The G-20 Washout: No Policy Solutions. Global Economy is Still on the Brink of Disaster

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As expected, the G-20 Economic Summit in Washington turned out to be a total bust. None of the problems which have pushed the global economy to the brink of disaster were resolved and none of the main players who gamed the system with their toxic securities were held accountable. Instead, the visiting dignitaries gorged themselves on stuffed quail and roast rack of lamb before settling on a toothless "Statement on Financial Markets" which accomplished absolutely nothing. The one noteworthy clause in the entire document is a two paragraph indictment of the United States as the perpetrator of the financial crisis. At least they got that right.

From the text:

"Root Causes of the Current Crisis: During a period of strong global growth, growing capital flows, and prolonged stability earlier this decade, market participants sought higher yields without an adequate appreciation of the risks and failed to exercise proper due diligence. At the same time, weak underwriting standards, unsound risk management practices, increasingly complex and opaque financial products, and consequent excessive leverage combined to create vulnerabilities in the system. Policy-makers, regulators and supervisors, in some advanced countries, did not adequately appreciate and address the risks building up in financial markets, keep pace with financial innovation, or take into account the systemic ramifications of domestic regulatory actions.

Major underlying factors to the current situation were, among others, inconsistent and insufficiently coordinated macroeconomic policies, inadequate structural reforms, which led to unsustainable global macroeconomic outcomes. These developments, together, contributed to excesses and ultimately resulted in severe market disruption."

Bingo. The contagion started on Wall Street and that's where the responsibility lies. It was the result of the Fed's reckless low interest rates and lack of government oversight. This allowed market participants to create massive amounts of leverage via speculative bets on under-capitalized debt-instruments. The resulting collapse in value of all asset-classes across the spectrum has created a gigantic multi-trillion dollar capital hole in the global financial system which has precipitated violent swings in the stock markets, tightening credit, currency dislocations, soaring unemployment and deflation. Almost all of todays economic woes can be traced back to legislation that was promoted by key members of the Clinton and Bush administrations. (Many of who will now serve in the Obama White House) The G 20s statement puts the blame squarely where it belongs; on the Federal Reserve and

Wall Street.

But this is old news. There's no point in rehashing the past unless there's a real interest in bringing the guilty parties to justice or unless the gathered leaders are serious about establishing the rules for a new economic regime. But they're not, which is why the confab was just another political gab-fest devoid of any serious reforms.

It was interesting, though, to hear Bush, in a rare, unscripted moment, acknowledge that the extreme steps taken by the Fed and US Treasury–since Bear Stearns defaulted 17 months ago–were intended to avoid what he called "a depression greater than the Great Depression." That's quite an admission for Bush, as well as a vindication of the left-wing web sites which have been making the same prediction for more than 2 years. And although Bush rejected any personal responsibility for the policies which led to the crisis, it's clear that he has some rudimentary grasp of its gravity. That's a start. As he opined to the press, "This sucker could go down".

Despite the outcry for meaningful reform, the summit only reinforces the status quo; the same old American-led financial system. In fact, there appears to be growing consensus that the IMF should spearhead the programs that provide liquidity to the developing countries that are getting pounded by the downturn. This is a major setback. It restores the IMF–which is the "iron fist" of the US Treasury– to its former glory so it can once again use its extortionist loans to thrust faltering nations into structural adjustment, privatization and slave wages. The meetings are breathing new life into the failed neoliberal policies that should be done away with once and for all.

The G 20 statement invokes the same "pro growth", free market mumbo jumbo that permeates all far-right documents. Pro growth is code for low interest credit which allows market speculators to benefit from the steady flow of cheap capital while workers are stuck trying to make ends meet on stagnant wages and a falling dollar. It's a way of making sure that the playing field is always tilted in favor of Wall Street. Pro growth does not mean strengthening productive activity or manufacturing goods that consumers want to buy. It means expanding credit through derivatives contracts and other leveraged investments to maximize profits on borrowed money. The long-term objective is to put the financial sector above the productive sectors of the real economy. It is a blueprint for maintaining dollar hegemony and Wall Street's continued dominance over global finance.

The G 20 statement also rejects protectionism which defends the interests of labor and crucial national industries. Again, this just illustrates the blatant pro-Wall Street bias of the meetings where none of the leaders represented the interests of labor or unions. To hell with the working man.

