

# INTRODUCTION

## GLOBAL MELTDOWN

### THE WASHINGTON CONSENSUS GOES BUST

*How can there be laughter, how can there be pleasure, when the whole world is burning?  
When you are in deep darkness, will you not ask for a lamp?*

— The Buddha

#### ***Washington Fundamentalism Dies an Unceremonious Death***

On October 23, 2008, Alan Greenspan, former chairman of the United States Federal Reserve, was hauled before Congress to testify on the causes underlying the largest financial crisis since the Great Depression of the 1930s. “I made the mistake in presuming that the self-interest of organizations, specifically banks and others, was such that they were best capable of protecting their own shareholders,” explained the ex-central banker.

Questioned by Henry Waxman, chairman of the House of Representatives oversight committee, Greenspan admitted he had “found a flaw” in his thinking. “It had been going for 40 years with considerable evidence it was working very well,” Greenspan told Congress. “The whole intellectual edifice, however, collapsed in the summer of last year.”

Unfortunately for Greenspan, his country and much of the world, that “flaw” in the assumptions which had guided the Fed for nearly a half-century was a gaping one. It also underlies the premises of the Washington Consensus thinking that created, in Greenspan’s words, a “period of euphoria”—and in turn the arrogant application of self-congratulatory theory—which lasted over two decades. Nobody ever thought it would end in ruin.

Waxman, for his part, lambasted what he called “the prevailing attitude in Washington . . . that the market always knows best.” It

## THE ANTI-GLOBALIZATION BREAKFAST CLUB

was a conviction that had guided the World Bank, the International Monetary Fund and the financial institutions purveying global development for the better part of 20 years. In autumn 2008, amid a global financial meltdown, that attitude, and the assumptions underlying it, was proven wrong. Five days after Greenspan's admission, Stephen Roach, chairman of Morgan Stanley Asia, observed in the *Financial Times*: "Driven by its ideological convictions, the Fed flew blind on the derivatives front . . . This trust in ideology over objective metrics was a fatal mistake. Like all crises, this one is a wake-up call."<sup>1</sup>

The problem lay in the ideological fundamentalism of neo-liberal economics that has pervaded Washington since Bretton Woods, the conference held in 1944 by the soon-to-be-victorious powers of World War II to reshape the global financial system. Its core view was that market fundamentals would always be corrected and perfected by the "invisible hand." In other words, human impulse driven by material greed would right the markets. These premises underlay the "shock therapy" treatment applied by aid agencies and international donor and lending institutions in socialist economies under transition during the early 1990s and during the Asian financial crisis of 1997–98. Most beneficiaries of such aid and advice collapsed. With a global market apocalypse developing in the autumn of 2008, the fundamentalist, ideologically based theories of the Washington Consensus were finally discarded. At least by most countries.

### **Anatomy of a Breakdown**

It was a stunning, almost unbelievable sequence of events which had brought things to a head. In the wake of a year-long subprime mortgage crisis in the U.S., on September 15, investment bank Lehman Brothers collapsed. American regulators announced their refusal to rescue the 158-year-old Wall Street institution. That same day a leading rival, Merrill Lynch, announced it was selling itself to the Bank of America to help cover massive losses in subprime-related investments. Stock markets plunged around the world.

U.S. regulators subsequently decided to save mega-insurance corporation AIG, after concluding that a collapse of the insurer, which had US\$1.05 trillion in assets and 116,000 employees worldwide, might unhinge financial markets worldwide. The U.S. Congress two weeks later announced a US\$700-billion bailout package, including US\$200 billion to inject liquidity into the nation's banks, and a US\$500-billion rescue of mortgage companies Freddie Mac and Fannie Mae. By October, a worldwide financial

crisis had erupted, threatening a prolonged global depression as serious as anything since the 1930s.

The collapse of markets and financial institutions sounded the death knell of an era. Since World War II, a set of assumptions about human nature has underpinned all economic theories and global financial institutions that manage our markets. The hardline, sometimes called neo-liberal, belief is that human greed—the invisible hand of Adam Smith’s theory of capitalism—will always bring about equilibrium. The events of autumn 2008 proved that this is not the case. At the very least, the neo-liberal view of economics is incomplete.

Human psychology is not governed solely by concern over how much money we can make and how much we can conspicuously consume. There is a multiplicity of factors behind human motivation and emotion, ranging from a sense of identity and community to assessments of quality vs. quantity of life. These are factors that fly in the face of the psychology of “one consumer melting pot” for the world. Compassion for the suffering of others can override self-centered greed. The quality of our living environment can be more important than how many branded products we can consume.

These are all trade-offs. In the end, the events of 2008 are not the death knell of capitalism and do not herald an era of socialism. Such debates simply miss the point. But these events have jolted people’s assumptions and a readjustment will begin to take place, probably seeking a balance between extremes. Our global financial, economic and even political systems must change to reflect this realignment.

