

An EBBF Perspective

on

The Global Economic and Financial Crisis

Riaz Rafat and Elham Afnan

In this paper we examine causes of the current global economic and financial crisis and offer some possible immediate and long-term solutions. Major sources of ideas for the paper include publications of the European Bahá'í Business Forum (EBBF), as well as views offered by individual members of EBBF.

The European Baha’i Business Forum

The Global Economic Crisis An EBBF Perspective on Possible Causes and Solutions

Riaz Rafat and Elham Afnan

In 2008–09 much of the industrialized world entered into a deep recession considered to be the worst since the Great Depression of the 1930s. This recession was sparked by a financial crisis that had its origins in reckless lending practices, particularly those involving mortgage debt in the United States. Since the turn of the century, factors such as an extended period of easily available credit, unsecured loans, inadequate regulation and oversight, and increasing economic inequality between nations and segments of society, had gradually led to an exorbitant rise in asset prices and an associated boom in economic demand.

However, when US housing prices began to decline in 2006-07, refinancing of mortgages issued to sub-prime borrowers became increasingly difficult and mortgage delinquencies and foreclosures soared. Securities backed by sub-prime mortgages, widely held by financial firms, lost most of their value. The result was a large decline in the capital of many banks and US government-sponsored enterprises, tightening credit around the world. Sub-prime loans losses exposed other risky loans and over-inflated asset prices, and led to panic in the area of inter-bank lending.

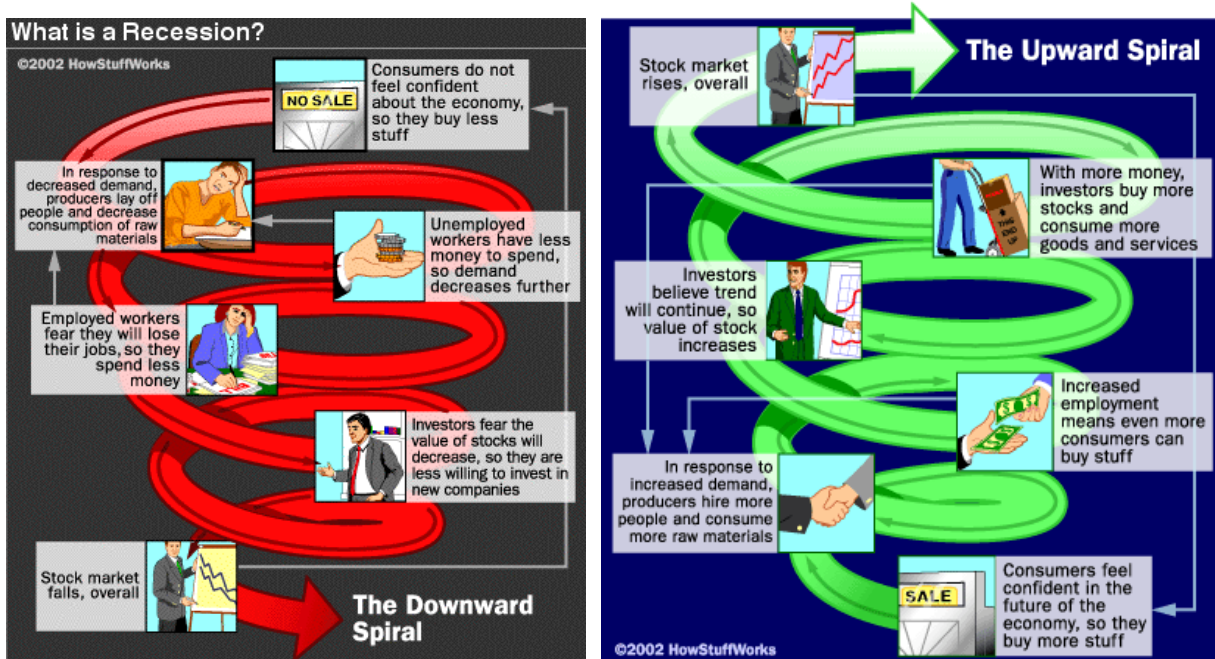
One of the first results was that market value of companies and shares around the world was almost halved. As share and housing prices declined, many large and well established investment and commercial banks in the United States and Europe suffered huge losses and even faced bankruptcy, resulting in massive public financial assistance. For example, on 14 September 2008 it was announced that Lehman Brothers, an investment bank “once thought to be impregnable”, had filed for bankruptcy.

