Financialised capitalism has failed, and cannot be fixed by more and better regulation

Summary:
John Quiggin nails it - the financial system is fundamentally flawed. It is used as a tool to siphon the wealth of the people and the nation into the hands of the elite. We don't have to wait until the next crash to fix this diabolical mess .... but we will if people do not find out how they are being screwed and then take appropriate action. First step here in Australia is to extend the powers and duration of the Banking Royal Commission. Sign the petition below. Register for updates on our website and join our Facebook page. Then get ready to help push our politicians to do the right thing. We have an election coming up .... and the pollies know they are facing a wipe out.

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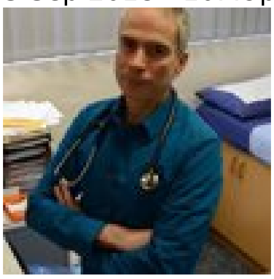

Our financial system only works for the 1%. It will take another crash to fix it

The royal commission into banks has uncovered fraud and misconduct on a massive scale, amounting to nearly $1bn and perhaps more. The usual defences of “bad apples” and “rogue advisers” have fallen apart as it becomes evident the **problems are systemic, driven by relentless pressure from the top to maximise profits at all costs.**

The royal commission into misconduct in the banking, superannuation and financial services industry has shown that **dishonesty and sharp practice are endemic** in the retail banking and finance sector. But if retail banking, involving direct personal contact with customers, is plagued with fraud and malpractice, what can we say about the wholesale criminality of the larger financial markets for foreign exchange, interest rates and derivatives?

A billion dollars sounds like a lot but it pales into insignificance compared to the repeated frauds that have been exposed in global financial markets, and the much greater volume that is almost certainly going undetected. Moreover, while **misconduct in retail banking raises important issues of consumer protection, fraud in the broader financial system calls the entire market system into question.**

Since the emergence of financialised capitalism in the 1970s, society has relied on the collective judgement of the financial sector to guide and control everything from the fiscal policy of governments to the allocation of capital for infrastructure. This has produced immense profits for the financial sector, and huge incomes for finance professionals, but there is **no evidence of improved economic performance.** On the contrary, despite obvious evidence of technological progress, productivity has stagnated.

The global financial crisis exposed the fraudulence of the global banking sector. Trillions of dollars of worthless securities were sold as if they were as safe as US Treasury bonds. Frauds like that of Bernie Madoff's hedge fund, amounting to $50bn, were barely a rounding error.

At the time, it seemed that radical change was inevitable. And, indeed radical austerity policies were imposed on ordinary people around the world. However, **while ordinary people suffered the banks, and bankers, were bailed out.** No one of any significance went to jail, and the few who lost their jobs could rely on golden parachutes, often amounting to millions of dollars

There was a lesson to be learned here, and the bankers learned it well. Even before the bailout was complete, the bankers were up to new tricks, such as rigging the London interbank borrowing rate (Libor). **A long string of exposure criminal activity has followed, including tax evasion, money laundering and large-scale fraud, all undertaken by the world's biggest and most respected financial institutions.**

Australian banks have been relatively minor players, but this mainly reflects the limited opportunities for fraud in our small market. Even so, their rap sheet is one that would put an ordinary confidence trickster to shame. **All the major banks were involved in a rate rigging scandal in 2010**, focused on the bank bill swap rate (BBSW) our equivalent of Libor. ANZ, NAB and the Commonwealth paid penalties, while Westpac got off on the grounds that its attempts to manipulate the rate had been unsuccessful.

Similarly, **all of the big banks, as well as Macquarie have been found to have engaged in fraudulent foreign exchange trading. CBA was found to have been involved in large scale money laundering. ANZ, Citigroup and Deutsche Bank are currently facing charges of cartel behaviour** in relation to trading in ANZ shares.

None of this is surprising. In Australia, as elsewhere, **financial wrongdoing is hardly ever punished,** unless it involves underlings stealing from the banks themselves. Rather, our regulators go for so-called "enforcable undertakings" which, as far as can be determined, are never actually enforced.

Banking has developed an ingrained culture of dishonesty, illustrated by a fascinating experiment reported in Nature in 2014. The experiment involved a task in which participants could cheat by misreporting the outcome of a coin toss. The design was such that individual cheats could not be caught, but the overall rate of cheating was measurable. All the participants were bankers but before undertaking the task, some participants were "primed" by questions about their home and family life. Others were primed to think about their role as bankers. The bankers as a group reported on average too many financially rewarding tosses. But they were generally honest when focused on their domestic identity.

What does this imply for policy? In essence, a system of financialised capitalism like the one that prevails at present will inevitably be dominated by the self-enrichment of financiers. The supposed functions of the financial system, such as the allocation of capital investment and the management of risk will be undertaken only to the extent that they provide opportunities for the extraction of rent from the system.

Forty years of experience confirms this analysis. **Financialised capitalism serves to benefit the financial sector and the 1%, but does nothing to promote stable economic growth.** This is not a problem that can be fixed by more and better regulation, like the suggestion of placing ASIC inspectors inside banks. **Only a drastic reduction in the size, power and influence of the financial sector will do the job.**

That might seem like a utopian proposition. But the designers of the new global financial system in the wake of the second world war managed it. By stringently restricting the activities of the financial sector they made banking a boring, respectable and above all safe profession. In the process, they delivered three decades of unparalleled economic growth and widely shared prosperity.

We will probably have to wait for another crash before the power of the financial system can be tamed. But, given the incentives in the system for reckless dishonesty, that crash will come, sooner or later.

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Websites For More Information: Source - The Guardian - John Quiggin - 3.9.18
https://www.theguardian.com/commentisfree/2018/sep/03/our-financial-system-only-works-for-the-1-it-will-take-another-crash-to-fix-it
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