The group called for more government stimulus to minimize the effects of the frozen credit markets, unemployment and deflation. They also demanded greater "transparency and accountability", although it will probably amount to nothing. Wall Street is not about to give up the Golden Goose; its off balance sheets operations, its Level 3 "marked to fantasy" assets, its "dark pool" trading, and its opaque, convoluted accounting methods. These are the alchemists best friends which allow investment gurus with little talent and even less scruples to weave exotic debt-instruments into pure gold. Expect plenty of lip-service from Paulson and his brood about transparency, while revealing next to nothing about their shady activities.

Of course, there was the usual high-minded gibberish about "fostering innovation", preserving market "dynamism" and striving for "poverty reduction". Some of the leaders even called for the creation of "supervisory colleges" for bank regulators and limits on executive pay to "avoid excessive risk-taking." (Oh, please) It's a wonder that the developing nations, many of whom have been the victims of the IMF's heavy-handed policies, would allow this type capitalist claptrap to be inserted into the final copy. It's like something out of Milton Friedman's memoirs. No one in the penthouse suites in downtown Manhattan will be taking a cut in pay anytime soon nor do they lose any sleep over "poverty reduction". These guys are riverboat gamblers whose life-work is picking the pockets of unwitting investors.

What's really needed instead of all this diversionary nonsense is strict compliance to a basic set of rules . The rules for financial institutions have been articulated by many market analysts including Karl Denninger (Market Ticker) in his "Genesis Plan":

1– Force all off-balance sheet "assets" back onto the balance sheet, and force the valuation models and identification of individual assets out of Level 3 and into 10Qs and 10Ks. Enact this requirement beginning with the 3Q 2008 reporting period which begins next month. (ed.–All assets must be accounted for on the banks balance sheet)

2. Force all Over the Counter (OTC) derivatives onto a regulated exchange similar to that used by listed options in the equity markets. This permanently defuses the derivatives time bomb. Give market participants 90 days to get this done; any that are not listed in 90 days are declared void; let the participants sue each other if they can't prove capital adequacy. (ed–This creates a public exchange so that regulators know whether derivatives contracts are sufficiently capitalized)

3. Force leverage by all institutions to no more than 12:1. The SEC intentionally dropped broker/dealer leverage limits in 2004; prior to that date 12:1 was the limit. Every firm that has failed had double or more the leverage of that former 12:1 limit. Enact this with a six month time limit and require 1/6th of the excess taken down monthly. (ed–The 5 largest investment banks claimed an aggregate asset-value of $4 trillion before Bear Stearns defaulted. Many, if not most, of those worthless assets are now on the Fed's balance sheet underwritten by the US taxpayer. Too much leverage, simply means that the taxpayer pays the difference when the bank fails)

That's the bulk of it right there. Follow the rules or go to jail. Period.

Of course, Glass Steagall will need to be reenacted–to separate commercial from investment banks–and the ratings agencies will have to be freed from any conflicts of interest. They cannot be paid by the same financial institutions that commission them to provide ratings; that's a non-starter. The main thing is to restore confidence in the markets through transparency. Right now, the Obama camp is amassing the same collection of Wall Street sharpies who pushed to repeal Glass Steagall and allow derivatives to be traded off of a public exchange. They believe they can keep the same financial regime in place with just slight face-lift using Obama's credibility to conceal their activities. That's why it is critical for the nations with the largest capital reserves to establish an independent model for providing relief for developing countries that are hurting from the financial crisis. Otherwise, the IMF (US Treasury) will entangle them in their web of debt.

In his latest article "The Great Depression of the 21st Century: Collapse of the Real

Economy" author and economist Michel Chossudovsky sheds some light on the agenda of the banking giants led by their standard-bearer at Treasury, Henry Paulson:

"Once they have consolidated their position in the banking industry, the financial giants including JP Morgan Chase, Bank of America, et al will use their windfall money gains and bailout money provided under TARP, to further extend their control over the real economy. The target of these acquisitions are the numerous highly productive industrial and services sector companies, which are on the verge of bankruptcy and/or whose stock values have collapsed. As a result of these developments, which are directly related to the financial meltdown, the entire ownership structure of real economy assets is in turmoil.

In a bitter twist, the new owners of industry are the institutional speculators and financial manipulators. They are becoming the new captains of industry, displacing not only the preexisting structures of ownership but also instating their cronies in the seats of corporate management".

Chossudovsky sums it up perfectly. The financial crisis is being used by Wall Street big-wigs to restructure the economy and create a permanent class of working poor.

The world doesn't need a new Bretton Woods or a new world order; it needs a competing vision of global finance. One that will put an end to dollar tyranny, superpower politics and "beggar thy neighbor" economic policies. A system that strengthens national sovereignty, cooperation, and international law. That's what the G 20 should have been talking about, instead of wasting their time trying to prop up a system that's rotten to the core.