The financial effect then spread to the real economy, resulting in rising unemployment, a fall in production, a sharp drop in international trade, and slumping commodity prices. The precarious financial situation was made more difficult by a sharp increase in oil and food prices. The recession started in North America and Europe and quickly spread to the rest of the world, first Australasia, then South America and Africa. Social unrest and political changes have appeared in the wake of the crisis.

One of the major problems facing many countries today, and one that has worsened drastically as a result of the recent global economic crisis, is unemployment. Unemployment is in turn one of the factors that trigger recession and ultimately depression. It is thus easy to get caught in a vicious circle of unemployment and economic decline. In the past year, unemployment has doubled in the United States and in many European countries, reaching levels of up to 20% even in some industrialized countries such as Spain and Latvia.

What is recession?

In economics, the term “recession” describes the reduction of a country’s gross domestic product (GDP) for at least two consecutive quarters. A recession that is severe (GDP down by 10%) or prolonged (three or four years) is referred to as an economic depression. A recession typically involves a downward spiral in the economy. As consumers, for whatever reason, lose confidence about the economy, they buy fewer goods and services. In response to decreased demand, producers lay off employees and decrease the consumption of raw materials. Unemployed workers have less money to spend, so demand decreases even further, while those who are employed fear for their jobs, and also spend less money. Investors fear that the value of stocks will decrease, so they are less willing to invest in new companies, and the stock market fall. Creating consumer confidence in the economy can reverse the spiral and pull the economy out of a recession.



In its annual report *Global Employment Trends for Women*, released on 5 March 2009, the ILO warned that the global jobs crisis was expected to worsen sharply with the deepening of the recession in 2009. The global unemployment rate for women would rise to 7.0% and to 6.5% for men by an increase of 1.0 percentage point in both cases over 2007. Similar to the impact on the unemployment rate for men and women combined, the largest impact on the male unemployment rate is seen in the Developed Economies and the European Union. Furthermore,

there has been a sharp rise in the percentage of partially unemployed, and millions have dropped out of the work force entirely, in particular young people. Some leading economists in the US (e.g. Joseph Stiglitz) believe unemployment will continue to increase during the next 12 months.

Previous warnings of an ill-balanced economy

Over the years, repeated warnings have been heard about the dangers of an imbalance in the economy, but more often than not these warnings have been ignored until it was too late and a crisis had already occurred. Some have been surprisingly specific. For example, Russ Randall, an engineer-turned-economist, already in 2004 predicted a crisis in 2008. Randall wrote that “significant booms and busts [in the economy] are caused initially by excessive monetary expansion”. There are two key issues: One is asset overvaluation, and the other the overly optimistic expectation of annual asset value growth. “These conditions combine to create a ‘double whammy’ expectation of future wealth.” They create an expanding bubble in the economy which is bound to burst when “the ratio of those not working to those working ... begins to increase”. This, predicted Randall, would happen in 2008, when the so-called baby boomers started to retire and attempted “to cash in on their illusory assets”.¹

Similarly, the renowned economist and member of EBBF, Augusto López Claros, was predicting in 2001 that the housing bubble in the US would in the course of the coming decade lead to an economic crisis. In a letter to the editor published in the *Financial Times* on 14 December 2008, he looks back on previous episodes of financial market turmoil, such as “the US stock market crash of 1987, the Russian crisis of 1998 and the associated collapse of Long Term Capital Management, the technology crash of 2000, and the aftermath of 9/11”. The short-term outlook after all of these crises, though on a lesser scale, was also grim, but in each case “it soon became evident that the world was not coming to an end”. In López Claros’ view, the main danger we face is not that the flow of macroeconomic and earnings news will be much worse than expected, but “rather that by late 2009 the global economy will be perking up again ... and governments will go back to business as usual, missing a once-in-a-lifetime opportunity to address the serious vulnerabilities in the world’s financial system which the current crisis has revealed. In that scenario, the next crisis would find us with little ammunition left. That is the real danger.”

