment of debts, the money supply fell, and with it economic output. When economic output fell, unemployment and depression invariably followed. When gold flowed in, the money supply rose, and with it economic output. There were (theoretically) no mechanisms for checking and balancing inflows and outflows. These depended on the whims or fortunes of traders/investors/speculators importing or exporting goods or money. Governments and central banks were theoretically powerless to intervene. In reality, as explained below, not all governments played by the rules of the game.

This was largely because of the third rule of the game; that each country would give its residents complete freedom to move gold in and out of the country. The principle was that of the invisible hand; if individuals and corporations were given maximum freedom to pursue their own self-interest, everyone would benefit.

We may note in passing, as Herman Daly has reminded us, that while neo-liberal economists from Adam Smith onwards have always urged nations to adhere to economic frameworks which give citizens maximum freedom (freedoms which do not oblige them to take into account the interests of the nation as a whole) no firm or corporation would give its staff the same privileges.

Every deal that corporation people make has to be vetted up through higher authorities to make sure that it's really in the interest of the larger entity. And so I think the same thing is the case with trade across national boundaries. The reason again goes back to community because if you have the free flow of goods and capital and, increasingly, labour across national boundaries, then you really lose any possibility of policy at the national level. (Daly, 1995)

Under the gold standard, individuals and firms could move gold in and out of the country – without regard to the larger entity.

Creditors insisted on repayment in gold, not in say, Peruvian pesos, Russian roubles or Indian rupees – because these could not be relied upon to maintain their value. Gold would therefore flow out of the country as repayment of debts, and without compensating inflows, this would reduce the amount available for the domestic economy. This would lead to cuts in economic output, which meant factories/farms would cut

production or close, unemployment would rise, and wages and prices would fall. The generalized *deflation* would cause great economic and social pain – but international creditors would have protected the value of their assets – they would have got their gold.

To stop the outflow of gold, countries might increase interest rates (to attract new inflows) but this too would hurt the domestic agricultural and industrial sectors. The reverse effects would occur if gold flowed *into* the country – output would rise, followed by employment, prices and then wages. The point was that these economic impacts were not the result of deliberate government policy, but of the uncoordinated actions of thousands of individuals – invariably imbued with the herd instinct.

The periodic and often dramatic adjustments that took place were nineteenth-century versions of IMF-driven structural adjustment policies so unpopular in the late twentieth century. The difference was that in the nineteenth century, adjustments under the gold standard were to be made automatically, with even less regard, effectively, to sovereign governments, industrialists and farmers than was the case in the late twentieth century. It did not take long before political pressures made it difficult for governments to abide by the golden straitjacket. As Fred Block has noted,

The reality was that the simple rules of the gold standard imposed on people economic costs that were literally unbearable. When a nation's internal price structure diverged from international price levels, the only legitimate means for that country to adjust to the drain of gold reserves was by deflation. This meant allowing its economy to contract until declining wages reduced consumption enough to restore external balance. This implied dramatic declines in wages and farm income, increases in unemployment, and a sharp rise in business and bank failures. It was not just workers and farmers who found the costs of this type of adjustment to be high. The business community itself could not tolerate the resulting uncertainty and instability. Hence, almost as soon as the gold standard mechanism was in place, entire societies began to collude in trying to offset its impact. (Block, 2001)

Both the nineteenth- and twentieth-century versions of these policies, were designed to protect the assets – including loans and debt repayments – of international creditors, and not the interests of nations and their people. Above all, gold and the gold standard system enabled London's bankers to maintain their dominant role in the global economy as the world's creditors.

### **The first crisis of globalization – 1873**

Soon this period of nineteenth-century globalization came to an abrupt halt, with the first severe international financial crisis, the crisis of 1873, which erupted at the end of the Franco-Prussian war. The shock of this crisis caused, for example, the Gentiles of Vienna who had lost money on the stock exchange, to find scapegoats in Jewish bankers. Anti-semitism was rife, and began to be promoted by the Austrian Christian Social Party, providing a fertile environment for the development of one Adolf Hitler (1890–1945) – an Austrian. Because of the openness of the global economy and the absence of regulation over international capital movements, there is evidence of the 1873 crisis being transmitted globally; from Austria and Germany to Italy, Holland, Belgium and then to the US, and later the UK.

Despite the economic slump experienced in these countries, the lessons were not translated into policy action to control the causes of the crisis in the future. The liberalization of finance, based on the gold standard, continued as a hallmark of the next two periods of globalization before the Great Depression. The first was from the 1880s to 1914; and the second from 1919 to 1929.

### **The second crisis of globalization – 1914**

During the period 1880–1914, financial, trade and labour markets continued to be liberalized, leading to a globally integrated economy. Some economists allege that this period was much more integrated than today's global economy (largely because labour was more mobile at that time than it is today).

Karl Polanyi, the great Hungarian economist, wrote in 1944 that it is a matter of historical record, and also of some irony, that this period of global integration achieved the very opposite of what was apparently intended. Just as today, competition between nations was intensified, fostering division, nationalism and protectionism. Contrary to the aspirations of neo-liberal economists who were keen to sideline or minimize the role of the state, the gold standard before and after 1914 'had the ironic effect of intensifying the importance of the nation as a unified entity' (Block, 2001).

