Annex J
Alternative Economic Approaches

Notes on the talk given by Mr. Michael Lim MahHui, Social Economic and Environmental Institute, the reaction given by Prof. Joseph Lim and the open forum that followed.

In his presentation, Mr. Michael Lim Mah Hui, made the following points:

The financial crisis that happened is a failure of the neo-liberal market fundamentalist ideology, the massive financial deregulation/liberalization and the three macro-economic structural imbalances which are 1) the trade imbalance, 2) the imbalance between the financial and real economy and 3) income and wealth imbalance.

"Market Fundamentalism" is the belief that market forces (demand and supply) always give the best equilibrium price; that market is the most efficient allocator of resources and that market can self-regulate. The failure of market fundamentalism is due to the fact that market forces are more applicable to consumer than investment goods. Investment decisions deal with uncertainty of future and it is insatiable. Prices of goods are determined by animal spirit and excesses lead to resource misallocation.

He then shared the following quotations from the Animal Spirit and Certitude of Uncertainties:
"There is nothing so disturbing to one's well being and judgment as to see a friend get rich." (Kindleberger, 2000:15)

> *"I can calculate the motions of the heavenly bodies, but not the madness of people." Isaac Newton (cited in Kindleberger:31)*

He also shared the quote from George Soros of Soros &Ackmermann on Failures of Markets in January 23, 2008:

> *"Fundamentalists believe that markets tend towards equilibrium and the common interest is best served by allowing participants to pursue their self interest. It is an obvious misconception, because it was the intervention of the authorities that prevented financial markets from breaking down, not the markets themselves*

The misplaced fundamentalist ideology underlies the financial crisis and thereafter presented a brief history as follows:

a. Financial deregulation started in 1970s with Reagan and Thatcher. Before deregulation, the state regulate the interest rate of the banks. With the deregulation, the interest rate ceiling was lifted and this resulted to wider competition among banks. While banks were previously confined within a state boundary, deregulation allowed interstate banking. This did not serve the local economies. Finally, the wall that was built around investment banking and commercial banking was broken and banks were enabled to get involved in more risky investments.

b. there were two financial deregulations acts that were passed – the Rudd-Graham Act in 1999 that repealed the Glass-Steagal Act and the Commodity Futures Modernization Act in 2000. The Glass-Steagal Act was passed to establish separately the commercial bank and investment bank after the Great Depression in 1929.

There were only 3 banking crises before the repeal of the Glass-Steagal Act. After deregulation started in 1970s, 20 banking crises in developed countries and 127 in developing crises have occured. Clearly, this shows a direct relation between financial deregulation and financial crises. The Commodity Futures Modernization Act is a derivatives, not security and not gambling, hence no regulation. The result, the asset and the derivatives would become unrelated anymore. The deregulation and financial innovations have resulted to huge increase in leverage (credit/loans) of banks from 12 to 30 times which is a time bomb. The derivatives are weapons of mass destruction. Derivatives rose from $100 trillion to $514 trillion (2002-2007) for housing and commodities.

c. Mr. Hui's presentation also included slides showing the relationship between financial liberalization and banking crises and between financial and food/fuel prices

Mr. Hui then proceeded to discuss his recommendations. First, he said that remedies must be rooted in the causes of financial crisis. Thus, there is a need for a new paradigm to replace market fundamentalism. There is a need regulate and pull back finance to serve the real economy and not just the market economy. There is a need to correct growing income inequality. He then discussed the short and medium term solutions that include:

- Banks that focus on lending
- Regulate speculation
- Introduce finance transaction tax
- Introduce accelerated capital gains tax
- Restrict commodity futures markets to genuine investors
- Regulate capital flows
- Ban corporate lobbying and contributions (major problem in the US)

In terms of medium term solution, he stressed that there is a need to redefine the terms and indicators of human progress, as human progress is more than GDP. Its definition must include social, political and cultural indicators. He shared that Bhutan used Gross National Happiness rather than GDP in looking at human progress.