López Claros suggests that it is time to think about making significant changes to how we do business and for what purpose. This challenge is reminiscent of the one issued by Shoghi Effendi in a letter written in 1936 in the midst of the Great Depression: “On the North American continent economic distress, industrial disorganization [and] widespread discontent at the abortive experiments designed to readjust an ill-balanced economy ... portend the approach of what may well prove to be one of the most critical phases of the history of the American Republic.”²

The Great Depression and the Second World War were indeed critical times in history, not only for America, but for the world. Their consequences were not exclusively negative. In the years that followed, “as a consequence of the havoc wrought by the great depression, many governments adopted legislation that created social welfare programs and systems of financial

control, reserve funds, and trade regulations that sought to protect their societies from a recurrence of such devastation.” The period following World War II witnessed the establishment of a number of global financial institutions – the International Monetary Fund, the World Bank, the General Agreement on Tariffs and Trade – as well as a network of development agencies “devoted to rationalizing and advancing the material prosperity of the planet”.³

It is clear that attitudes are slowly changing as result of the financial crisis. Even some of those who have been blamed most have realized that their practices should be changed. Among these are institutional investors, as some astonishing results of a survey conducted in October 2009 show:⁴

- 86% of institutional investors say they share blame for the crisis.
- More than 90% of institutional investors believe financial markets are now threatened by increased “moral hazard”, the belief that banks and other investors will take excessive risks based on implicit government guarantees.
- 80.5% said the response of regulators has so far fallen short of what is needed to fix the system.
- 73.4% of respondents said guaranteed bonuses should be banned.
- Bonuses paid over multi-year / -timeframes / deferral were keenly supported by 90.8%.
- Two-thirds considered introducing a global 'Tobin tax' on financial transactions to be an excellent or good idea.

Short-term remedies

Economists and financial gurus have suggested many short-term remedies to the present economic and financial crisis. In this section we summarize some of the offerings.

1. Increasing the regulation of financial institutions is an obvious first step in any set of reforms. However, as John Cassidy says in his recent book *How Markets Fail*: “It is more than just an account of the failures of regulators and self-deception of bankers and homebuyers. The deeper roots of the crisis lie in the enduring appeal of an idea: that society is always best served when individuals are left to pursue their self-interest in free markets.” He calls this “Utopian economics”.
2. Break up the largest financial institutions. Many banks are considered to be “too big to fail” and have too much influence within the establishment. In a recent speech, Mervyn King, Governor of the Bank of England, said policy makers should consider breaking up the largest banks and, in effect, restore the barriers between investment and commercial banks. The European Commission has taken steps to break up Northern Rock, which was nationalized last year, into two, and to force the large Dutch bank, ING Group, to sell off 45% of its assets – including their insurance business (a sharp departure from the bancassurance strategy that was fashionable a couple of decades ago). More recently, the Royal Bank of Scotland has been ordered to divest itself of 40% of its assets including its insurance businesses and to shrink its global banking activities. Restructuring is also under consideration to shrink Germany’s Commerzbank by over 40%, and Lloyds Banking Group.

3. Increase bank capitalization. Already governments have put 30% of GNP of the G20 nations into capital injections, guarantees, treasury lending and asset purchases, and liquidity provisions. Among the most important measures needed is more demanding capital and liquidity requirements for banks together with curbs on leverage in order to handle risk more easily. In spite of the massive lobbying paid for by financial firms for no or little change, this is probably one of the most likely solutions to be adopted. Already many large banks are “buying their way out” by increasing capital to pay back advances from governments and by so doing to free up their autonomy.
4. Mandate the clearing of standardized derivatives to be traded through regulated clearing houses or exchanges to let investors see real-time prices. This would narrow spreads for dealers and reduce systemic risk by cutting out intermediaries and netting accumulated exposures. Dealers of course lobby against such measures since they stand to lose billions in profits if and when such a requirement were to be instituted.
5. Introduce a global financial tax, a “Tobin tax” applied uniformly across G-20 countries. Such a tax, for example of 0.05%, or €50 on a trade of €100,000, could be limited to foreign exchange, as originally envisaged by Tobin, or include stocks, bonds, and derivatives as well as foreign exchange. The reasoning is that such a tax would have a trivial effect on “socially legitimate” transactions such as foreign trade and long-term investments; but it would be a major disincentive for people trying to make a quick profit by outguessing the markets over the course of a few hours or days. As Tobin said, it would “throw some sand in the well-greased wheels” of speculation. And Adair Turner, Britain’s top financial regulator, considered such a tax a way to discourage “socially useless” activities. Such a tax is strongly supported by top British officials and many European centres, but not by the United States. As a result, getting all the world’s financial centres to sign up has not been possible. In one survey, nearly two-thirds (64%) thought the Tobin tax on financial transactions was reasonable or an excellent idea as a potential curb on excess banking/financial market risk. An alternative might be to charge banks “insurance fees”.
6. Institute a one-off windfall tax on bonuses of bankers. This might make the future pain for society somewhat more tolerable. Martin Wolf (Financial Times, 20 November 2009, p. 11) reasons as follows. Banks are making exceptional profit as beneficiaries of unlimited government insurance. In the UK the state support to banks has been 74% of gross domestic product. Second, profits being made today are in large part fruits of free money provided by central banks. Third, the case for such generous subventions has been to restore the financial system and the economy – not to enrich bankers, particularly not those engaged in trading. Finally, “windfall support” should be matched by “windfall taxes”.
7. Define binding rules on executive compensation, tied to the agreement based on the Basel committee process, together with mandatory disclosure of high compensation levels. The G-20 (Pittsburgh) called for between 40 and 60% of senior bankers’ bonuses

to be deferred over at least three years. Also some propose the use of “claw backs” which oblige return of pay if the market goes sour.