The tensions caused by a rise in protectionism and nationalism ultimately erupted, and the world descended into a prolonged and destructive war. World War I finally brought to an end the system that had been so carefully put in place by London's bankers.

Politicians in 1914 had no choice but to subordinate the interests of the finance sector, to the very survival of nations – through controls over the movement of capital and goods (Hardach, 1977). Legislation was implemented which blocked international transactions. The conversion of bank notes into gold was prohibited by Russia on 27 July, in Germany on 4 August and in France on 5 August, 1914. Germany and Russia banned the export of gold. In London the private export of gold was not banned, but was heavily restricted. Like Britain, the United States abandoned the gold standard in practice while maintaining its outward form.

### **The bankers press their case: 1918–25**

Not long after the end of World War I, bankers and the finance sector once again began to prevail upon sceptical politicians to restore the pre-war system of liberalized finance and trade – using the monetary framework first adopted by Britain back in 1821: the gold standard. John Maynard Keynes was one of the few academic economists to challenge the finance sector and oppose the reinstatement of the gold standard. For this he was vilified and like many who challenge the finance sector ‘pretty generally regarded as an extremist’ (Kindleberger and Aliber, 2005).

The first countries to re-adopt the gold standard were the United States, Sweden, the Netherlands and a few Latin American countries (Aldcroft, 1977). Memories of the tensions of the pre-war era were fresh, and politicians like Britain’s Winston Churchill, backed by Lord Beaverbrook, were deeply sceptical, reluctant to bow to the will of the finance sector and re-adopt the gold standard again. On 29 January 1925, Churchill wrote to Montagu Norman (governor of the Bank of England) and others, expressing his concern for the non-financial sectors of the economy.

The whole question of a return to the Gold Standard must not be dealt with only upon its financial and currency aspects. The merchant, the manufacturer, the workman and the consumer have interests which, though largely common, do not by any means exactly coincide either with each other or with the financial and currency interests. The maintenance of cheap money is a matter of high consequence. (Quoted in Gilbert, 1991)

However, Churchill, and others, were subject to unrelenting pressure from Montagu Norman, Benjamin Strong, governor of the Federal Bank of New York, and other Federal Reserve officials. Opponents of the gold standard were depicted as inflationists, and marginalized.

Initially many countries adopted a watered-down version. Nevertheless by 1925 all the most important economies of the world were once again tied into a financial system designed by, and for, international creditors. Capital was given the freedom to roam around the world without restraint or regulation. Merchants, manufacturers, workmen and consumers found their interests subordinated to that of the finance sector. And once again countries were obliged to structurally and automatically adjust their economies to the fantastic machinery of the gold standard.

### **The third crisis of globalization – 1929**

The system whereby capital flowed freely, but governments were constrained in their room for manoeuvre, remained in place until it was brought crashing down by the New York stock market crash of 1929 and the Great Depression of the 1930s.

For the third time in 56 years, amidst the vast destruction of financial crises, a prolonged depression and a world war, the system of economic government by international capital markets was discredited and brought to an abrupt end. The cost, in human, social, financial and political terms, was immense, indeed incalculable.

Hugh Dalton, a distinguished economist of the London School of Economics, one of the architects of Britain's welfare state and Labour's Chancellor from 1945, witnessed the debacle of the 1930s and wrote of its causes in 1935:

The world-wide crash in the price level since 1929, with all its disastrous consequences is a financiers' achievement: the continuous deflation of currency and credit in this country from 1920 onwards was a long series of financiers' decisions, taken without public advertisement or public discussion, or Parliamentary sanction, and imposed upon British industry and agriculture, either unawares or against their will ...

... our return to the gold standard at the pre-war parity in 1925 was based on the bad advice of Mr. Montagu Norman himself; the British financial crisis of 1931 ... revealed that a number of leading London Acceptance Houses, acting without consultation, either with one another or with the Bank of England ... had borrowed large sums on short term at low rates of interest from France and other foreign countries, and had lent large sums on short term at high rates of interest to Germany. There was no social justification for these operations. They were neither safety first, nor Britain first, nor constructive internationalism. They were mere speculative profit seeking of the crudest and most risky kind.

According to the testimony of Mr. Ramsay MacDonald, it was bankers, British and foreign, who dictated the financial decisions of the British Government, making their credits conditional on the adoption of specific detailed economies, including in particular, a cut in the rates of unemployment benefit.

