Chapter 4

Electronic Money and the Casino Economy

Richard Barnet and John Cavanagh

Deregulation of banking and financial markets, combined with the new rules of free trade and the new technologies that offer instantaneous worldwide money transfers, have combined to profoundly transform the modes of financial activity all over the planet. Incomprehensibly large amounts of money are shifting from market to market and then back again in the time it takes to make a keystroke. Governments are left nearly helpless to ensure the stability of markets or currency values in the face of the tremendous acceleration of speculation. The role of the global financial gamblers in creating many of the current money crises has been seriously underreported in the media. In this chapter a condensed history of these enormous changes and their consequences is presented.

Richard J Barnet is a former arms control expert in the Kennedy administration. He has written 14 books, most recently (with Ann Barnet) The Youngest Minds, *and (with John Cavanagh)* Imperial Corporations and the New World Order. *Barnet cofounded the Institute for Policy Studies in 1963 and is currently a Distinguished Fellow at the institute. He has published hundreds of articles on foreign policy, globalization and domestic policy in the* New Yorker, Harpers Magazine, *the* New York Review of Books, *the* Nation *and other publications.*

John Cavanagh is director of the Institute for Policy Studies and vice president of the board of the International Forum on Globalization, where he chairs the Alternatives Working Group. He has coauthored ten books on the global economy, most recently (with Sarah Anderson and Thea Lee) A Field Guide to the Global Economy. *His articles appear in the* Washington Post, *the* New York Times, Foreign Policy *and other publications. Cavanagh has degrees from Dartmouth College and Princeton University and has authored studies on transnational corporations for the United Nations Conference on Trade and Development and the World Health Organization.*

On 30 January 1995, 24 hours before President Bill Clinton orchestrated a US$50 billion bailout of the Mexican economy, the world financial system came perilously close to meltdown. As news spread around global financial markets that Mexico was on the verge of defaulting on government bond payments, capital fled stock markets from Brazil and Argentina and even from countries as far away as Poland and the Czech Republic. On that day, Asian markets were spared only because stock markets were closed in observance of Chinese New Year.

Just two and half years later, in mid 1997, a similar financial panic spread across the world. This time, the crisis began in Thailand but quickly moved to the Philippines, South Korea, Indonesia, Russia and Brazil. As international investors panicked in country after country, their 'hot money' left much faster than it had arrived. Big-time currency speculators such as George Soros deepened the crisis by betting against the currencies of the crisis nations. International Monetary Fund (IMF) policy advice only quickened the exodus. Currencies and stock markets from South Korea to Brazil nosedived, spreading pain, dislocation, death and environmental ruin. This sort of crisis is more than likely to recur in the coming years, and next time it might have even more devastating effects worldwide.

The root causes of these crises are twofold:

1. the total deregulation of the global financial systems that leaves banks and other financial institutions without controls; and
2. the corresponding revolution in communications technology that has brought radical change in the scale, speed and manner of financial activity.

This combination of factors has enabled currency speculators to run wild, moving their immense resources electronically, instantaneously, from country to country, beyond the abilities of any government to control the process. In this cybertech globalized world, money has become free of its place and, as we will see, from most connections to its former sources of value: commodities and services. Money itself is the product that money buys and sells.

Because of the tremendous financial requirements for playing in this global money game, banks and finance houses are quickly diminishing in number but increasing in size; as a result, they are becoming still more difficult to control. The net effect is that the world financial system has become exquisitely vulnerable to technological breakdown, the high-risk consequences of short-term speculation and freelance decision-making. If anything goes wrong in this fragile arrangement, which is increasingly likely in the context of a wired-up economy based on free trade, then the following scenario is likely. When a crisis in one place directly affects financial flows everywhere else, speculators panic, speculative funds will be moved without warning (as happened in Mexico, Asia, Russia and Brazil), and we will be quickly threatened by a rapid domino effect among the world's interdependent stock markets. Global economic collapse is possible.

The following are some elements in this larger story.

The Nature of Electronic Money

Most business and personal financial transactions still involve cash, that is, the exchange of coins and bank notes issued by treasuries and central banks. According to the Federal Reserve, about 85 per cent of dollar transactions are in cash at banks, supermarkets, petrol stations, restaurants and the like. But the trillions sloshing back and forth between countries, within and between corporations, and between large investors and entrepreneurs, are transferred from one account to another through an electronic network. Unlike withdrawals at automated teller machines (ATMs), these large transactions do not take place in public view. The number of electronic transfers amounts to only 2 per cent of the total transfers; yet these transactions involve US$5 out of every US$6 that move in the world economy.