8. Strengthen corporate governance of financial institutions. One measure would be to separate the function of Chairman and that of the CEO between two executives. Another measure would be to build more ethical cultures in corporations by appointing ethics committees, developing and monitoring ethical codes of conduct, and appointing ethics officers. Yet another measure would be to give shareholders a non-binding voice on the pay of top executives. This is already being done in the UK with good results, and the suggestion is under consideration in the USA. At the same time, the composition of compensation committees of the board should include only independent directors. Further, the independence of consultants on executive pay should be assured. (Consultants on top executive compensation may be less than totally objective if they have or seek much more remunerative consulting assignments in other areas.)
9. Issue different classes of shares. For example, give no voting rights for shares held by short-term traders, and have a mandatory holding of minimum time (e.g. one year) before shareholders have voting rights. Or vary the voting rights by class of shareholder, giving more voting rights to long-term institutional investors.
10. Eliminate shadow banking: do not allow banks to engage in off-the-balance-sheet operations that are not subject to normal public disclosure.

Long-term solutions from an EBBF perspective

It is to be expected that most people would like to find a fast and immediate solution to the economic problems facing them. In the present situation, these can be divided into two categories. The first consists of solutions that rely on adjusting monetary policy, e.g. reducing interest rates and increasing the amount of money in circulation by printing more money. The second involves a Keynesian approach that advocates increased public spending in order to save ailing companies, create projects and new jobs and revitalize the economy. Unfortunately, these solutions almost invariably have side effects. Reducing interest rates and printing money can lead to inflation. Government bailouts can mask and thereby aggravate the underlying problems that made them necessary in the first place. Such solutions may create a “bubble” economy and public debt that could end in long-term recession and even depression. A more fundamental problem is that these solutions most often deal with the tip of the iceberg and not with the root causes of the problem. They seek instant fixes, not long-term remedies.

However, some politicians and economists are also talking about more fundamental changes, such as increased regulation of banks, the financial industry and management compensation systems; a more green and sustainable economy; and even the idea of introducing a new world currency to offset the effects of rapid devaluation of currencies.

Furthermore, some economists argue that there is a need for a fundamental change in tenets of neoclassical economic theory, where the primary obligation of corporations is to maximize

financial return for shareholders. Dr. Marjo Lips-Wiersma maintains that the real purpose of the corporation is to provide products and services that meet the real needs of people, profit being rather a measure of success in doing this.⁵

EBBF welcomes these kinds of discussions because they are looking for long-term solutions and require fundamental changes, both in the economic system and in society in general. The following are some of the proposed long-term solutions suggested from an EBBF perspective on the state of the world.

Global income distribution

A redistribution of global income and wealth is one of the most essential and far-reaching solutions to the economic problems of the world. The process of globalization has radically changed the world and made national borders obsolete in many ways, whether economic, political or cultural. National governments obviously continue to play a crucial role, but “they must now [also] make room for such rising centres of power as multinational corporations, United Nations agencies, non-governmental organizations of every kind, and huge media conglomerates.”⁶

Among the benefits of globalization is that greater cost-effectiveness brings goods and services within the reach of populations who could not previously enjoy them, while increases in the funds available for research and development expand the variety and quality of such benefits. The ease with which businesses can shift their base from one part of the world to another has a levelling effect on the distribution of employment opportunities. The removal of barriers to trans-national trade reduces still further the cost of goods to consumers.

Yet globalization can also have dangerous consequences. It has in many cases led to an increase in the existing gross disparities in the distribution of benefits and opportunities. Many warn that, if effective controls are not speedily imposed, the consequences could be catastrophic in social, political, economic and environmental terms. Economic statistics reveal a disturbing picture of global conditions. The gap between the richest and poorest populations in the world is steadily increasing. According to the 1999 *Human Development Report* published by the United Nations Development Programme (UNDP), this gap represented in 1990 a ratio of sixty to one. By 1997 in the wake of globalization’s rapid advance the gulf had widened to a ratio of seventy-four to one. This “appalling fact” is further worsened by “the steady impoverishment of the remaining billions of human beings trapped in the relentlessly narrowing isthmus between these two extremes”.⁷

A study by the World Institute for Development Economics Research at United Nations University reports that the richest 1% of adults alone owned 40% of global assets in the year 2000, and that the richest 10% of adults accounted for 85% of the world total. The bottom half of the world adult population owned barely 1% of global wealth.

