



**Beyond the Financial Crisis:
Is there a window of opportunity
for a Better World?**

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Paul H. Dembinski
*Observatoire de la Finance (Genève) – www.obsfin.ch
Professor - Université de Fribourg (Suisse)*

« Confusion de confusions »
José de la Vega (1688)

- The phenomenon of financialisation – What the numbers say?
- Multi-modal causes beyond the conjoined twins – “Financialisation and Globalisation” – (two heads for one body);
- The less visible dimensions of the phenomenon
- Multi-modal consequences – the systemic transformation
- Systemic crisis – Restore, Recast or Replace?
- Chasing the free lunch – Pandora box of distrust and moral hazard

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« Les 30 Glorieuses
(1945-75)

then, up to 2007

« 3 Decades of
Financial
Euphoria »



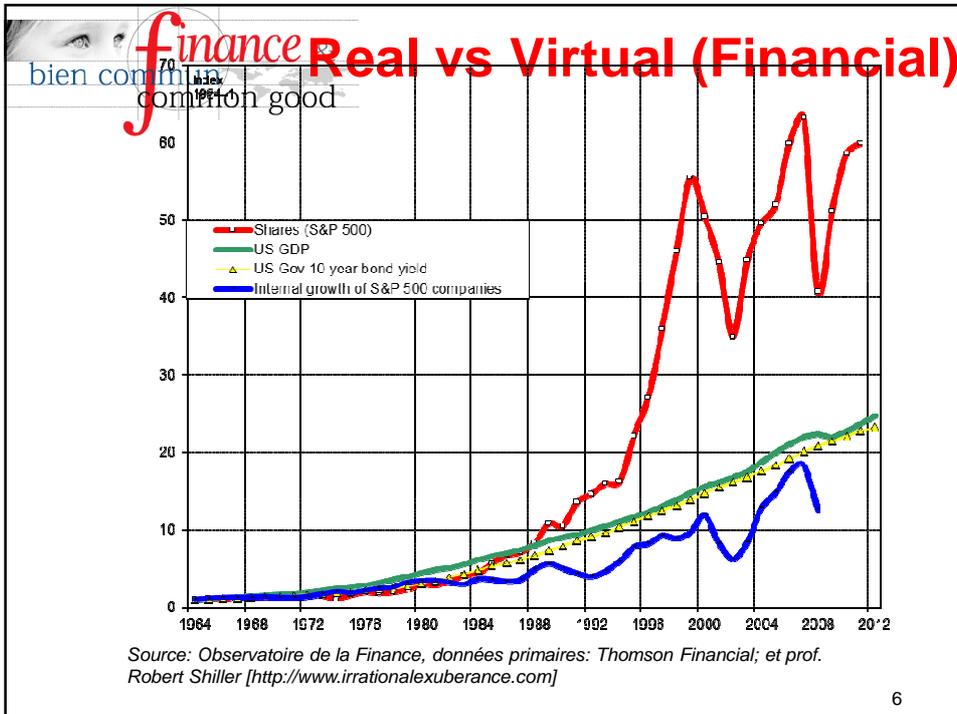
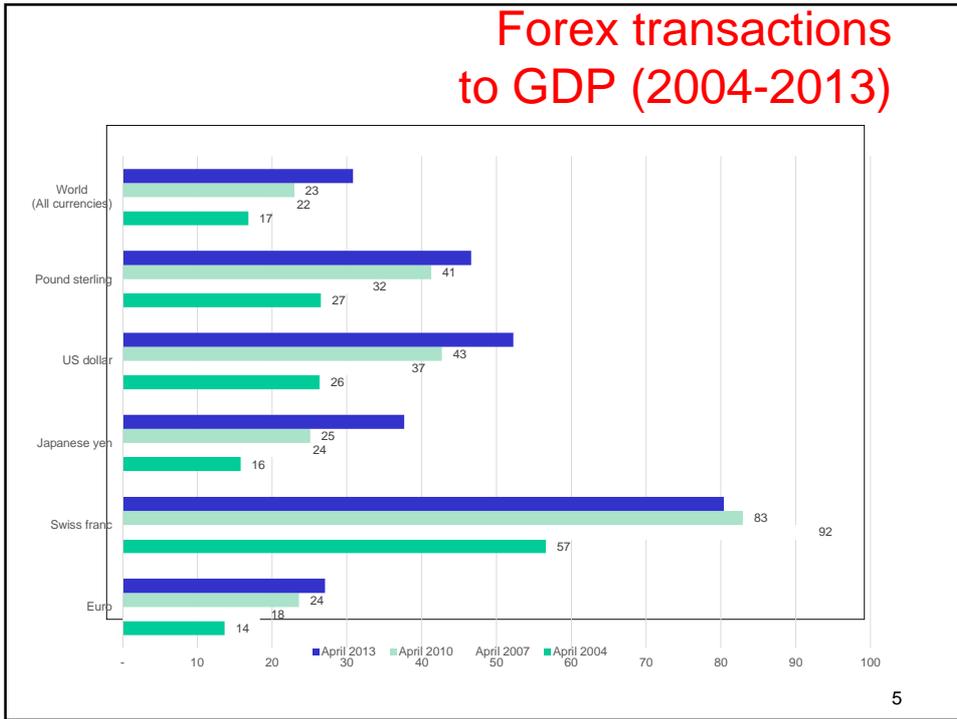
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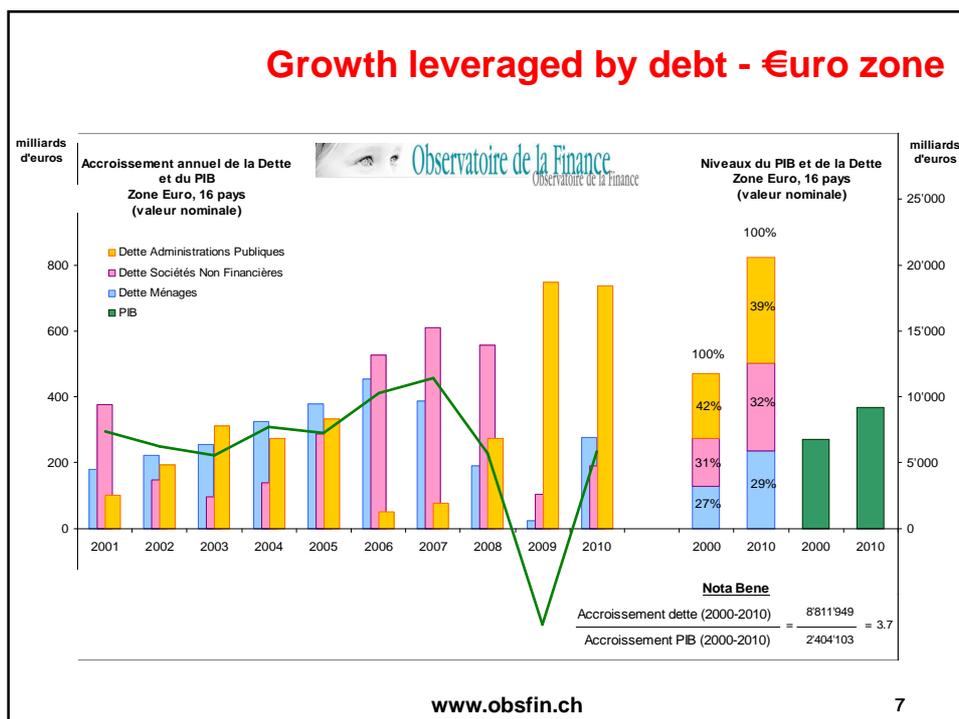
1. The phenomenon of financialisation What the numbers say?