Add to all this the fact that an unusually large number of financial scandals, both large and small, has come to light in recent years, and it is easy to understand why British opinion has moved far from its old moorings, and lost its old blind trust in the high priests of finance. (Dalton, 1935)

### **Government by bankers brought to a close – temporarily**

In 1944, before the end of World War II, world leaders, and a group of economists, including John Maynard Keynes, gathered at Bretton Woods, and vowed, effectively, never to allow bankers to rule the world again. Instead, they created a new and more stable international financial architecture – the Bretton Woods system. Under this improved, but imperfect system, governments co-ordinated and co-operated to construct an international financial system that:

- imposed controls over the movement of capital – exchange controls;
- restored to governments vital powers to fix interest rates;
- created the key-currency standard whereby, through international co-operation, the dollar helped anchor and co-ordinate the value of world currencies, by linking its value to gold, so each dollar was worth  $\frac{1}{35}$  of an ounce of gold, or \$35 an ounce.
- introduced a system of international co-operation and co-ordination to ensure that currencies did not drift too far apart in value;
- which gave governments effective control over exchange rates, which were fixed;
- thereby regaining the initiative for governments, giving them room for manoeuvre, or policy autonomy; and finally
- encouraged governments to ration, or cut back on foreign imports and balance these with exports.

The IMF was created to supervise these arrangements, and to act as a firefighter lending to countries with temporary exchange difficulties, and negotiating any necessary changes to the fixed exchange rates.

John Maynard Keynes, who was now no longer regarded as an extremist and who was Britain's leading negotiator at Bretton Woods, wanted the IMF to have a matching power to draw funds from countries with surpluses – to give it the even-handed capacity to maintain international equilibrium between countries. The US, at the time the only surplus country, vetoed this proposal.

In order to discipline and restrain the international money-lenders that had wreaked such havoc on the global economy in the 1920s and 1930s, and in order to restore policy autonomy to governments, the Bretton Woods architects had recommended capital controls. In June 1931, in the first of the Harris Foundation lectures in the United States, Keynes had explained why this was necessary:

We are today in the middle of the greatest economic catastrophe – the greatest catastrophe due almost entirely to economic causes – of the modern world ... I see no reason to be in the slightest degree doubtful about the initiating causes of the slump...

The leading characteristic was an extraordinary willingness to borrow money for the purposes of new real investment at very high rates of interest – rates of interest which were extravagantly high on pre-war standards, rates of interest which have never in the history of the world been earned, I should say, over a period of years over the average of enterprise as a whole. This was a phenomenon which was apparent not, indeed, over the whole world but over a very large part of it. (Keynes, 1931)

To correct this state of affairs, Keynes and his fellow Bretton Woods architects argued that democratic states should regain from financial markets the right to control over key levers of the economy, namely the flow of capital, and its corollary, the management of interest rates. In his view: 'the whole management of the domestic economy depends upon being free to have the appropriate rate of interest without reference to the rates prevailing elsewhere in the world. Capital control is a corollary to this' (Keynes, *Collected Writings*, Volume XXV). The aim of domestic monetary policy was to be the cheap money that he saw as necessary to prosperity.

The Bretton Woods Agreement ensured that people should be free to exchange any national currency for any other for purposes of trade or travel. But for the first 14 years after 1945 most governments kept control of their citizens' access to foreign exchange. Some restricted foreign investment and ownership within their territory. Broadly

speaking, they did their best to restrict imports to what they could pay for (Milward, 1977).

Under the Bretton Woods system, while the dollar was key, the US government was nevertheless subject to stiff constraints, and was obliged to ration imports in balance with earnings from exports. All governments were obliged to balance their books – their trade and capital accounts – with the rest of the world, and co-operated internationally to ensure that there was no build-up of large deficits or large surpluses.

The Bretton Woods system, though not perfect, and though not implemented in full, remained in place for almost 30 years, until the 1970s. During that period the world, including continents like Africa and Latin America, enjoyed unprecedented economic stability; rising growth in income; and expanded trade. Per capita GDP growth in Latin America, for example, in the years from 1960 to 1980, rose by 80%. By contrast, per capita GDP growth in Latin America since liberalization in 1980 has risen by only 10%. During the Bretton Woods regime, countries did not build up huge deficits or surpluses. At the same time the world enjoyed a period of political stability (helped in part by the Cold War). Barry Eichengreen and Peter Lindert, the distinguished economic historians, have noted that:

In retrospect, the three decades following World War II seem to have been a golden era of tranquillity in international capital markets, a fulfilment of the benediction 'May you live in dull times' .... Sovereign defaults and liquidity crises were relatively rare. (Eichengreen and Lindert, 1991)

### **The dismantling of Bretton Woods and the house that Finance built: globalization**

Bretton Woods was to be displaced in the 1970s, and replaced by a system still in force today. This system of financial liberalization is different from the old gold standard, in that it is not anchored in gold (or any other commodity for that matter). Instead it is anchored on a system of debt; US debt. Nevertheless it is a system that resembles the earlier periods of globalization in almost every respect. It prioritizes the interests of the finance sector, and in particular the creators of credit. It provides for the unregulated growth of trade – regardless of imbalances between nations; environmental or other impacts, and certainly with little regard for nations, and for those people I will loosely define as 'Industry' and 'Labour' within nations. Using spurious arguments, the

finance sector insisted on the de-regulation of capital movements, and on the de-regulation of credit creation. (The arguments are spurious, as I demonstrate in a later chapter, because, since the invention of bank money, investment no longer depends on the transfer of the 'idle savings' of rich countries to poor countries, supposedly bereft of such savings. This argument is wrong because it fails to acknowledge that in a modern economy banks have the ability to *create* credit. In a credit-creating economy a bank is not an organization that holds people's savings and passes them to industry. Credit *creates deposits*, not the other way round (Tily, 2002).)