Globalization is an intrinsic feature of the development of society, with the potential to bring great benefit for all humanity. However, “the one means capable of harnessing these great potentialities to the advancement of civilization” is justice. Justice demands that we question

the established ideology of materialism and consumerism, and the “unbridled exploitation of the masses of humanity by greed that excuses itself as the operation of ‘impersonal market forces’ ”.⁸ Some of the practical steps that can be taken to restructure global society in a more just form include: global ownership of natural resources; international taxation and income distribution; and laws and regulations that promote free movement of capital, labour and technology across the globe. The removal of barriers to move across borders would involve the standardization of education in all countries, a common international language, one international currency, and the removal or limitation of visa and work-permit requirements.

Why is the redistribution of global income and wealth a solution to the global economic crisis? First and foremost, it will lead to a better utilization of human potential across the globe. It will create a global market and higher demand for products and services, which will then be produced more effectively – at the optimal place and for a global market, thus obtaining economies of scale. One must, of course, take into account the negative impact of transportation (in the form of increased energy consumption and pollution) on the environment. At the same time, a global market will promote a higher level of innovation and technological development, and the flow of technology and capital across borders will enhance individual, national and global prosperity. This more equitable distribution of income will thus reduce swings in the fortunes of some nations at the expense of others and bring higher global prosperity.

Profit-sharing

Among the factors leading to increased unemployment is “friction” in salary adjustments. Profit-sharing is an important practice that counteracts this problem and can stabilize the economy on a long-term basis. Giving workers a share in the profits of the business for which they work provides for an “automatic” adjustment of the price of labour, thus reducing the rise in unemployment. The reduction in labour–owner conflicts, together with increased motivation on the side of the workers, leads to higher productivity and profit which in turn benefit both sides. This effect can be reinforced by introducing a just method of salary adjustment, rather than the climate of strife and confrontation created through negotiations between labour unions and owners/employers.

‘Abdu’l-Bahá encouraged profit-sharing, saying that “laws and regulations should be established which would permit the workmen to receive from the factory owner their wages and a share in the fourth or the fifth part of the profits, according to the wants of the factory; or in some other way the body of workmen and the manufacturers should share equitably the profits and advantages”.⁹

The principle of profit-sharing is put into practice today by a number of companies and, when consistently and fairly applied, demonstrates the validity of these recommendations. Hallmark is one example, where the annual contributions to the company’s employee profit-sharing plan have averaged 9% of eligible employee earnings since the plan started in 1956. Hallmark’s financial performance has outpaced that of the stock market at large. Still, profit-sharing today

is seldom more than 10% of earnings, while the much higher shares recommended above (20-25%) would make a material difference to both workers and owners.

Incentives promoting long-term results & reducing short-term behaviour

Another challenge in the current work culture in many parts of the world is that neither management nor workers are motivated to think in the long term, e.g. maximizing company results, for instance 3-5 years into the future. The drive to make quick profits tends to encourage selfishness, greed and unscrupulous behaviour on the part of both individuals and companies. For example, it is common for companies to lay off workers in order to cut costs so that they can satisfy shareholders. The same attitude often marks the behaviour of politicians and governing bodies, who focus on short-term results and look only as far as the next election. They are often reluctant to make unpopular fiscal policy decisions for fear of losing votes. Such behaviour may in aggregate cause economic recession and depression, and can moreover lead to corruption in both the economic and political arenas.

A possible solution to this problem is to change organizational structures so as to make them more decentralized and more horizontal. This would make it more difficult for a few at the top to profit at the expense of the many. This applies not only to companies and corporations, but also to political systems. At the same time, there should be incentives systems that reward long-term results and promote long-term planning. Longer periods of service in governing bodies may also be part of the solution.