- **1980 – 2007 : Three decades of *Financial Euphoria*.**
Very strong growth overall growth in:
 - Variety of financial assets – from euro-dollars in 1960 to structured products in 2000 (financial innovation)
 - Transactions (values as well as volumes traded): on regulated (shares, listed investment funds, standard derivatives) and (specially strong growth) unregulated markets (forex, swaps structured products) ;
 - Balance sheets of banks, shadow finance, insurance and – new class – pension funds
 - Share of “financial sector” in GDP and employment, specially in qualified employment; unprecedented demand for fin. services
 - Capitalisation of stock markets
 - Returns on financial assets – long term levels well above rates of economic growth; growing reliance on “financial returns” in pension schemes;
 - Deficits (public and current account) that have to be financed somehow
 - In the last decade (2000-2010) – gross debt increase is 4 times higher than GDP increases.

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2. Multi-modal causes beyond the conjoined twins – “Financialisation and Globalisation”

- **The driving forces behind the phenomenon:**
 - Technological breakthroughs – from expensive telephone calls to free broadband; from mechanical cash registers to contactless payments;
 - Progresses made in economic liberalisation: GATT trade liberalisation, free flows of capital
 - Scientific breakthroughs of “market finance” & the triumph of “risk return” paradigm chasing the decorrelated assets. Is finance a “sciences”? Appeal to deficit financing rather than to corrective measures.
 - Intellectual breakthroughs : growing trust in the invisible hand of the market accompanied by distrust in any kind of state regulation;
 - Regulatory breakthroughs : 1975 “May Day” in US, 1986 Big Bang; 1999 in US the Glass Steagall Act repelled
- **What Globalisation is to space Financialisation is to time – the illusion of Hic et Nunc -**

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3. The less visible dimensions of the phenomenon

- **The immersed part of the iceberg:**
 - Merger of Finance and Money – role and instruments of monetary policy in question and jeopardy – non conventional times have started in 1980s;
 - Internationalisation of banks and markets
 - Capital adequacy (Basel II) – from regulation to negotiation;
 - Shareholder value approach to enterprises – “economic value creation”
 - Rocket science: its priests, its missionaries and its mercenaries – Finance faculties and Nobel Prize Winners
 - Moral breakthroughs: Gordon Gekko “Greed is good”
- **Financial returns as wealth creators change the social structure**

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4. The undetected systemic transformation

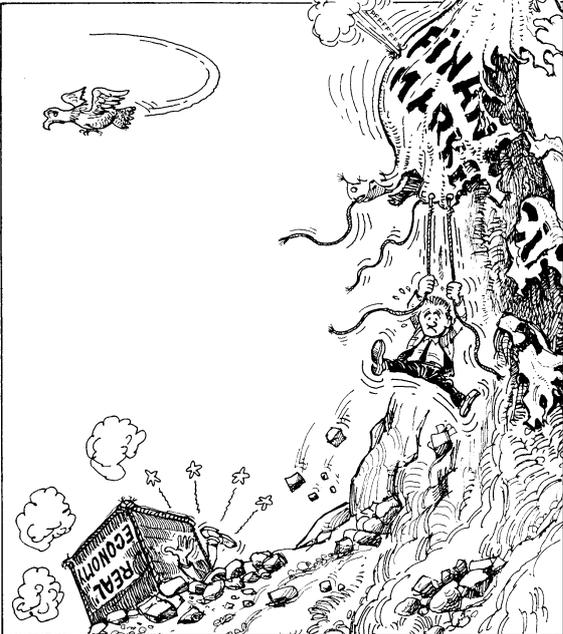
- **While the Berlin Wall was trembling ... in the West a subtle systemic transformation was on the move**
 - Milestone – collapse of the Bretton Woods System in 1971;
 - Challenge to national regulations; build-up of systemic risk – Innovation and internationalisation of banks and markets –
 - Changing relationship between public – private : Capital adequacy (Basel II) – from regulation to negotiation; growing complexity
 - Changing functions of financial markets - from allocation of capital to allocation of risks; cash cow of volatility from risk to commission taking
 - The industrial enterprise investment programs prisoners of too high WACC, and geared at “producing good news” for the markets; pressure on transferred to “value chains”;
 - Orphan companies – shareholder turnover accelerating
 - Financial returns part of social structure – growing inequalities
 - Homo financierius takes over from homo oeconomicus
 - **Search for financial returns has changed the way economy and society operate**

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The years of crisis

2007
...8
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...
hope for the
best prepare
for the worst



From one crisis to the next

As in case of every accident, there is many suspects

- Pilots (unable, poorly trained, over stressed);
- Their employers (too demanding);
- Cartographers (insufficiently precise);
- Equipment design or maintenance (improper);
- Weather forecasters (wrong forecast);
- Air traffic regulators (have not seen the bird coming??)

The analogy with the financial crisis is clear. Plenty to blame:

- Are “finance professionals” to blame ??;
- Is shareholders’ appetite the culprit or the “corporate culture”??;
- And what about economic and finance theories ??;
- Insufficient internal and external controls ??;
- Absence of regulatory teeth, self-satisfaction (and possible capture) of the regulators?

Historians will judge – but the crisis has many causes possibly reinforcing one another => this is a systemic crisis

- Break down of a “systemic logic” which has to be revamped
- Exhausted model of progress the by the way of economic growth alone

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5. Systemic crisis – Restore, Recast or Replace? In search of the Common Good

- Do we have a choice? Recast is the only possibly way forward
- **Fundamental diagnostics – the four confusions in need of clarification (*Confusion de confusions*):**
 - Widening gap and growing confusion between Real economy and Virtual finance, between valuations and real flows;
 - Confusion between Future and Present – social function of finance and economic activity;
 - Confusion between Ends and Means – ethics
 - Confusion between the idealized and anonymous Markets and Human persons – transactions and relations
 - See – Manifesto “Finance serving the Common Good” (2009)
- **Is the “great reconciliation” between Society & Economy and Finance possible? The Common Good**

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François Perroux –1948

A way of thinking that is prior and alien to capitalism sustains, for a variable period of time, the framework in which the capitalist economy operates.