Globalization has gradually weakened the autonomy of elected governments and their people, and ensured that key areas of policy-making (such as the setting of both short-term and long-term interest rates) are taken by invisible, unaccountable capital markets. Deflationary policies have ensured that prices of goods and wages have fallen as a share of global GDP. Financial assets, on the other hand, have risen as a share of global GDP (Greenhill, 2003). Above all, financial liberalization has fostered global imbalances, deficits and debts, fraud and corruption; and international financial crises.

How was Bretton Woods dismantled? The truth is that it was done stealthily, behind the closed doors of a small group of the world's political and financial elites, with little public and academic debate. To this date the events of 1971 are little known, little understood and seldom studied. One of the few academics to have explored these events in depth is Eric Helleiner, whose book, *States and the Reemergence of Global Finance* is essential reading.

### **The US defaults on its debts: 1971**

The story, summarized briefly, began thus. By the late 1960s, the US had become the world's biggest creditor, and had used its position to displace the UK as a super-power. However it had begun to build up a deficit, as a direct result of military spending on the Vietnam War. The UK too had earlier built up a massive deficit as a result of war, the war against Hitler, and had appealed to the US for assistance and for debt relief. However, both during, and at the end of World War II, the US had been merciless in its treatment of its old colonial master, and demanded of Britain that it pay its debts by selling off gold reserves and international investments. This considerably weakened Britain's position as a world power.

By the 1960s when the US found itself in a similar predicament, it was unwilling to abide by such rules itself (Hudson, 2003).

Instead, on 13 August 1971 at Camp David, President Nixon made an electrifying policy reversal and announced unilaterally that the US would no longer conform to the Bretton Woods system. Nixon made clear that the dollar would no longer be linked to gold, nor would payments be made in gold. Nor would the US sell its gold or international investments to raise funds to pay for imports or to pay off debts (van der Wee, 1983).

In other words, the US declared that it would unilaterally default on its foreign obligations to repay debts in the form it had contracted to do so. This represented, at the time, the biggest-ever default by a sovereign government.

As Herman van der Wee has written:

... such a fundamental decision as the abolition of the gold-dollar standard, taken unilaterally by the United States and without any prior consultation with the rest of the world, was regarded as an arrogant expression of the American policy of domination. (Van der Wee, 1983)

Instead of paying its debts by selling exports and earning gold, with which to repay its creditors, the US offered something much less tangible: bank money in the form of US debt – US Treasury Bills. In other words it was suggested to creditors that they might want to hold new loans to the US as a form of collateral for the debts they were owed!

At the same time, US policy-makers invited the IMF to design a new international financial system. An effort was made; some insist that the effort was serious, but that it came to nothing. Instead, and by default, the dollar became the global reserve currency; and US debt – low-cost loans to the US – formed the basis of all international reserves. Central banks would no longer hold gold, as evidence of their reserves and to pay for foreign purchases; as evidence of the general health of their economy. Instead they would hold US debt – IOUs of the US's Federal Reserve Bank printed on paper.

It is important to note that this new financial system was not the result of considered, planned and co-ordinated action by the international community of world leaders. That while the Bretton Woods system worked well overall, there were clearly strains, and it had become necessary to make changes and improvements, in particular to the exchange rate system. But these changes were not then made as a result of careful deliberation by wise scholars, responsible leaders and their expert advisers. Instead they were made in reaction to the unilateral default on its foreign obligations by the US government in 1971.

The effect of these new arrangements was to dramatically transform the international financial system. First, by dismantling a cornerstone of the Bretton Woods system, the link of the reserve currency to gold, the removal of controls over the movement of capital, in particular US capital, began.

The US could expect to borrow money in the currency it printed. By revaluing or devaluing that currency the US could, therefore, increase or lower the value of its foreign debts. Furthermore, because there was no longer any benchmark (i.e. gold) against which its currency would be measured, or indeed any constraints against which its balances (imports/exports) would be assessed, the US need never again be obliged to *structurally adjust* its economy to restore it to balance (a requirement regularly made, since the 1980s, of poor, debtor nations). This meant that the US could now borrow limitless amounts of money on the international capital markets without restraint, and use these resources to pursue apparently endless consumption.

That is not to say that constraints to international borrowing were all removed instantaneously. Potential creditor countries still maintained capital controls, which made it difficult for money to be transferred to the US in the form of a loan. The US, supported by the finance sector and the UK government, then began a sustained campaign to discredit and lift international *capital or exchange controls* – a campaign that succeeded with the elections of Margaret Thatcher as British Prime Minister and Ronald Reagan as US President in 1979.

Today, instead of holding gold reserves, all countries mainly hold low-cost loans to the US (Treasury Bills) as reserves. These huge holdings of reserves represent staggeringly large loans to the US, at very low real interest rates. (Poor countries that need to borrow on international capital markets pay much higher rates of interest.) Rich and poor countries alike hold these Treasury Bills in their central banks, as evidence of their creditworthiness, and of the health of their economies. Larry Summers, until recently the US's Treasury Secretary or finance minister, has noted that:

The largest international flow of fixed-income debt today takes the form of borrowing by the world's richest nations at (probably) negative real interest rates from countries with very large numbers of poor. (*Business Times*, 9 March 2004)

The silent, revolutionary changes to the international financial system began the process that was to remove the stabilizers which had

ensured that international trade remained balanced, without countries accumulating deficits or surpluses.