As a long tem alternative paradigm, he said that the choice is not just between capitalism/market fundamentalism and communism/central planning. He said that we have seen the failure of both extremes. What we need, according to him, was a mixture of both depending on the local and national context. No one model but different models,
will be created.

As an example, he shared the experience of Zapotec Indians in doing Sustainable Forest Management where the forest was communally owned. There, decisions are made by a general assembly of 390 townspeople. All are required to contribute labor to regenerate the forest. The profit of the project is divided into: 30% profit plough back; 30% forest preservation; and 40% to workers/owners.

He shared that there are limits to unsustainable growth. Paul Gilding, an environmentalist said that "no matter how wonderful the system is, the laws of physics and biology still apply". Mr. Hui said that we must grow in sustainable ways instead of hyper-growth where the concept of net-zero applies, i.e., resources are recycled and reused rather than discarded. Gandhi he said once had an observation that the measure of the level of progress of a civilization is not how much desires and wants it can create and satisfy, but how much desires they can control. Mr. Hui ended his presentation by discussing the principles of alternative paradigms.

Organizing	Capitalism	Communism Socialism	GandhianGandhianv Buddhism
Nature of Human	Economic; Animal Object in History	Subject in History	Social Spiritual Being
Concept of Nature Economy	Control and Subjugate Production for Profit	Similar to Capitalism Production for Use Expression of Spirit	Exist in harmony with nature Production for Use Expression of Spirit
	Large Scale Production and organization Industrialism Hyper growth consumerism	Same as capitalism to catch up with capitalism Same as Capitalism Growth and consumption	Small Scale production Self Sufficiency Agriculture and Industry Simplicity in lifestyle
	Top down management control – workers control	Communism – top down bureaucracy; Socialism	Self employed Simple Organization
	Market driven	Central Plan State regulation	Small scale perfect competition
	Gross Domestic Product Inherent inequality Deregulation Free capital movement	Gross Domestic Product Redistributive equality State regulation	Gross National Happiness (GNH) Compassionate distribution Some government intervention
Social and Political	Electoral democracy hijacked by lobbyist military industrial complex; Financial capital	One party state; Bureaucratic control Electoral democracy Welfare State	Electoral democracy

Basically, he said that to be able to reverse the great transformation, there is a need to apply the principles from the alternative paradigms as we work in the existing system. In the Great Transformation, everything was commoditized – people became labor, trees became timber, and land became real estate. These have to be reversed.

In his reaction to Mr. Hui's presentation, Prof Joseph Lim made the following points (which he explained, are just extensions of Mr. Hui's presentation):

The price of bonds is inversely related to interest rates. When interest rates go down, bonds would be making money. But now, interest rates are at its lowest and oil prices are going up.

In the Philippines, if anyone wants to invest, they would go to the banks and invest. Banks would provide information on the past trend regarding the investment but they would not share their reading of the future. All theories of economics fail because people are not rational and are greedy and desperate. He reminded NGOs to be careful when investing.

He said that Michael's presentation was very important because it extended the concept of greed and speculation in the financial products that are related into a very important commodity - the market. We have been one of the victims of the food explosion prices in 2008. The Philippines, Pakistan and Vietnam have the highest prices explosion in 2008. Pakistan had to go to the IMF. Vietnam was a food producer but experienced the biggest inflation in the world. Commodity like food is being speculated now.

While saying that he fully agrees on all of Mr. Hui's prescription, he said that he would like to reformulate the recommendation to reflect the global and regional needs:

- There is an urgent need for global and regional financial trading regulation establishing regional and global financial watchdogs (Merkel)
- The IMF and WB need to be reformed.
- The EU also needs to be reformed as the Celtic tigers were also doing massive austerity measures.

He also shared the Changmai initiative that was initiated by Japan, Korea and China to create an Asia fund based on mutli-lateral currency swap. This would have meant that China can lend to anyone using currency, and the debtor can repay the loan using its own currency. However, this was not utilized.

