



Worldshift 20 Council

Call to the G20 in preparation for the Mexico Summit, June 18-19, 2012 & the UN RIO+20 Earth Summit, Rio de Janeiro, Brazil, June 20-22, 2012

The current global financial system is fundamentally dis-eased. Despite the wake-up call of 2007/8 it remains essentially unreformed and indeed more dangerous today than the near catastrophe of four years ago. The WS20 calls upon the leaders of the G20 to take an urgent, principled and united stand to begin to heal this dis-ease, by leading efforts to commence the formation of a sustainable financial system that embodies environmental responsibility, meeting human needs, integrity, justice, transparency and compassion.

The Concept of 'Sacred Money'

In the emerging democracy of ancient Greece two and a half millennia ago, money was sacred. So much so that the gold of Athens was kept in a coffer alongside the altar of the Temple of Athena that we know today as the Parthenon. Today, ironically, Greece is on the verge of disintegration brought about through not only its own irresponsible actions but as a victim of what many have come to view as the intrinsically dysfunctional and unsustainable global monetary system.

Understanding where it's going wrong, not just for Greece but for all of us, is key to our appreciating the necessity of fundamental changes to the existing system. The economic stability so essential for democracy to thrive is presently globally threatened.

The way to measure the wealth of a nation can no longer solely be the "Gross Domestic Product" as it is now crystal clear that this present approach to national and global development has become unsustainable for humanity and the planet. In the report *Resilient People Resilient Planet - A Future Worth Choosing*, presented in January this year in Addis Ababa, the UN High Level Panel on Global Sustainability promoted the need to broaden the perspective to include a well-being assessment, pointing out that in order to understand the society and the economy we have to take into consideration the health of people and of the places they inhabit. Solely economic parameters of measurement that focus singularly on production and consumption but ignore how people actually live as well as the health of the environment are no longer nearly enough.

The core purpose of any financial system must be to ensure the provision of capital necessary for the production of needed goods and services in a just and sustainable manner. This is how we will ensure that money is reconnected to actual value on a global basis today – as the primary means to achieve equity and sustainability.

Before listing the actions that are urgently needed, a number of crucial facts about the current system must be considered. The problems are such that only radical reform and re-set can resolve them. The current proposals of the G20 and other such groups taking an inadequate approach that responds in a crisis driven manner with incremental marginal policy revisions that fail to address the crisis and fail to address the underlying causes of instability which arise from a failure of purpose, values, accuracy in accounting, and an intentional ignoring of environmental limitations and the immorality of unnecessary poverty. We are calling for a fundamental re thinking, re evaluating, and

re-setting of priorities for our economic and financial future that is based on a realism that accounts for the actual quality of life of people and the living systems of which we are all a part.

1. The fractional reserve banking system inevitably breeds debt and gambling

When bankers realized, a couple of hundred years ago that a large proportion of the money deposited with them just stayed in their vaults, they devised a plan. They could with relative safety lend more than those net deposits. So lending multiples of actual deposits developed and so-called fractional reserve banking became the norm.

Until deregulation in the eighties and nineties, such multiples were reasonably conservative. But in recent years, reduced regulation has seen multiples increase to reckless and dangerous levels. This has created a system in which fiduciary institutions which in the past provided a stable source of capital for society have now neglected that purpose and compete in pursuing their own growth and benefit by treating deposited funds as sources for their own self-serving speculations and ventures rather than as responsible fiduciaries. Not only has deregulation allowed irresponsible risk taking but it has also allowed the systemic growth of wealth without value to back it, better known as bubbles. The way this works is when banks lend to other banks/financial institutions, that funding can be used as a basis for further multiplied lending and so on. Literally money breeds money and the greater the amounts and the quicker monetary transactions flow, the more money is created.

The market for ever-more complex financial derivative products has been increasingly based not on real assets but on a pack of financial cards founded on investment quicksand. Termed by investor Warren Buffett 'financial weapons of mass destruction' it has exploded over the last decade and now dwarfs that of 'real' economic behavior based on the trading of goods and services.

The latest estimate, which may well be an under-call, is that the derivatives market is worth an annual \$1.2 quadrillion – that is 1.2 thousand trillion dollars – 20 times greater than global GDP. However, the fact is no one knows exactly how much it is and that alone should give us an incentive to take systemic long term serious actions to get these financial instruments under control and make sure such wild speculation so fully removed from the actual production of valuable goods and services does not happen again.