Some other measures to reduce short-term and damaging behaviour have been discussed by the G-20 countries lately, including reducing bankers' bonuses or linking bonuses to long-term results. Vice Chair of the European Parliament's Economic and Monetary Affairs Committee, Arlene McCarthy, recently said: "The EU has already given a clear message ahead of the G-20 that we need effective global action to ensure sound risk management and a link between compensation and long-term performance." "When families are losing their homes and those living off savings have seen their income slashed because of excessive risk taking by banks, there can be no justification for Lloyds paying out up to £120 million in bonuses for 2008." "The public outcry over RBS paying out £1 billion in bonuses after taxpayers had to step in to save the bank demonstrates that action is necessary and the banking sector cannot be trusted to self regulate."¹⁰ It must be remembered though that legislation and regulation alone cannot be the answer and that personal ethics are an important ingredient of the solution.

Reduction in military expenses

Another important long-term solution to the economic ills of the world is a drastic reduction in military expenses. Global military spending in 2008 equalled 1.47 *trillion* dollars. Compare this, for example, to some figures provided by UNDP and UNESCO. Twenty billion dollars per year would suffice to provide all people with adequate nutrition, clean water and primary education, whereas the cost of the Gulf War was 20 billion dollars *per day*. Training one soldier in the West costs the same as schooling for 10,000 children in a developing country. A nuclear submarine costs the same as primary education for 160 million children. If the

developing countries freeze growth in military expenses, they will be able to free 10 billion dollars per year. This sum equals one week of military expenses in developing countries, and only two days of military expenses in developed countries. It is clear that reducing unproductive military expenses would release funds and resources that might then be used to provide education, technology, health services, micro and macro credits, and so on, not only in developing countries, but also in the industrial world.

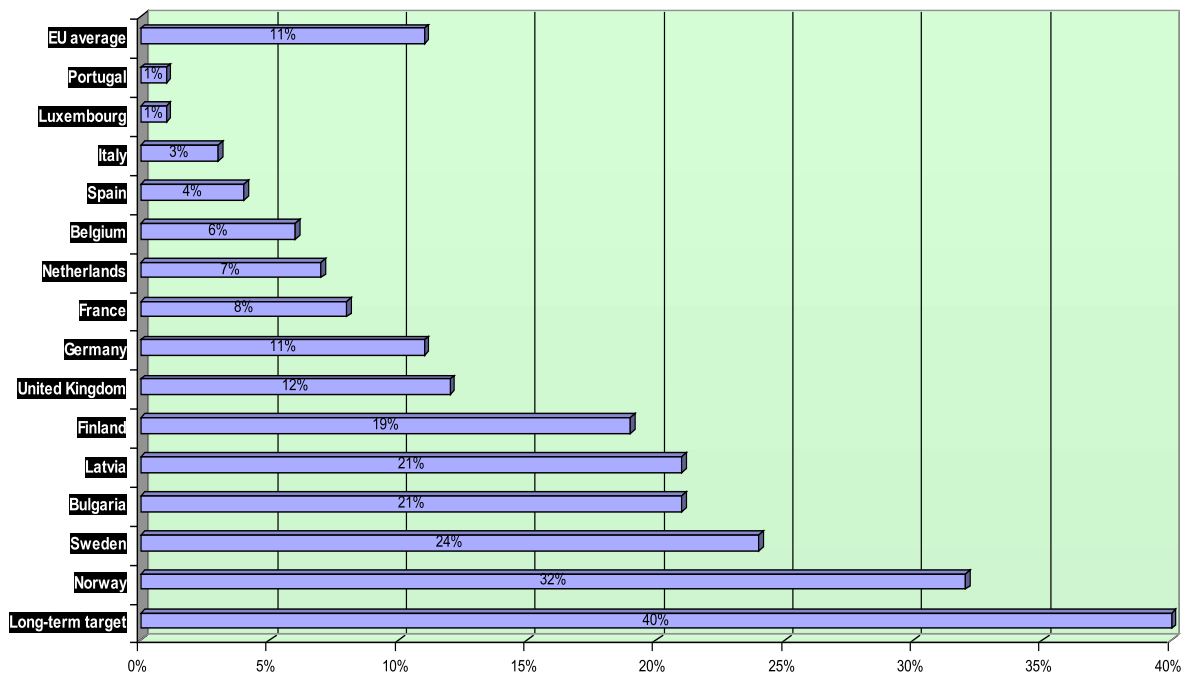
In the latter part of the 19th century Bahá'u'lláh addressed the kings and rulers of the world, admonishing them to make peace with one another and to reduce their armaments: “O Rulers of the earth! Be reconciled among yourselves, that ye may need no more armaments save in a measure to safeguard your territories and dominions.”¹¹ He called on them to establish the “Lesser Peace”, the political unification of the nations of the world, so that the peoples of the earth might be relieved from “the burden of exorbitant expenditures”,¹² Neither the rulers of his time, nor those who came after them in the 20th century, heeded this call. Wars, including two World Wars, an escalating arms race and ever-increasing military spending have marked the recent history of the world and given rise to a tempest of discord.