But owing to the latter’s very expansion and success, inasmuch as it receives the esteem and gratitude of the masses and fosters among them a taste for material comfort and well-being, it undermines the traditional institutions and mental structures on which every social order depends.

Capitalism erodes and corrupts. It consumes vast quantities of vital energy whose rise it does not control.

...

Political leaders need a rare cool-headedness in their diagnosis, and an exceptional energy in administering the treatment, if they are to detect and ward off this ailment in good time.

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6. Chasing the free lunch – Pandora box of distrust and moral hazard

- **Action on four levels is required:**
 - Soft de-financialisation: bringing financial services and expectations in line with other sectors of the economy;
 - Shrinking finance: resorbing the hypertrophy
 - Macro-regulations: slow progress and no vision; (complexity, size, TBTF, harness volatility);
 - Meso (corporations, professions) : governance, incentives, corporate and professional culture;
 - Micro, individual level – responsibility, expectations, realism
 - Intellectual level – worldview – Academia and economic professions – from main-stream to pluralism

- **From finance as deceiver to finance as servant.**

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Recasting the system for the Common Good

Macro-level : States, Markets and Society

- Escaping the Market/State alternative – by empowering solidarity in Society not mediated by the State (public funds) nor by Markets (transactions);
- Increase viscosity of financial markets
- Multi-logic international governance:
 - ☞ *Political legitimacy – authority;*
 - ☞ *Authority of efficiency and technology;*
 - ☞ *Scientific and expert authority;*
 - ☞ *Public opinion – media : legitimacy*
 - ☞ *Prophetic authority – expressing the direction towards the common good*

Meso level : transforming “structures of sin” into “structures for the common good”

- ☞ *Corporations – long term, relationships – revamping “culture” ;*
- ☞ *Economic profession – closer to realities, beyond pure quantifications and formal dogmatism*

Micro level : Business and economic decisions have to take into account impacts on third parties and asymmetries of understanding – corporate culture - again

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3. What to do to stop the game?

- Restore a balance between Relations and Transactions
- Reduce complexity and size of organisations, increase autonomy of actors
- Revise fundamentally management, economics and finance textbooks
- Actions required at macro (viscosity); meso (corporate culture) and micro (decision making)

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Corporate culture

Culture is not about codes but about corporate life, it is about how shared values affect every day decisions :

- UBS says – company code HAS to be put in practice
- Culture has to provide an answer to the “why” question

Four concerns are present – at least implicitly – in every corporation: :

- Concern for short term performance (carrot);
- Concern for rules and procedures (stick);
- Concern for the intrinsic quality (excellence) of the action (professional satisfaction)
- Concern for third parties and impact – with no direct voice (social justice)

