

ECONEWS

Issue #189

Promoting the Vision of a Sustainable Vancouver Island

MARCH 2009

JUMPING TO A NEW GLOBAL ECONOMY

I should warn you that this article carries a Health Warning. If you have high blood pressure or anger management issues, stop reading now, or remember to breathe very deeply.

What is the real cause of the global financial crisis? It is easy to blame the US sub-prime mortgages, but they are just the tip of the iceberg of fiscal craziness into which the good ship Global Economy crashed last fall.

We could also blame financial instruments no-one understands, like credit default swaps - but that would be like blaming the gun for the murder, instead of the shooter.

Throughout recent financial history, starting with the 17th century tulip mania, there have been investments that promised amazing returns, causing everyone to want a piece of them – until it all collapsed. The key to sanity is government regulation, to keep the lid on such craziness.

Ever since the Republicans and President Reagan got into power in 1981, most western governments have been dominated by the ideology that freedom was good, regulation bad, and the market should be allowed to prevail.

They also believed that social environmental regulations should be downplayed, and that wealth was money, not jobs, farms, or personal fulfillment.

The arsonist in chief, according to Joseph Stiglitz, Nobel-prize winning economist, is Alan Greenspan, Chairman of the US Federal Reserve since 1987, and a long-time admirer of the writer Ayn Rand, who believed in heroic egoism, rational hedonism, and unfettered capitalism.

When George Bush came along in 2001, and immediately legislated tax-cuts to the rich, Alan Greenspan was right behind him, setting the stage for what followed.

So let me offer you a few of the outcomes that have resulted from this culture of greed and excess. As I warned you earlier, start breathing deeply.

* Average pay of the top American corporate CEOs in 2007: \$10.5 million.

* Average pay of the top 50 hedge and private equity fund managers in 2007: \$588 million.

* Time it would take an average worker to earn this much money: 19,000 years.

* Average US government subsidy to executive compensation through tax and accounting loopholes: \$20 billion a year.

* Bonuses paid by Goldman Sachs to its employees after their record-breaking earnings in 2007: \$13.8 billion.

* Bonus and cash from sale of stocks received by Henry Paulson when he resigned as CEO of Goldman Sachs after a few years work: \$498 million.

* Henry Paulson's new job: Treasury Secretary of the USA.



Nicholas Roberts/AFP/Getty Images

* Pre-tax loss made by Germany's Deutsche Bank in 2008: \$9.6 billion.

* Bonuses paid by Deutsche Bank to its investment bankers in 2008: \$2.7 billion.

* Losses made by the Royal Bank of Scotland in 2008: \$40 billion

* \$\$ paid by Britain to bail out the Royal Bank of Scotland: \$28.4 billion.

* Bonuses paid to Bank of Scotland's staff *after* being bailed out: \$484 million.

* Losses made by Merrill Lynch in the 4th quarter of 2008: \$15 billion.

* Bonuses paid by Merrill Lynch to 696 managers in Dec 2008: \$1 million each.

* \$\$ paid to John Thain, CEO of Merrill Lynch in his 1st year: \$83 million.

* Bonus taken by John Thain after he was forced to resign: \$10 million.

* \$\$ paid by the US government to bail out Merrill Lynch: \$230 billion.

* Bonuses paid by ML to its staff before its sale to Bank of America: \$3.6 billion.

Where does all this stolen money go? Some is binged on luxury yachts, penthouses, and private helicopters. And some is stashed away ...

* Estimated annual loss to the British government from money hidden around the world in tax havens: \$27 billion.

* % of top 100 US corporations using tax havens to avoid taxes: 83%.

* % of 100 largest contractors for US government using tax havens: 63%.

* Estimated total money hidden in tax havens: \$5 to \$7 trillion.

* Estimated cost to rescue the current global financial crisis: \$5 to \$7 trillion. (It had cost \$3 trillion by October 2008)

* Estimated jobs lost through the crisis so far, globally: 20 million. (ILO)

* Response by President Obama: "There is a building in the Cayman Islands that houses supposedly 12,000 US-based corporations. That's either the biggest building or the biggest tax scam in the world, and we know which it is."

Where does this leave us? The kingpins of global finance and their ideology of deregulation have surely been so shamed that there must be public support for a complete overhaul of the way the global financial system operates. (See *Agenda for a New Economy*, inside)

Since the rot is more than financial, it makes sense to predict that no amount of stimulus money will restore investors' confidence until the core reasons for the collapse have been addressed.

This includes restoring proper oversight and regulation, closing the tax havens, ending the culture of greed, returning the stolen money, and integrating social, community, and environmental factors into the way global financial system works. It's a historic opportunity.

Guy Dauncey

Data Sources: *Executive Excess*, 2008 (Institute for Policy Studies). *Global Rage at Bankers' Bonus Excesses* (Spiegel, Feb 20, 2009). *Nowhere to hide for tax havens?* (BBC Feb 2, 2009)