How is the Lesser Peace to be achieved? “It is [the rulers’] duty to convene an all-inclusive assembly, which either they themselves or their ministers will attend, and to enforce whatever measures are required to establish unity and concord amongst men. They must put away the weapons of war, and turn to the instruments of universal reconstruction. Should one king rise up against another, all the other kings must arise to deter him. Arms and armaments will, then, be no more needed beyond that which is necessary to insure the internal security of their respective countries.”¹³ There are obviously many details that must be worked out in order to achieve this. It is necessary to create international agreements about borders and conflict resolution, an international court to solve disputes, international military forces to enforce the laws and resolutions agreed upon, and ultimately a system of world governance that can unite all nations. While disarmament would contribute significantly to better use of economic resources and the prevention of economic crises, its ramifications are much wider.

Gender equality

Equality between women and men is an essential, if underestimated, part of the solution to the economic ills of the world. On the most practical level, women’s lack of access to the same educational, employment and decision-making opportunities as men leads to the underdevelopment and under-utilization of half of the world’s human resources. Gender equality will tap these previously under-utilized resources and talents of women, and in turn enhance innovation and production.

Great strides have been made in this direction in many countries, through both education and legislation. For example, equality between women and men is one of the fundamental values of the European Union. And in Norway (not part of the European Union), there is a minimum required percentage of women on boards of directors of listed companies, leading to the highest average percentage participation of woman (32% in 2006) in listed companies in Europe. Nevertheless, even in Norway only 5 of 220 listed companies has a woman as CEO.



(Source: : Starcher, *Toward a Partnership of Women and Men in Business* (EBBF, at www.ebbf.org) p. 61., quoting the European Commission, top 50 listed companies per country in 2006.

Share of women in governing bodies of European listed companies

There is, however, also a moral dimension to this issue. Much of the behaviour that has led to the current economic crisis – force, aggression, and domination – is based on “masculine” behaviour. Obviously, such characteristics do not belong exclusively to men, nor do all men exhibit them. However, political, social and economic relations have traditionally been associated with the exercise of force and dominance. These qualities have been regarded as the signs of power and authority. The harmful and destructive effects of this kind of aggressive approach are becoming increasingly apparent in the international arena as well as the workplace.

Greater value is gradually being placed on qualities such as cooperation and service, the traditionally “feminine” modes of behaviour. Equality between women and men will promote these qualities, which will in turn help create more productive working environments where there is more cooperation and less aggression. A new age, an age in which the masculine and feminine elements of civilization will be more evenly balanced, will be more conducive to economic stability and harmony.¹⁴

Long-term solution: New values and culture

Examining a number of solutions to the global economic crisis, some more immediate, others more fundamental, it becomes obvious that long-term and sustainable growth and well-being are not possible unless individuals, businesses and society as a whole are governed by the right

values. The prevalent disunity, conflict, greed, dishonesty, prejudice and corruption need to be replaced with unity, justice, moderation, honesty, trustworthiness, humility and service.

From an economic point of view, some argue that there is a need for a fundamental change in the tenets of neoclassical economic theory, where the primary obligation of corporations is to maximize financial return for shareholders. Dr. Marjo Lips-Wiersma maintains that the real purpose of the corporation is to provide products and services that meet the real needs of people, profit being rather a measure of success in doing this.¹⁵

In *The Secret of Divine Civilization*, a treatise he wrote in 1875, ‘Abdu’l-Bahá sets out the spiritual principles that must guide the shaping of society. He calls on governments and leaders to restructure society according to principles of justice, unity and peace: “True civilization will unfurl its banner in the midmost heart of the world whenever ... its distinguished and high-minded sovereigns ... [shall] establish the Cause of Universal Peace. They must make the Cause of Peace the object of general consultation, and seek by every means in their power to establish a Union of the nations of the world. They must conclude a binding treaty and establish a covenant, the provisions of which shall be sound, inviolable and definite. ... In this all-embracing Pact the limits and frontiers of each and every nation should be clearly fixed, the principles underlying the relations of governments towards one another definitely laid down, and all international agreements and obligations ascertained.”