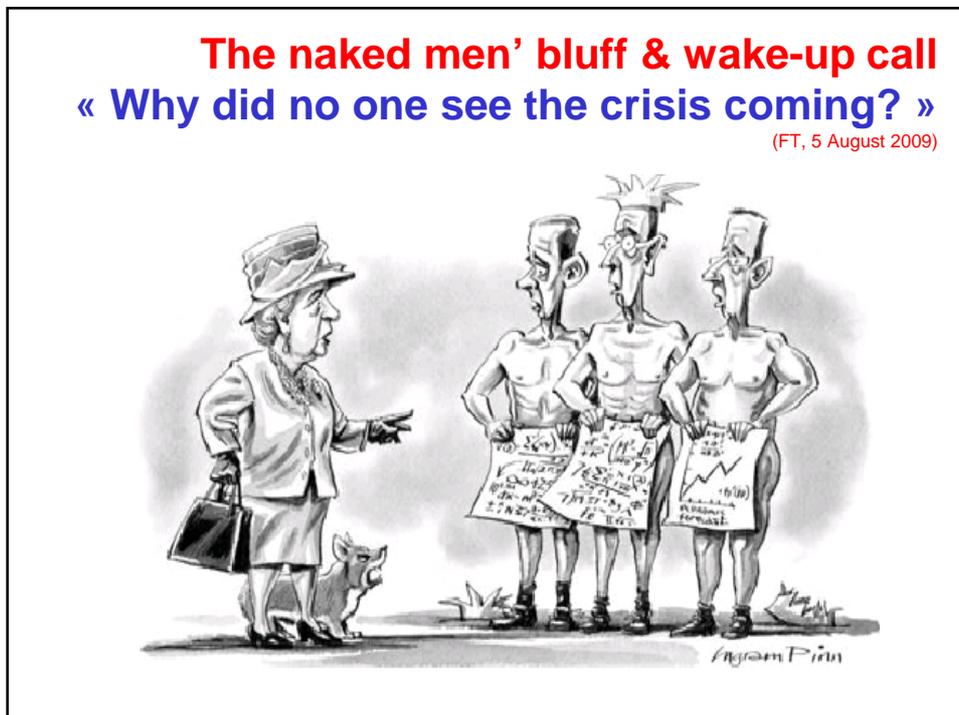
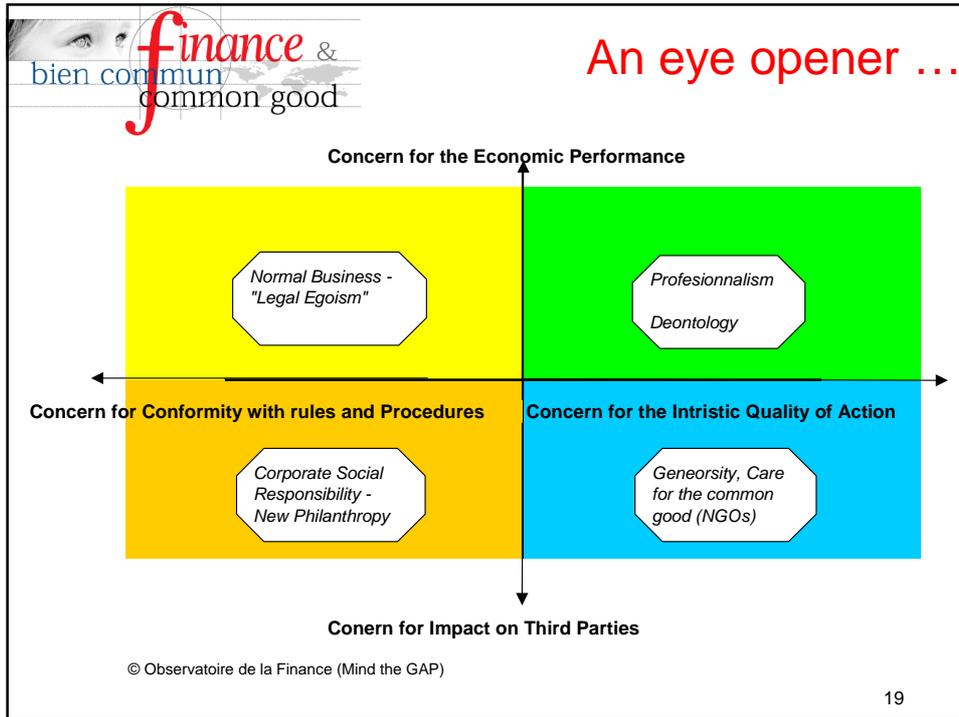
Culture is visible

- (a) in relative strengths of these concerns within a corporation
- (b) in way tensions between these concerns are solved

Culture (not codes) should be audited by the regulators

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Elements for a diagnosis: collective blindness ... and blind trust

“It is difficult to recall a greater example of wishful thinking combined with hubris.” ...

- “...But the difficulty was seeing the risk to the system as a whole rather than to any specific financial instrument or loan...”
- .. “People trusted the banks whose boards and senior executives were packed with globally recruited talent and their non-executive directors included those with proven track records in public life...”
- ...”They believed that the financial wizards had found new and clever ways of managing risks.”...
- ... a failure of the collective imagination of many bright people, both in this country and internationally, to understand the risks to the system as a whole.



Suggested readings :

1. Dembinski & Schoenenberger (1993) *Financial Markets - Mission Impossible?*, Paris, 100p – at <http://www.obsfin.ch/founding-texts/financial-markets-mission-impossible/>
2. Dembinski, Paul (2009) *Finance Servant or Deceiver? Financialisation at the Cross roads*, Palgrave, London (<http://www.palgrave.com/page/detail/finance-servant-or-deceiver-paul-h-dembinski?isb=9780230220379>), Original in French, Paris 2007, in Polish *Finanse po Zawale*, Warszawa, Studio Emka, 2011
3. *Beyond Financial Crisis – Towards a Christian Perspective for Action* (2014): <http://www.obsfin.ch/beyond-the-financial-crisis-towards-a-christian-perspective-for-action-2>
Also in Polish (2015) *Kryzys wartosci – Kryzys ekonomiczny*, Krakow, Wydawnictwo M
Manifesto Finance serving the Common Good – www.obsfin.ch

Paul H. Dembinski
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**Thank you for your
attention!!**

dembinski@obsfin.ch
Observatoire de la Finance
(www.obsfin.ch)