Perhaps the most lethal potentiality of the derivatives market is its speculation on scarce commodities and resources. Unless the possibility of such abuses is radically and urgently curbed, this gambling in a world where growing demand for such resources is outstripping supply could prove catastrophic.

In the past, fund investors gambled with their own money made – and lost – fortunes. Now they gamble to this extraordinary degree with other people's money while they should be guarding such assets as fiduciaries. Moreover, High Frequency Trading using complex algorithms accelerates these problems.

2. Booms and busts are an inherent aspect of the current system

The 2007/2008 global financial crash wasn't unexpected or unprecedented. The Wall Street crash of 1929 followed a boom in highly speculative unregulated investing. The 1987 crash followed the boom in junk bonds and the bubble of intoxicated investing in computer-based dot.com start-ups was followed by the bust of 2000. All of these boom-bust cycles were energized by financial speculation and people with a lot of money wanting to invest to get more – much more. And during all of the booms, by far the loudest voices were those insisting that 'it's different this time.' Any dissenting views were marginalized; not because history had proven them wrong, but because with

so much money to be made for the relatively few who could work the system, no-one wanted to hear them.

The latest and largest boom in the US and exported around the world was founded on property speculation and sub-prime mortgages. Bundled into complex financial packages that only a few financiers themselves understood, it was all too likely to end in disaster. And of course when the inevitable bust came it was so calamitous that to save the financial system – or so it was portrayed – governments and hapless taxpayers were obliged to bail out the profligate banks which had let greed overtake their duty as fiduciaries. When bankers become speculators can stability ever be achieved?

Traders are always looking for the next opportunity to ‘make’ a market and if need be create more complex financial ‘products’. We have now reached a point where the financial products are so complex that only a few can even understand no less evaluate their arcane metrics. Thus, the risks of toxic assets are difficult to evaluate. From commodities to currencies the speculative trading in resources from energy to crops is also progressively and dangerously feeding the unquenchable growth obsession of our system.

3. Mathematical models and processes that underpin trading are dangerously inadequate

Due to increasing transaction speeds, with computerized High Frequency Trading – where vast amounts of buying and selling of stocks happens in thousandths of a second - a great deal of financial trading is based on mathematical algorithms. These are generally inadequate in coping with unfamiliar trends, step changes or nonlinear circumstances. As such the models that financial trading is based on and the processes by which information is managed are dangerously inadequate to the dynamics of the real world. Whilst the financial products have become notoriously complex, the mathematics that would improve the management of their variability and complexity based modeling is not yet generally in use.

4. Levels of sovereign debt in Europe and the US can *never* be re-paid

During the inevitable boom and bust cycles, the paying off of debt has been assumed to be achievable during the boom stage of the cycle. Where growth has been inadequate to do this, historically, high levels of debt have tended to be dealt with through the printing of additional money by central banks (euphemistically called quantitative easing) which effectively cause inflationary hikes but against which the debt reduces in relative terms. But with low growth and/or high interest rates on national/governmental (sovereign) debt more and more of governmental income is used to service that debt rather than to invest in ways that would stimulate growth. Through fast feedback loops, raising interest rates increases inflation rather than decreasing it.

The enormous scale of such sovereign debt in the US and in a number of countries in Europe coupled with the lack of opportunity/investment for the requisite growth, means that such huge debt cannot be repaid without dramatic economic injury. Even market players now expect to experience write-downs and write-offs as these toxic assets are marked down by markets. Some even call for a ‘Jubilee’, i.e. wholesale forgiveness, as many religions have practiced when debts become unrepayable.