Traders still shout at one another at exchanges around the world, buying and selling money in one form or another, but more and more dollars, yen, or lire move from one account to another hundreds or thousands of kilometres away because someone in a quiet room has hooked into a global electronic network and punched a key. Well over US$2 trillion a day travels across the street or across the world at unimaginable speed as bits of electronic information. A treasury bill, as James Grant, the editor of *Grant's Interest Rate Observer*, puts it, 'no longer exists except as an entry on a computer tape' (Passell, 1992).

Information technology has transformed global banking more than any other economic activity. The software that guides electronic networks now permits 24-hour trading in a wide variety of money products – securities, options, futures and so on – all across the planet, and it has changed the human relations of banking. As Felix Rohatyn of Lazard Freres puts it: 'People buy and sell blips on an electronic screen. They deal with people they never see, they talk to people on the phone in rooms that have no windows. They sit and look at screens. It's almost like modern warfare, where people sit in bunkers and look at screens and push buttons and things happen' (Sampson, 1989).

The sheer size of global financial operations is reducing costs substantially. Any multimillion dollar transfer across the globe can be accomplished for just 18 US cents. By developing the most advanced foreign-exchange software, Bankers Trust was able to achieve a ten-second advantage over other traders – enough time, according to a 1987 Office of Technology Assessment study, to execute four or five trades. The opportunity to react to new information a few seconds ahead of the market can be worth billions (O'Brien, 1992).

The introduction of state-of-the-art information technology has changed what banks are and what banks do. Computers and electronic communications networks have expanded the markets for money products and reduced the costs of making transfers, in large measure by eliminating thousands of jobs for clerks, tellers, messengers and the like. But the installation of the automated systems has required huge capital investments. In 1990, commercial banks in the United

States spent US$15 billion on information technology. The need to amass large investment funds for such purposes has encouraged the consolidation of investment and banking corporations. Firms merge to save costs by sharing expensive data systems. These systems facilitate the speedy settlement of money trading; even a few seconds of exposure before a transfer is settled can spell disaster if millions of dollars are involved.

In other words, global banking has become highly dependent on a few centralized information operations to accomplish and monitor the transfers. CHIPS is the New York Clearing House Interbank Payment System. Inside a reinforced concrete-and-glass office building on a run-down block on Manhattan's West Side, two Unisys A-15 J mainframe computers about the size of refrigerators dispatch funds across the Earth. Requests for payment stream in through 134 telephone lines, and, after the requests are screened for possible fraud by 22 electronic black boxes, the mainframes move the money, as *New York Times* writer Peter Passell (1992) puts it, in the form of 'weightless photons through the electromagnetic ether'.

As bankers contemplate this electronic money web, the nightmare – which most dismiss – is that a massive fraud, a flash of lightning or a diabolical computer virus could trigger power failure, scrambled money messages, gridlock, and breakdown in the global banking system, and lead to the world's first computer-driven worldwide financial panic. CHIPS takes all this seriously enough to adopt elaborate security arrangements, to put in auxiliary power and water systems, and to replicate the entire Manhattan operation just across the river in New Jersey, down to a maze of white-walled rooms, a network of telephone lines, a Halon fire-protection system and water-resistant ceilings.

According to Peter Passell, a US$20 million theft did occur in 1989, a fraudulent transfer from a Zurich bank to the State Bank of New South Wales via its New York branch. A Malaysian con man secured the cooperation of two employees of the Swiss Bank and conjured up a fictitious bank in Cameroon to work the scheme. The thieves were caught and convicted. The US$20 million had been transferred in a fraction of a second, but recovering it took longer. Three years later, US$12 million of it was still missing. Despite all the technological precautions and hurdles, even more imaginative inside jobs on an even larger scale are possible.

John Lee, president of the New York Clearing House Association, estimates that 99 per cent of CHIPS transactions are legitimate. That may well be true, given the huge volume of daily transactions. Nevertheless, the speed and anonymity of the global money-transfer system presents an opportunity for large-scale criminal operations and tax fraud.

Electronic transfers are secret. Anyone with funds in the bank who prefers to hide them from regulators, creditors, wives or husbands can communicate with the bank by fax or modem and order wire transfers across the globe without ever speaking to a bank officer. Tax havens are nesting grounds for criminal

gains or untaxed profits. Indeed, most of the deposits sitting in these out-of-the-way places are there to avoid scrutiny by regulatory and taxing authorities. Typically, tax havens are tiny – Cayman Islands, Bahamas, Bermuda, Cape Verde, Hong Kong, Bahrain – mostly islands featuring warm weather, good flight connections and plenty of faxes. Grand Cayman's financial district is reputed to have the highest concentration of fax machines in the world to serve its 548 banking outposts, which hold assets of about US$400 billion.