Beyond this, however, he also challenges individuals to transform themselves and arise to a new level of service to their fellows: “And the honour and distinction of the individual consist in this, that he among all the world’s multitudes should become a source of social good. Is any larger bounty conceivable than this, that an individual, looking within himself, should find that ... he has become the cause of peace and well-being, of happiness and advantage to his fellow men? No, there is no greater bliss, no more complete delight.”¹⁶

In conclusion

As countries and peoples worldwide are realizing – not least because of the global nature of the present financial crisis – globalization is not just an option; it is a fact. Words such as these can provide a framework for individual behaviour in this new reality:

“Let your vision be world-embracing, rather than confined to your own self. ... It is not his to boast who loveth his country, but it is his who loveth the world.”¹⁷

“Above all else, leaders for the next generation must be motivated by a sincere desire to serve the entire community and must understand that leadership is a responsibility, not a path to privilege. For too long, leadership has been understood, by both leaders and followers, as the assertion of control over others. Indeed, this age demands a new definition of leadership and a new type of leader.”¹⁸

“Society is looking for meaning as yesterday’s values and lighthouses seem to have been submerged into the wild globalization tempest. ... We cannot escape globalization any more than we can escape gravity. Globalization, beyond being our current dominant paradigm, is the train we, willingly or not, boarded. ... The problem is that it has no driver. Unregulated globalization, characterized by the lack of cooperation within the so-called ‘international community’ ... has little chance of producing the sustainable world future generations would have the right to expect. ... we will need to develop a new generation of leaders aware of the interdependence between the way we run financial resources on this planet and its impact on sustainable development.”¹⁹

One would like very much to conclude this journey into the world of finance on a positive note. After all, these are basically service-oriented professions. Banks, insurance companies and pension funds are focused on meeting real social as well as economic needs, whether they be safekeeping, loans, retirement, education, or insurance. At the same time, many innovations such as microfinance have contributed significantly to poverty alleviation, the creation of employment and helping the poorest of the poor. The initiatives and guidelines of UN agencies such as the Global Compact, the United Nations Environment Programme Finance Initiative, and the Principles for Responsible Investing, have stimulated financial firms, corporations and others to be more socially and environmentally responsible in their investments. All of these and other initiatives make it clear that ethical finance is NOT an oxymoron.

Nevertheless, widespread unethical finance has caught the eyes and ears of the public. A few bad eggs are spoiling the eggnog as they act to satisfy their own greed and short-termism. Whether increased governmental regulation will bring about a sounder financial system remains to be seen; whether reporting can be made more transparent is also far from certain; whether top executive compensation can be made more equitable seems increasingly doubtful.

The answer to these dilemmas will require a revolution in the values driving our societies and institutions to reduce inequalities, to increase global consciousness of the oneness of mankind, to act before it is too late to reverse environmental degradation, to overcome short-termism and self-centredness, and to better balance the qualities of women with those of men. We, the members of EBBF, are convinced that a dramatic renewal of values must be the underpinning of any significant shift toward more ethical finance.

In June 2009, on the occasion of the first Global Ethics Forum at the United Nations in Geneva, the Governing Board of EBBF issued a statement: *An Ethical Perspective on Today's Economic Crisis*. In closing, we quote from that document:

“The world is passing through an economic and financial crisis unprecedented in modern times. Its global scope transcends the cyclical adjustments of national economies and the corrective instruments usually used by business and national governments. The general malaise and loss of confidence point to deeper issues and more fundamental flaws in the economic system, extending to a crisis of leadership and values.

“This unprecedented crisis, together with its accompanying social breakdown, reflects a profound error of conception about human nature itself. We are being shown that, unless the development of society finds a purpose beyond the mere amelioration of material conditions, it will fail to attain even this goal. That purpose must be sought in spiritual dimensions of life and motivation that transcend a constantly changing economic landscape and an artificially imposed division of human societies into ‘developed’ and ‘developing’.

“EBBF recognizes in this situation an opportunity to reshape the fundamental concepts and structures that will not only lift us from this crisis but set us on a road towards a new set of institutions and behaviours which will enable humankind to prosper.

“As the present crisis is fundamentally one of trust and integrity, and therefore ethical in its

foundation, its solution cannot be a mere institutional reorganization or some additional regulatory measures. It needs an ethical response at all levels: the individual, the corporation and the government and regulatory entities.

“There is no quick fix to this situation. Several principles must be considered while reshaping our thinking on institutions and the individuals that compose them. We need to replace the concept of self-centred materialism with that of service to humanity, competition with cooperation, corruption with ethical behaviour, sexism with gender balance, greed with personal ethics, national sovereignty with international collaboration, protectionism with world unity, and injustice with justice.”

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