The result, after more than 25 years is the build-up of substantial imbalances. The US today imports half as much again as it exports. Not only does it have the biggest deficit run by a G7 economy in the past 30 years, at approximately 7% of national output, but it needs to raise from abroad an approximate \$1 trillion a year, about \$3 billion a day. As a share of America's economy, this external deficit has more than doubled since 1999 (IMF, 2005). Meanwhile, US net international investment – the broadest measure of US external debt – is currently estimated at \$3.2 trillion (Setser, May 2006). This is equivalent to more than 25% of GDP. The US is not the only country to build up trade deficits: Britain's trade deficit has recently hit record levels.

Somewhat alarmingly for the central banks and private lenders that have lent money to the US, American policy-makers have indicated that the US could use its power to cancel its own debts, by printing more dollars and lowering the value of the reserve currency. A speech in 2002 by the new governor of the Federal Reserve, Mr Bernard Bernanke, caused considerable controversy, but is illuminating:

Like gold, U.S. dollars have value only to the extent that they are strictly limited in supply. But the U.S. government has a technology, called a printing press (or, today, its electronic equivalent) that allows it to produce as many U.S. dollars as it wishes at essentially no cost. By increasing the number of U.S. dollars in circulation, or even by credibly threatening to do so, the U.S. government can also reduce the value of a dollar in terms of goods and services, which is equivalent to raising the prices in dollars of those goods and services. (Bernanke, 2002)

Mr Bernanke has helped ensure that the reproduction of bank money, by means of a mechanical or digital printing press, will remain at the centre of the debate about international finance. Above all he has demonstrated that the US has extraordinary powers to manipulate the global economy.

The US's ability to use its financial assets to obtain, cheaply, additional resources; its ability to leverage its political hegemony to Hoover up assets from poor countries; the absence of any form of international framework to discipline the US (and other sovereign) policy-makers: all these issues raise profound ethical questions about the unjust edifice that is today's international financial architecture.

President Nixon's unilateral actions in 1971 granted the United States powers and rights to embark on a path of sustained and unchecked consumption. As a result, the US has massively increased consumption, and has moved from being the world's biggest creditor, to the world's biggest debtor.

### **When deficits become surpluses**

American policy-makers, including the new governor of the Federal Reserve Mr Bernard Bernanke, are fond of turning this story upside down, and blaming the deficit on foreigners. It's not, they argue, that Americans are consuming more than they earn; it's just that the Chinese and other countries are exporting too many goods into the US. In other words, without US consumption, the global economy would falter. While it is true that US consumption has stimulated exports and growth in other parts of the world, and in particular in China, the question of who is pushing and who is pulling is easily answered: US consumption has stimulated growth in exports elsewhere, it has resulted in imbalances – with the US consuming more than it can pay for; and another (China) generating economic growth through one leg of its economy – exports. These imbalances must unwind, and when they do it is unlikely that the unwinding will result in what economists like to refer to as a soft landing.

#### **Orwellian Chutzpah and Doublespeak in the Economic Report of the President**

... the latest example of this Orwellian doublespeak is the Economic Report of the President (ERP) published today by the White House Council of Economic Advisers. Its chapter on international macro issues is titled '*The U.S. Capital Account Surplus*' when the more appropriate and honest title would have been '*The U.S. Current Account Deficit*'.

Roubini (2006)

Another argument put forward by US policy-makers is that there is a foreign savings glut and foreigners are dumping this glut on the US! As *The Economist* (22 September 2005) noted, this self-serving argument 'conveniently deflects attention from monetary and fiscal decisions made by American policymakers'. In any case, the rate of global saving as a proportion of global output has been falling over the past 30 years.

Foreigners are lending money to the US largely because the international financial architecture obliges them to do so.

There are of course other economic reasons for the transfer of these funds from relatively poor countries to very rich countries. The holding of US debt, or Treasury Bills was until recently the only way in which central banks expected to hold their reserves, as noted earlier.

Second, in the absence of any management or co-ordination of currencies by the US government or the G8, the value of the dollar could fall if funds were to flow out of the US. This would increase US competitiveness vis-à-vis exporters like China and Japan, not because the US was more efficient, but because of the fall in the value of her currency. Asian and other central banks are determined to prevent a) the dollar from devaluing and b) the competitive devaluation of other currencies, which in turn would exacerbate beggar-my-neighbour policies and trade wars.