The volume and reach afforded by instantaneous banking transactions across the world make global banking highly profitable, but some economists fear that these same characteristics could also be its undoing. On a typical day, well over 100 banks are sending and receiving pay orders via CHIPS at the rate of US$2 billion a minute. Unlike payments in currency, which are final, electronic orders to pay are not settled until the close of the business day, and then the accounts are cleared multilaterally. Passell (1992) likens the process to a poker game: 'Each institution that is in arrears makes payments into the kitty much the way the "bank" settles accounts for a half-dozen players' when the game breaks up. Should a bank lack the funds to settle accounts at the end of its business day, the electronic entries would be reversed – *unwound* in global-banking lingo – and every bank engaged in a transfer to or from the defaulting bank would feel its effects. The gridlock caused by the hundreds of corrections, especially if multiple bank defaults are involved or a stock market crash is also occurring, could trigger a chain reaction of bank failures. The system could be shut down for weeks, during which time corporations would be starved of working capital. Bankers profess great confidence that such scenarios are highly improbable, but they acknowledge that the complexity, speed, and dynamism of global banking arrangements expose the system to hazards we cannot even imagine. That, they say, is always the risk of technological advance. And as with other technological catastrophes – from Chernobyl to Bhopal – a financial markets computer breakdown would ultimately injure innocent workers and civilians just as it has in Mexico, Asia and elsewhere.

Globalization and the Pressure to Deregulate

The technology of money lending and the explosion in money packaging have outpaced banking regulations designed for a simpler and slower age. The pressures of globalization have been used to remove regulations of all sorts from the financial services industry; US banks are subject to more regulations than their German or Japanese competitors and therefore, it is argued, the global playing field is not level. Bigger German and Japanese banks with broader powers are outcompeting global banks that fly the US flag.

Changes in Japanese banking regulations are also putting Tokyo-based banks in a stronger competitive position. On 18 October, two weeks before the 1992 presidential election, Secretary of the Treasury Nicholas Brady gave a speech to the American Bankers Association in which he said that increasing the competitiveness of the US financial services industry was critical to stimulating growth in the US economy. The key, he said, was to eliminate 'the old arbitrary legal framework that governs the banking system, especially outdated restrictions on products and geography'. In other words, banks should be free to leave their original neighbourhoods – where they may have helped local business and the public – and go to Asia or Europe, or wherever the action is, to serve themselves.

The argument that globalization requires deregulation is at least a quarter-century old. Deregulation of the US financial services industry has actually been underway for years, as part of a global shift in the relationship between governments and banks all over the world. To a great extent the US financial services industry deregulated itself. By resorting to creative corporation rearrangements, such as holding companies and mergers, the banking, brokerage and insurance industries slipped out of the legislative restraints intended to limit their geographical reach and their permissible activities long before Congress acted to loosen them. Through its parent corporation, Citicorp, which is not a bank under the law, Citibank could operate as a credit-card banker in all 50 states, rendering irrelevant and unenforceable the New Deal legislation that was supposed to keep banks serving their own communities. To get around legal requirements that banks lend only a certain percentage of their cash reserves, Citibank could sell its loans to Citicorp, which is not subject to these requirements. (In 1998, a giant financial conglomerate, Travelers Group, acquired Citicorp for US$72.6 billion; the new merged firm is called Citigroup.)

Congress had not anticipated that the nation's largest bank would make such effective use of the one-bank holding company to escape regulation, and friends of the banking industry in the US Senate effectively blocked efforts to plug the loophole. By the 1980s, banks were not only operating across state lines but had become sellers of insurance as well. Brokerage houses and automobile manufacturers were now deeply involved in the real estate market. All had, one way or another, jumped over the fences Congress had put up to separate investment banks from commercial banks and to keep brokerage firms, insurance companies and thrifts concentrated on the businesses for which they were chartered. Thanks to information technology and the ingenuity of lawyers, money now travelled faster, farther and in ways never envisioned by banking legislation and regulatory authorities. As Clive Crook in the *Economist* puts it, deregulation 'is often no more than an acknowledgement that the rules are no longer working' (Crook, 1992).

But deregulation, whether by circumvention of official policy or by law, had unanticipated and extremely unpleasant consequences. Like war plans, bank regulations are written with the catastrophes of the previous generation in mind.