The clearest indicator that a tectonic shift is under way occurred on November 4, 2008, when Barack Obama, born of a Kenyan immigrant father, was elected America’s first black president. It symbolized an outright rejection by the American people of the nearly decade-long neo-conservative agenda of the George W. Bush administration, which sought to impose on the world through either economic sanctions or military force a range of systems—economic, political, financial and social. In trying to construct a global empire with Washington D.C. as its epicenter, the Bush administration simply did not understand that the rest of the world did not want to buy in.

Our assumptions have been wrong. People worldwide have had enough of the Washington Consensus, with its combined neo-liberal economics and neo-conservative politics and most Americans were tired of the growing antipathy towards their country that these policies fueled. Reflecting a sweeping worldwide desire for change, Americans went to the polls on November 4 and voted for Obama—who enjoyed a landslide victory.

## THE ANTI-GLOBALIZATION BREAKFAST CLUB

The challenge for President Obama is not in issuing more federal bonds to buy more time by passing on debt, or adjusting interest rates on home loans. These are technical measures that band-aid the wound but do not cure the underlying illness. The hard question is how to tell Americans that their way of life is no longer sustainable given the accelerating pace of global warming, the costs of the American lifestyle, which is being passed on to the developing world, and endemic poverty in the developing world.

The US\$700-billion bailout package, which ultimately will be financed by China and other rising developing nations, will only remedy, and not solve, the core problem, which is an unsustainable financial order whose underlying assumptions are based on material greed. It is time to bring another set of values to the table.

### ***Will a New President Adopt Fresh Approaches?***

It is possible that this process will begin in the era of Barack Obama. The global financial shock of 2008 was the final wake-up call. In many respects, across both financial and industrial sectors, executives have begun re-thinking the premises of their business models. They are placing new emphasis on corporate responsibility, environmental and labor concerns, and the very question of what constitutes shareholder value—the traded price of stock, or what the company actually gives back to society.

Consider the words of Lee Scott, Wal-Mart's chief executive. Recently, he told a meeting of 1,000 Chinese suppliers in Beijing: "I firmly believe that a company that cheats on overtime and on the age of its labor, that dumps its scraps and its chemicals in our rivers, that does not pay its taxes or honor its contracts, will ultimately cheat on the quality of its products." What a surprise. This is the same Wal-Mart reviled globally by consumer activists for mistreating its employees domestically, driving down wages internationally, and ruining the landscape of communities with its faceless mega-stores. So maybe something is changing—like basic assumptions and, with them, social values.

Scott himself declared to employees: "Some may wonder, even inside Wal-Mart, with all that is going on in the global economy, should being a socially and environmentally responsible company still be a priority? You're darn right sustainability should be a priority."<sup>2</sup>

### ***Overhauling the Global Order***

In October 2008, U.S. President George W. Bush announced an attempt to retool the global financial order in the form of a

Bretton Woods-style summit to be held in mid-November. One item for discussion would be the creation of a global central bank. While this sounded reassuring to some in Washington as well as in some European capitals, it was not exactly what people in the rest of the globe had in mind. The initiative seemed like yet another Washington-centric “solution”—and lacked practicality. The world was tired of being dictated to by the U.S. on everything from economic and financial policy to the political governance process and which social values to believe in. Enough voodoo economics. What was needed was a shift away from America-centered approaches and real solutions to global problems.

In early November 2008, at a meeting of finance ministers and central bank governors from the G20 nations, Brazilian President Luiz Inacio Lula da Silva called for an overhaul of the global financial system, which had “collapsed like a house of cards” during the credit crisis. Emerging powers, he said, must have a greater say in key decisions affecting the planet. Addressing finance officials and central bank chiefs from around the world, Lula slammed the “dogmatic faith in non-intervention in markets” that has long been espoused by the United States and other countries. “We need new, more inclusive governance and Brazil is ready to face up to its responsibilities,” said the burly former union leader. “It is time for a pact among governments to build a new financial architecture for the world.”

The finance luminaries were meeting in Brazil’s economic hub of Sao Paulo to grapple with ways to tackle the global financial crisis. The “BRIC” nations of Brazil, Russia, India and China for the first time forged a joint position that called for reform of institutions like the International Monetary Fund. The overhaul was intended to reflect the growing importance of developing economies.

The G20 group, which includes emerging and advanced economies, should take over from the rich-country G7 grouping as the main forum for discussing global finance, Brazil said. Lula had long criticized the dominance of the U.S. and other developed economies in the way decisions on global finance were taken. Many hoped that progress at the G20 gathering and a separate meeting of the Bank of International Settlements could be taken to a G20 heads-of-state summit in Washington in mid-November. One obstacle, however, could be George Bush, who was adamantly against major global financial reform. Prior to the meeting, French President Nicolas Sarkozy told European leaders in Brussels: “The time when we had a single currency [the dollar], one line to be followed, that era is over. It came to an end on September 18 when responsibility

## THE ANTI-GLOBALIZATION BREAKFAST CLUB

was taken, without our opinion being asked, with the failure of a major banking institution and the consequences that followed.”