Until recently, loans to the US held as US Treasury Bills were regarded as the world's safest investment; the US could always be relied upon to pay its debts. But as the US deficit ballooned, so between 2001 and 2004 foreign *private* investors lost confidence in the ability of the US to repay its debts. During 2003 and 2004 these commercial investors withdrew from the US Treasury Bill market, which partly explains the fall in the dollar during that period. As a result of the withdrawal of the private sector from this lending, the US's debts were and are largely financed by the *official* sector – central banks (backed by taxpayers). If they had not lent funds at low rates of interest to the US, a dollar collapse in 2003/04 would have been inevitable. Instead central banks sent \$395 billion to the US in 2004 (Setser and Ramaswamy, 2006), and the dollar drifted downwards by only 14%.

Asian central banks have the largest holdings of US Treasury Bills, so that it is Asian taxpayers, mainly in Japan – which owns 16% of Treasuries, the highest ratio outside the US (Bloomberg, 10 April 2006) – but including the governments of India and China, who today effectively finance the US deficit (and thereby US consumption). In 2004 the gross reserves held by economies in South and East Asia and the Pacific (the majority accounted for by China and India) rose to an estimated \$917 billion (World Bank, 2005). More than \$1 trillion of foreign income, investment and the gains from Asian trade surpluses has been transferred to the US in the form of Treasury Bills (Bloomberg, 8 May 2006).

### **Trickling down becomes hoovering up**

As the World Bank has noted, this means that today, in contradiction of orthodox neo-liberal economic theory, money often flows from where it is scarce (low-income countries like India and China with large numbers of poor) to where it is plentiful (high-income countries like the US and the UK).

Americans in January 2006 are a fat and happy race. At home, there is no mirror that doesn't flatter them, no number that doesn't encourage them, no headline that doesn't praise them. Abroad, their warships range the seven seas. No sparrow is so small that it can fall without setting off sensors at the Pentagon. And no country is so poor that it cannot lend the United States of America money. (Bonner, 31 December 2005)

In other words, money flows from the poor to the rich. This is the very reverse of what orthodox economists teach in all our universities when they write of wealth trickling-down from rich to poor. Neo-liberal economists imply that the trickle-down effect is as natural a law of economics as gravity is a law of physics. Today's international financial system proves that it is not.

#### **Wanna Buy a T-Bill, Sucker? The foreign fools who are buying American bonds**

Yesterday's trade deficit figures showed that Americans continue to hurl dollars overseas in exchange for cars, oil, televisions, you name it. In theory, that's bad news, since it means the money we earn isn't stimulating domestic demand.

The good news is that a lot of the dollars we export find their way back here. And while we Americans shrewdly use our greenbacks to get a lower price on things we need or desire like DVD players, many foreigners are using the cash we send them to buy stuff that Americans don't want to buy – government bonds. What a great deal! We underpay for their great electronics; they overpay for our mediocre bonds.

Dollars wash back to the United States in a variety of ways: A Japanese tourist splurges at Disney World, a German pension buys General Motors stock, a Dutch supermarket buys Oracle software, the Royal Bank of



Scotland purchases Cleveland-based Charter Financial, or the Chinese central bank buys American Treasury bills.

It's this last type of transaction – Asian central banks and other foreign investors buying our government debt – that has been most important in recent months. The massive foreign purchases of U.S. government bonds have helped keep interest rates at or near historic lows, even as federal surpluses have turned into massive deficits. Just as we can't get enough of foreign manufactured goods, foreigners can't seem to get enough of American paper goods.

At the end of the first quarter, according to this Federal Reserve report [link], foreigners owned about 40 percent of outstanding Treasury securities, up from 30 percent in 2000. Foreigners own \$1.65 trillion in Treasury securities, up from \$1.03 trillion in 2000.

Foreign central banks are on a spending spree. As recently as 2001, central banks bought just \$10.7 billion in Treasury securities on a net basis. But their net purchases have risen dramatically: to \$43.1 billion in 2002 and \$128.5 billion in 2003.

With each passing quarter, foreigners have become more significant consumers of U.S. government debt. In 2002, non-Americans accounted for about half of net purchases of Treasury securities. But in the first quarter of 2004 they accounted for *150 percent!* That is – the rest of the world bought a net \$679.8 billion in Treasury securities while U.S. brokers and dealers *sold* a net \$202.7 billion.

As interest rates rise, smart investors tend to flee bonds. But the foreigners are still buying despite rising rates.

In theory, there's something dangerous about this increased reliance on foreign creditors. They have a call on our national savings. And if the Japanese and Chinese central banks suddenly decide to stop buying – for political or economic reasons – we could be in for a nasty shock.

But it also works the other way around. The Asian central banks aren't buying U.S. government bonds for investment purposes; they're buying for mercantilist purposes. By buying dollars and dollar-denominated assets like Treasury bonds, they help keep their currencies relatively weaker and the dollar relatively stronger. And by providing a ready market for our government's chief product, they've helped keep U.S. interest rates low. That keeps politicians happy and enables American companies and consumers to do what they do best: borrow tons of money at favorable rates and spend it.

Jingoists can also take comfort in knowing that all these foreign buyers are going to turn out to be chumps. These huge purchases have all the signs of dumb money. The central banks and other foreign investors



cycled into U.S. Treasuries – big time – as rates were hitting their lows. They apparently increased their purchases after rates bottomed – and as U.S. institutions were furiously dumping the bonds. Now interest rates are rising, pushed up by a bond market that is fearing inflation and anticipating an interest-rate hike in late June by the Fed. As a result, people who bought Treasury bonds in the past couple of years will be collecting meager interest payments compared to current buyers. And as rates rise, the value of the bonds they hold will fall.

