

Presentation of Andreas Missbach at WSF Belém 2009:

Banks to the future

I am presenting the BankTrack position on the role of Banks in the making of this financial crisis and our proposals for strict regulation of Bank. BankTrack is a network of more than 25 member and partner groups that campaign on large industrial and extractive projects financed by commercial banks. BankTrack members share the ambition to help to create a financial sector that is accountable to society at large and whose operations contribute to creating healthy and just societies and preserve the ecological well being of the planet.

This crisis that has now spread world wide and effects both the real economy and the livelihood of billions of people originated from the Banking sector, especially in the US but with considerable contribution of European Banks. The build up of a bubble and casino economy in the banking sector is the result of a widespread regulatory failure. The financial industry has effectively usurped the power and role of financial regulators and supervisors. Even where regulation existed, the banks easily circumvented existing rules with the use of tax havens constructions, John will expand on that. The successful deregulatory efforts of Banks have allowed them to engage in excessive risk-taking in the pursuit of short-term profits. As a result, between 2000 and 2006, the net profits of banks have more than doubled.

One of the main factors leading to deregulation and a hands of approach of self regulation lies in the political influence through lobbying and campaign contribution. To give one example, the former US republican Senator Phil Gramm actively stopped US-regulators from doing their job as the head of the senate finance committee. He also is the responsible for the abolishment of the separation between investment banks and commercial banks. This deregulation has turned many big banks into gambling houses. Gramm received 24 Million of Dollars campaign contribution from Banks during his political career. When he resigned he was awarded by UBS, the Swiss bank, with an excessively paid job as director of the investment bank. This is just one example, in the US and many other countries bankers cross the line to become Finance ministers or heads of regulatory bodys and they return to Banks just as easily.

Therefore one of the most important step to regulate the banking sector is to get banks out of politics. Society must regain the means to control and correct banks, and redefine banks' primary role as investing in the real economy and advancing environmental sustainability.

Banks need to earn their social licenses to operate and provide products and services which serve, rather than harm, the public interest.

To achieve this, it is absolutely central to add strict sustainability criteria all bank supervision, including the granting of licenses, and the extension of central bank-provided credit and insurance. A new bank regulatory regime should proactively stimulate an economic transition towards a low carbon economy. Banks should be forced to the green screening of customers. They should be required to conduct environmental and social due diligence for both commercial depositors and borrowers. Lending to corporations that do not comply with environmental and social laws should be prohibited.

Another important set of rules has to end the secrecy space banks enjoyed so far. Banks should be completely transparent about their risk assessment processes, decision-making procedures, clients, and transactions. Such transparency is already best practice among some ethical banks.

To prevent a similar crisis from happening and to reduce the influence of the financial sector on the economy and society there are concrete regulatory steps that have to be taken. Let me just mention two, the more complete picture is in BankTracks El Escorial Declaration that can be found on BankTracks website www.banktrack.org.

The crisis has made clear that extraordinarily high returns often are linked to what the bankers call leverage, an excessive amount of borrowed money. Over-borrowing and the subsequent deleveraging are drivers of the current crisis the use of borrowed money in investments and lending should be limited.

It has equally become clear that derivatives are dangerous products. As with other potentially dangerous goods -- for example pharmaceutical products -- regulators should demand robust testing before any financial product should be allowed to be sold. The need to curb speculative derivatives trading is particularly critical in food- and energy-related commodities markets. Huge swings in commodity prices and speculation-fueled spikes in food and energy prices hurt the majority world and especially the poor. Food and energy should not be treated like chips in a casino.

A last word on the bailouts and stimulus packages that many government have created. There is a potential for change, if those can be turned into the right direction. To stimulate demand there should be no tax cuts but redistribution through welfare state mechanisms and unemployment assurance. At the same time there have to be policies that reorient consumption towards low material, low carbon patterns. Equally fiscal spending to boost the

economy that follows business as usual is doomed to fail. But investments in the insulation of houses or more adapt to the conditions here effective cooling, in new energies like solar and wind, in public transport and new patterns of urbanisation that allow a car free life can achieve two things at one time: Stimulate the economy and create jobs and make the necessary transition towards a equitable, and sustainable low carbon economy.

Andreas Missbach, Berne Declaration/BankTrack, Belem 29th January 2009