5. Much government debt is Odious and thus illegitimate

The concept of Odious Debt was formalized in 1927 by legal scholar Alexander Sack. He noted three pre-requisites for national debt to be considered Odious and thus render it invalid and its repayment:

i) the government of country receiving a loan without full knowledge and approval of its terms by the people

- ii) the loan is spent on activities not beneficial to the people
- iii) the lender knows of this situation

The USA have used this concept formally or informally a number of times, including after the overthrow of the Saddam Hussein regime in Iraq. In Ecuador following the discovery of oil, vulture capitalists did loan deals with the government which were tied to US multinationals getting the projects. Eventually 50% of the nation's income was spent on servicing debt. To ensure debtors were paid at the expense of the people of Ecuador, the IMF and World Bank tried to impose extreme austerity measures. An independent and public audit committee set up by the incoming President Rafael Correa in 2006 to review all debt contracts from 1956 to 2006 including those with the IMF, World Bank, other international organizations, multinationals and foreign governments however discovered that some 70% of all debt contracts in bonds were illegitimate. By stopping the interest and capital repayment of such illegal debt, the monies were reapplied to help the people of Ecuador.

In Greece in 2001, politicians advised by Goldman Sachs arranged financial currency swaps at outdated conversions thereby enabling the national debt to appear less and so permit the country's entry into Eurozone. Over the subsequent decade German and French companies bribed government ministers for massive projects both civilian and military funded by increasing debt. Then German and French governments insisted on continuing purchases as a requisite for supporting Greece; so austerity measures for people were implemented whilst arms trade was maintained. An informal audit committee has been set up to attempt to uncover the level of odious debt throughout this period.

6. The system drives inequality

As money breeds money, those able to work the system benefit disproportionately. Money buys influence and drives corruption – it is not a level playing field and 'free market' capitalism is anything but 'free'.

The increases in inequality in the US, the UK and elsewhere over the last few years are higher than any time since the 1920s. Indeed when historians have recently analyzed the level of inequality at the height of the Roman Empire, the comparable inequality in the US in 2011 was twice as high.

When wealth is created without reference to value a class of people is created which has disproportionate political influence and makes bad decisions for the community. A clear example of that is the over \$1.5 Trillion spent on militaries, over 70% from the NATO countries. These funds would bring far more security if spent on meeting real human needs rather than attempting to apply military solutions to non military problems.

To summarize, we don't have a financial system that has become dis-eased and that can be healed; the fundamental system itself *is* the disease because its methods and metrics have become disconnected from its reasonable purpose. Its point of reference has become making money for those who run the system rather than making sure the system serves society. Continuing attempts to mollify or moderate its ravaging of the global economy for its own ends is rather like trying to placate a virus whose infection is destroying its host. Today's global financial casino has become the flywheel of social and environmental disruption and extraction worldwide.

Our global financial system has become more like a gambling casino today than a source of stability. And as it is driven by growth at any cost to maintain itself it operates without proper respect for the living systems upon which civilization depends – the oceans, the climate and the rainforests, for example. The system neglects to even account for these externalities and thus operates in a

dangerous unsustainable fashion. The question is whether incremental fixes can fix a system which seems to have forgotten its very purpose and is causing rather than solving social disruption and environmental catastrophe.

In 2007/8 in the US and currently in Europe, bailouts disproportionately benefited banks and financiers and did nothing to address the basic injustices whereby a third of humanity lives below poverty levels. The lend, grow, produce, consume paradigm of the system, even if its speculative aspects could be addressed adequately needs to be reformed in order to address gross poverty and the violence perpetrated on the environment. We seem to be making money to make money not to meet human needs.

The level of Odious Debt, loans that cause burdens on developing countries rather than encourage sustainable economies, between governments, financiers and multinational corporations is vast. The extreme austerity measures imposed to pay back lenders of such irresponsible practices are a severe threat to society; democracy becomes debt-ocracy.

The rampant global financial markets, partnered with dangerously inadequate economic measures, continuing lax regulations, fragmented oversight show a woeful lack of moral good sense. They will unless restrained almost certainly cause another meltdown of the financial system: a global economic disaster. Yet this can be an opportunity for all the local initiatives, new currencies, time-banking, crowd-funding, social networks, towns transitioning to sustainable greener methods and clean technologies, public banking, cooperatives and homegrown economies, all now providing safety-net. The present precarious situation is stimulating many new efforts to re-design money-creation and fairer more sustainable credit-allocation systems.

Just before an irrevocable tipping point, complex systems have a way of moving through a short period of rapid fluctuations and a critical slow down; just as is currently happening in the global financial and economic system. We may not be in a period of 'delayed recovery' as US and European leaders maintain. Instead we might be experiencing a tipping point into a catastrophic breakdown of the entire obsolete financial system. Only those who would remain intentionally uninformed can think that everything is fine and that we can continue with business as usual.