In a way, then, the huge trade deficit is redounding to our benefit. Somebody's got to fund the gigantic federal budget deficits that have materialized over the past few years. Without foreign investors – and foreign central banks in particular – we'd have to stuff all these lousy bonds into the portfolios of American investors. Better them than us.

Daniel Gross, 17 June 2004  
<[www.slate.com/id/2102433/](http://www.slate.com/id/2102433/)>

### **The US's paper money**

In 2003–04 the US government tried to correct its deficit, not by cutting back at home, but by standing by and allowing the dollar to devalue. A lower dollar makes imports more expensive, and makes US exports cheaper in global markets. The US government hoped by this means to correct its massive and growing deficit, and to eliminate at least part of its foreign debts.

But a lower dollar performs another magic trick for the US, one that other debtor governments cannot pull off. It cuts the value of US debts – including all those Treasury Bills – denominated in dollars. In other words the US is able to write off its debts, just by standing by and allowing its currency, the dollar, to devalue. If Rwanda or Nigeria or Indonesia could cut their debts by a) repaying loans in their own currencies instead of having to pay in foreign currencies like the dollar, and b) write off those debts by devaluing their own currency – they could solve their debt crises overnight. The US has so far been able to do this, without apparently hurting her rating with foreign creditors. This is not a privilege which low-income, debtor countries enjoy. Sony Kapoor has calculated that India lost \$12 billion in 2003, as the lower dollar eroded the value of its US Treasury Bill reserves – money which could have been better spent on the development of its people (Kapoor, 2005).

Why do Asian governments and their conservative, prudent central bankers behave in this way? Why do they continue to finance the US

deficit, by making low-interest loans to the US? Until recently, they had little or no choice. There was no other international asset which could replace US Treasury Bills as a reserve asset, and which would give confidence to the finance sector. Today that is changing as the euro develops as a competitor to the dollar. Instead of making low-income loans to the US, poor countries can now make low interest loans to the European Central Bank, and hold these as reserves.

Asian governments and central bankers are also attempting, often single-handedly, to stabilize a volatile global economy. Their conduct has been in stark contrast to that of world leaders. Meetings of the G8 these last few years have been grand jamborees involving rock stars, protesters and any number of international political figures and civil servants. What they have not been are forums in which world leaders gather to co-ordinate and guide the global economy. This stoic refusal to intervene in the global economy to guarantee stability, is viewed by some as irresponsible and poses a threat not only to economic stability, but also to global political stability. However, it is typical of the attitudes of adherents to the ideology of the invisible hand. Harry Dexter White, the chief US negotiator at the Bretton Woods Conference, warned in 1944:

The absence of a high degree of economic collaboration among the leading nations will ... inevitably result in economic warfare that will be but the prelude and instigator of military warfare on an even vaster scale. (White, 1944)

### **The poor are financing the rich**

Because central banks operate under conditions of great secrecy, these facts are not widely known to the citizens of poor countries – or indeed of rich countries like Japan, the US's biggest creditor. However, they explain in part why the World Bank, in its Global Development Finance reports in 2003 and 2004, expressed concern that, since 2001, low-income countries have become *net lenders* to high-income countries. This means low-income countries' earnings from exports (creating current account surpluses), and from financial inflows, have been used to build up reserves of US Treasury Bills, i.e. to make cheap loans to the US, rather than to undertake domestic spending to reduce levels of poverty.

The dramatic current account surpluses chalked up in the past few years have been used primarily to accumulate foreign exchange

reserves, rather than to finance productive domestic investments. (World Bank, 2005)

These flows from South to North, from the poor to rich, are not just taken up by the flow of foreign investment or loans to finance US consumption. Poor countries are also transferring debt payments. Each year low-income countries pay hundreds of billions of dollars in repayment of interest and principal on loans to high-income countries.

To exacerbate matters, the absence of controls over the movement of capital means that international corporations are free to remit the profits they make in low-income countries back to rich countries. Of course they choose to remit these profits, not in local currency, but in hard currency – invariably the dollar. This means that in order to remit their profits, they have to make a claim on the hard currency stored in the central banks of poor countries.

Poor countries find it tough accumulating reserves of hard currency, because they earn so little from their exports, and have such large debts to repay. So each time a big corporation taps the central bank for hard currency, reserves are run down, and transferred to a rich country.

The trade policies of rich countries further exacerbate these transfers. By forcing low-income countries to adopt US-style patent and copyright laws, rich countries can extract rent from low-income countries in the form of royalties and licensing fees, which in turn will lead to outflows from poor to rich. At the same time, low-income countries pay over the odds for imports from rich countries.

Finally, loose regulation of capital flows ensures that capital flight takes place. Rich elites in low-income countries regularly export their wealth to banks in London, New York and Zurich, rather than investing it back home.

### **The hoover effect**

As a result, the flimsy, unstable international financial system created by President Nixon in 1971 and consolidated since, acts as a hoover – scooping up wealth from the poorest countries and transferring it to the richest.