On the alternative paradigms, Prof Lim mentioned people who have formulated and advocated for alternative paradigms such as Hudini and Mikael have predicted the crisis. He said that the crisis was a clear indication of the need for market regulation or state regulated market or intervention.

The reforms cannot happen without social and political movements worldwide because the financial sector is very strong. China is doing an alternative paradigm but without any real ideology. But it's the only country somehow doing the right thing now.

7. All crises are contagion of the crisis in US and Europe. It is a bleak picture in the Philippines, as there is no clear social institution working on commodity speculation. Maybe Social Watch can take this up.

The following points were raised in the open forum that followed the presentations:

We should not think of saving the capitalist system because it has failed in 1998 to 2000 and instead, concentrate on saving ourselves.The largest market failure is not the financial crisis but climate change. If we want to help solve the problem, people should not buy products from companies whose practices promote climate change. He opined that we should forget international trade and be self-sufficient.

We need to look at political economy and look at how politicians can intervene and how to make use of our resources – citizen's – to put forward the issue on the table and to also change the dominant perspective.

Mr. Hui said that the problem is the political action by the lower and middle class. In 1929, after the Depression, employment went up. Climate change, on the other hand, is a slow occurring problem that people can't see. But the financial crisis is not like a slow boiling water, it's a bomb. It will come too fast. Politicians never learn. We need to do political actions that can bring about change.

There are three actors in the economy: the household, government and commodities. Commodities are being speculated by the companies in Asia. Another actor is the state that can provide regulation. Mr. Hui said that reform will not start from the corporations because they are more concerned about profit. Corporations will not change. The remaining actors are the state and the people (household). With the state, the most important is about having the right kind of political leaders. To do this, the people must also be political and economically wise. This will not happen overnight, not even in our lifetime. There will only be marginal changes and gains. There is no easy solution.

China is the only country which is doing the right thing. Many of the problems emerged from the North and we are looking now at solutions coming from the South. From the South, there are some countries like Africa, India, Brazil and China who are integrated in the G20.

Mr. Joseph Lim said that China is doing right in its strategy of pump priming the economy with the biggest stimulus. China has the biggest reserve. They went into a property bubble but they were able to overcome this immediately by stopping through more prudent lending policiesto their people, unlike the US that kept on lending which eventually led to the financial crisis. China has not opened up its capital accounts and they have wild fluctuation of their currency. They are doing right in terms of regulating its economy but are lacking in terms of addressing income inequality and ethnic minority problems.

Mr. Joseph Lim further said that even if we are able to get out of the crisis (India, China), the negative effect to the environment stands and would continue to worsen. The question remains as to how this will be mitigated.

Perhaps, the financial crisis is good for the environment because once you puncture the bubble, the situation would go over the rim and it will reduce the activity. This is where movements should come in. It's a time to rest for the environment because the social classes would not be able to handle the crisis situation.

Joseph Lim said this could only be true if we have a social movement. Currently, all the portfolio investments are coming back to the Philippines. The stock market is higher now than before the financial crisis. Hot money is available. He said that the people have not learned from the crisis. As long as the memories are gone, we are still creating another bubble.

He said that we should learn and that if no social movement will push for change, then this will just go on and on. The crisis will just repeat.

<u>The Thailand experience in the 1997 crisis has taught the Thai social movement – to understand the money system. A sustainable economy is an economy that is more dependent on the local or domestic investment rather than on foreign capital.</u>

Mr. Hui said that everything should be in a balance. Too much dependence on trade to spur growth is not good. The first priority of a developing country should be to ensure food security. Relying too much on export products is not good. Lobbying for this is one thing that SW can do. Another solution that he recommended was to look at the problem of labor. He said that labor should be equal to productivity which is oftentimes not the case now. Addressing this problem is like solving 50% of our problem.

Mr. Joseph Lim added that part of the trade reform that should be implemented is to limit trade among Asian countries on final goods. Currently, he said that countries trade at the regional level on intermediate goods. However, to do this would have an impact to the environment as well.