'Old money centers' on Wall Street, in London and other financial capitals are being bypassed by the new information systems. This disintermediation based on decentralizing internet communications helps us understand that financiers do not "provide" capital. They are intermediaries who collect savings and are supposed to invest them wisely in real productive enterprises and communities.

Responses and strategies that pertain to historical and cyclic processes, even as is recognised, the need for greater co-ordination, regulation, governance and reformation, are utterly inadequate to deal with what is upon us. We are way past the point when such measures, especially recognising the timidity and recent difficulties in attaining comprehensive agreement, can be more than stop-gap measures.

The bottom line is that the financial system is now the biggest bubble and needs downsizing and a major and urgent re-set to make sure our financial system does not generate any further patterns of unbridled material greed that will further devour the Earth's natural resources, obliterate her planetary capital and drive a widening and socially dangerous gap between haves and have-nots. The system also needs to shift from operating on the premise that 'more is good' to 'enough is good.' Many more accurate indicators, such as the OECD's Better Life Index, the Canadian Index of Wellbeing and many others are now being implemented since the Beyond GDP conference in the European Parliament in 2007. And when it comes to speculation by a few with money to make vastly more money and then to use that wealth to buy political, legislative and media influence, civil society needs to wake up and proclaim that; 'Enough is Enough!'

In response to this urgent ongoing global financial situation, the Worldshift 20 Council makes the following 10 recommendations for immediate implementation:

1. Recognize that the breakdown of the global financial casino is now driving new breakthroughs! Re-set the system and bypass obsolete “too-big-to-manage banks”, and encourage the movement of money to small local banks and credit unions.
2. Set up independent national audit committees and undertake an international commission to prevent any further creations of Odious Debt. Call for appropriate write-downs and write-offs of toxic assets to clear the system, including if needed ‘Jubilees’ as were applied in the Year 2000 to unrepayable debt held by the World Bank and IMF of the African HIPIC countries.
3. Enter a ‘holding period’ of 30 days during which all speculative trading is suspended and move credit default swaps (CDSs) off financial systems and onto Gaming Commissions such as those which regulate betting on horse-racing, etc. CDS’s are not financial instruments but simply bets and in Germany, Austria and other European countries, bets are not considered legal liabilities and are uncollectible.
4. During the holding period begin the serious long term work of setting up an effective regulatory regime for all financial trading activity.
5. Immediately take action steps to de-merge banks between commercial and investment operations.
6. Impose a financial transaction tax specifically for speculative and hyper-fast transactions (HFT) trading and aimed at dramatically reducing them and institute a tax on pure currency trading.
7. For the post holding period re-set, ensure all ‘off balance sheet’ (hidden) accounting is brought onto the balance sheet of governments, banks and companies and ultimately end all ‘off balance sheet’ accounting and begin the creation of an accounting system that no longer treats the environment as an externality to costs of which are passed on to future generations.
8. Limit, simplify and make transparent bankers income.
9. Return to simplified retail, deposit-taking banking and decentralize financial systems.
10. Foster all the existing, robust, viable home-grown local economies and the millions of cooperatives flourishing unnoticed around the world. Support the UN Year of Cooperatives and the worldwide transition now under-way to cleaner, more efficient, fairer green economies, as evidenced by the hundreds of thousands of organizations and all the heads of state and major political and pension fund leaders attending the UN RIO+20 Earth Summit in Rio de Janeiro, June 20-22, 2012.

Only by enacting such comprehensive reforms and re-setting the global financial system will money become the cornerstone of a system that serves the well-being of all people and planet in perpetuity and thus becomes once again a truly ‘sacred trust’ for society.

WorldShift 20 Council

The Worldshift 20 Council is composed of twenty prominent global citizens from diverse cultures and economies worldwide. The Council seeks to articulate and amplify the collective voice of humanity, representing the shared human interest. The Council aims to shift the attention of the global public and media from the increasingly intractable problems and deepening crises of our deteriorating world to the opportunities and vistas of a world where seven billion human beings can live in peace, prosperity and justice, in harmony with each other and with nature.

Its primary mission is to give urgent attention to the emerging condition of the world and provide essential orientation so that informed, non-violent movements toward a diverse, peaceful and sustainable global society can be strengthened and sustained.

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