And it is not just doing so at an inter-governmental level. The hoover effect works *within* liberalized economies where the rich, those who own assets, have watched those assets become enormously inflated as a share of GDP (despite the anti-inflationary protestations of orthodox economists and central bankers); while the rest of society, workers, farmers and shop-

keepers included, have found their wages, commodities and other prices falling, or deflating, as a share of the whole economy. But inequality between rich and poor is not only to do with the ownership of assets. US trade policy, as Dean Baker, co-director of the Center for Economic Policy Research, has noted, pits some workers (primarily manufacturing workers) into competition with workers in low-income countries. At the same time, the US government maintains protection for high-paid occupations like doctors, lawyers, journalists and even economists.

Today's liberalized international financial and trading system differs only in scale from the divisive and unstable international system of the gold standard. Globalization is a system characterized by high real rates of interest, low investment, high unemployment, low wages and high rates of debt. It is a system which has generated an embarrassment of riches for the rich, and which shrinks the share of the global economic cake allocated to workers, and those who do not own assets. Above all it is a system that prioritizes the interests of international creditors – as it did under the gold standard.

The contrast between economic conditions today and the low rates of interest, the high levels of investment, employment and wages of the Bretton Woods era could not be greater. Low rates of interest are anathema to money-lenders; but are vital to all those who engage in productive work; those who undertake vital research, and develop new medicines and other products. Full employment and good wages are vital to social and political stability; they nurture a sense of stability and well-being in society, and give us the confidence and assurance to do more than just pursue money, profit and consumption.

Globalization's effects are everywhere to be seen. The poor are getting poorer, and the rich, richer. Worse, the poor are becoming more indebted. *Real* interest rates on long-term loans (as opposed to the rate set by the central banks) are high in most countries, deterring investment in research and development. As a result investment in productive industry is low, manufacturing is failing, and shrinking as a share of GDP in a number of OECD countries. Real unemployment is as high in parts of the rich world as it was during the 1930s; and in many developing countries unemployment is far worse than in the 1930s.

Mega-mergers leading to the establishment of giant oligopolies now control our marketplaces. These oligopolies, aided by loose government regulation, eliminate competition. Ignoring the cheerful, blind ideology of free marketers, they force up prices for vital goods like drugs, and capture disproportionately high profits. As the *Financial Times* noted:

in a production system marked by extreme outsourcing, oligopoly does not result in the end of competition so much as the redirection of competition downwards, as lead companies capture more power to set supplier against supplier, community against community and worker against worker. (*Financial Times*, 14 February 2006)

Worse, such competitive pressure has raised tensions between trading nations, and led to a rise in nationalism and protectionism – just as it did during previous phases of globalization.

The failure to regulate trade and the flow of capital has been exploited and abused by international criminal gangs of drug-runners and money-launderers. The polarizing of wealth at an international level has led to a rise in insecurity, violence, terrorism and war; and the exponential exploitation of the earth's resources and sinks has made us all more vulnerable to climate change shocks.

Elected democratic governments have been weakened, and lack the powers, resources and institutions to protect their citizens and firms and to compensate citizens when shocks occur, for example to pension funds. In some countries the failure of government to afford protection to citizens is leading to disillusionment with spineless parliaments; and with leaders that have given away to invisible 'markets' key powers to allocate resources – for health, public sanitation, transport etc. These markets are failing to provide pensions, hospitals, railways, schools and culture to the satisfaction of their communities. As a result, there is growing disillusionment with the democratic process. Why vote for politicians, when they are not allocating resources for pensions, or public transport or health? Instead a culture of corruption now permeates most political systems as spectacular cases of fraud and corruption erupt periodically. Voters in many countries are turning to strong leaders in right-wing, populist and even fascist parties.

### **Globalization's prize legacy: debt**

But perhaps the most striking characteristic of globalization is the rising level of personal, household, corporate and governmental debt. At the same time creators of that debt, members of the finance sector, are riding high; enjoying spectacular capital gains and bonuses.

Where will all this lead? Unfortunately, because of the ideological dominance of financiers and their grip on many of the world's most powerful politicians, it is difficult to imagine that leaders will emerge with sufficient grasp of the threats posed to all of us, including the finance

sector, and with the courage to challenge the dominance of this sector. Should courageous politicians (or academics or journalists) have a proper grasp of the threat, they will almost certainly lack the massive political backing, and the resources needed to challenge the dominance of the finance sector.

Of course a financial crisis, resembling that of the 1930s, will clarify everything. But by then it will be too late, and many millions of people will have had their lives and livelihoods destroyed, and much of our ecosystem will have been irreparably damaged. That is why it is vital that citizens equip themselves with sufficient understanding, and begin to organize politically to once again ensure that the finance sector is subordinated to the needs of society and the ecosystem.

Above all we need to empower our political representatives and our government officials to regulate and manage the global economy democratically, in the interests of people, nations, elected governments and the ecosystem; and not in the interests of a tiny, arrogant and greedy financial elite.

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*Compiled by Auriol Griffith-Jones*

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