David Rothkopf, a senior economic official during the Clinton administration summarized the mood in a commentary in London’s *Daily Telegraph*. “One of the reasons that the IMF has fallen onto such hard times,” he argued, “is that it was seen as forcing the developing world to accept an orthodox recipe for capitalism that was politically difficult to swallow. This view—‘the Washington Consensus’—was a tough sell even before Washington made itself anathema to the world with Mr. Bush’s foreign policy. It became harder still when America threw many of its basic precepts out the window in its response to the recent financial crisis.” Rothkopf suggested “replacing the World Bank and the IMF and creating new institutions such as a Global Monetary Authority: a central bank for the planet. It would also mean establishing a new set of international financial-market standards and strengthening the co-ordination between government regulators and central bankers.”<sup>3</sup>

In Asia, however, big changes were already under way. Fearing a replay of the Asian financial crisis, which had paralyzed the region a decade earlier, alternative consensual responses were quickly drawn up. China, Japan and South Korea established a joint currency-stabilization fund for the region. The three countries put up 80% of the US\$80-billion fund, with the remainder coming from Southeast Asian nations. This was a regional solution that could be applied to a global problem. The regional consensus and local approaches constituted an organic response.

Duvvuri Subbaro, governor of India’s central bank, called for greater regional monetary coordination across Asia. “I think [greater coordination] would be helpful, especially in times of crisis like this,” he said. “Although there is no institutional arrangement spanning Asia, there are some informal arrangements.”<sup>4</sup> The locally coordinated consensual response to the global meltdown was regenerating the financial system, to some extent re-engineering it. The initiative could be the prelude to a new era of localization rather than globalization, and of multilateralism instead of unilateralism.

Jeffrey Sachs, director of the Earth Institute at Columbia University and special economic advisor to the United Nations secretary general, warned in a commentary in the *Financial Times*: “Before our political leaders get too fancy remaking capitalism next month at the Bretton Woods II summit in Washington, they should attend to urgent business . . . what they have not done yet is to coordinate macroeconomic policies to stop a steep global downturn. This is an urgent agenda.”<sup>5</sup>

In his analysis, Sachs went on to outline a global roadmap of things to be done quickly:

[The] International Monetary Fund should extend low-conditionality loans to all countries that request it, starting with Pakistan . . . China, Japan and South Korea should undertake a coordinated macro-economic expansion . . . this would mean a boost for infrastructure but also loans to developing nations in Asia and Africa . . . Development financing can be a powerful macroeconomic stabilizer. China, Japan and South Korea should work with other regional central banks to bolster expansionary policies backed by government-to-government loans . . . the Middle East, flush with cash, should fund investment projects in emerging markets and low-income countries . . . the U.S. and Europe should expand export credits for low- and middle-income developing countries, not only to meet their unfulfilled aid promises but also as a counter-cyclical stimulus. It would be a tragedy for big infrastructure companies to suffer when the developing world is crying out for infrastructure investment.

A few days after his article appeared, Sachs invited me to join him for breakfast at the home of Khalid Malik, the U.N.'s ambassador to China. We talked about the current financial crisis and a range of ideas, from the "millennium villages" that the Earth Institute and Sachs pioneered to alleviate poverty in Africa, to finding the right balance between top-down infrastructure projects and grassroots initiatives.

"You need basic infrastructure," Sachs emphasized. "You cannot imagine how important electricity and clean water are. But most places do not have the money to invest in this. And health care is the basic priority." As more coffee was poured, we both agreed on a host of issues.

It is not a question of top-down infrastructure spending versus grassroots NGO initiatives. Actually, both are needed. It is not a question of being "anti-globalization" or "pro-globalization." The real challenge is to find pragmatic solutions to the problems that are making people's lives miserable. In the end, theory means nothing. Only concrete solutions that alleviate human misery and stop environmental desecration matter. And to be a fundamentalist on theory is just stupid.

I mentioned to Sachs that I was finishing a book on all the points we were discussing. He asked me its name. I told him.

## THE ANTI-GLOBALIZATION BREAKFAST CLUB

“The Anti-Globalization Breakfast Club? That is a good name for a book on this subject,” he laughed. “Sure, aren’t we it?”

### **Endnotes**

- 1 “Add ‘financial stability’ to the Fed’s mandate,” Stephen Roach, *Financial Times*, October 28, 2008, p. 11.
- 2 “An ethics lesson from an unlikely quarter,” Michael Skapinker, *Financial Times*, October 28, 2008, p. 11.
- 3 “Barack Obama’s dilemma: Rich nations must learn to share power,” David Rothkopf, *Daily Telegraph*, November 13, 2008.
- 4 “India call for united action over credit crisis,” James Lamont, *Financial Times*, October 27, 2008, p. 1.
- 5 “The best recipe for avoiding a global recession,” Jeffrey Sachs, *Financial Times*, October 28, 2008, p. 11.