After the Great Depression, when the national banking system collapsed because of risky loans, the Federal Reserve was given authority to set interest-rate ceilings on deposits. Regulation Q, as this grant of regulatory authority was known, was designed to stop banks from offering higher interest rates as a way

of competing for deposits. The theory was that if banks were paying high interest, they would have to earn more on their loans and would be under pressure to take big risks with depositors' money. Since the deposits were now insured by the Federal Deposit Insurance Corporation (FDIC), the risk would eventually fall on the taxpayers if the economy turned sour. In normal times, the fees all the member banks paid into the FDIC are sufficient to cover the deposits of banks in trouble; but if failures were to reach a certain point, FDIC reserves would be exhausted, and Congress would have to come up with the money to pay off depositors. This is, of course, exactly what happened in the late 1980s in the infamous savings and loan industry debacle. But the roots of the problem were planted decades earlier.

Evolution of Homeless Money

All through the Cold War years, US savers were sending more of their money abroad to take advantage of higher returns. In 1966, under pressure from lobbies representing elderly and retired persons, the Federal Reserve Board agreed to let financial institutions such as brokerage houses and insurance companies pay market rates on consumer savings accounts. These new accounts offering higher returns for consumers were known as *money market funds*. As nominal interest rates soared in the 1970s, money market funds accumulated hundreds of billions of dollars. By 1979, savings banks, savings and loan associations (S&Ls) and credit unions, which had their deposits tied up in long-term, low-interest home mortgages arranged before inflation became rampant, tottered on the edge of bankruptcy.

Congress came to the rescue with two pieces of legislation: one known as the Deregulation and Monetary Control Act of 1980 and the other the Garn–St Germain Act of 1982. Essentially, these laws phased out regulatory limits on interest rates for savings institutions, allowed them to offer interest-paying checking accounts, and granted authority to make all sorts of loans. Previously, thrifts had survived by lending most of the home-mortgage money in the nation, but now they were permitted to make consumer loans and commercial real-estate loans. At the same time, companies such as Sears, GM, and Prudential, along with the commercial banks, could expand further into the commercial mortgage market. By tradition and by law, commercial banks were in business to supply working capital and investment funds to industry. But now they rushed into the real estate market. Citibank increased its mortgage portfolio from US$100 million to US$14.8 billion in just ten years. All this competitive zeal to finance unneeded office buildings spelled disaster for the S&Ls. Half of them disappeared. Our children and millions more taxpayers yet unborn will have to come up with something under US$1 trillion to repair the damage.

All through the last three decades, US banks pursued another strategy to escape the regulators. They shifted more and more of their activities beyond US shores, well out of reach of the treasury or the Federal Reserve. Here, too, regulators inadvertently spurred the process. As US corporations, armies, military installations and government aid programmes spread around the world in the 1950s, all spending billions in US currency in other countries, the glut of dollars in the hands of foreigners became a serious world problem. By this time, Germany, Japan, and the other industrial countries were recovering from the shocks of World War II and were producing a flood of goods. It was neither necessary nor advantageous to import so much from the US. Non-Americans had accumulated hundreds of billions of dollars more than they could possibly use to buy goods and services from the US. Except for the fact that the dollar was the world's reserve currency backed by gold, the overvalued offshore dollars were becoming risky holdings. If the holders of offshore dollars were to cash them in, the US would face financial catastrophe, because the treasury promised to redeem dollars with gold at US$35 an ounce. The obvious alternatives for the federal government were either to scale back expensive military commitments or to devalue the dollar. Both were inconsistent with America's self-image in the 1960s as the world's number one superpower.

For the first time, the nation experienced severe balance of payments problems. As foreigners piled up unwanted, overvalued dollars in banks in London, Paris, Geneva and Hong Kong, the doors of the gold depository at Fort Knox kept swinging open to accommodate the heavy traffic in gold bars bound for Europe. To stem the flow of gold, the Kennedy and Johnson administrations tried to limit the amount of dollars US banks could lend to foreigners and taxed foreign bonds issued in the United States. But these measures only succeeded in accelerating the outflow of dollars. US banks, led by Citibank, were now firmly established in Europe and Asia, and offshore lending exploded in reaction to the US government's efforts to keep Wall Street banks from lending to foreigners.

By the 1970s, for every dollar US banks were lending to non-Americans from their domestic bank offices, they were lending six or seven more from vast offshore facilities that collectively came to be called the Euromarket. This pooling of funds, mostly in dollars, started in Europe to accommodate the financial needs of communist China, but it soon became a global money pool that could be used by borrowers anywhere. The distinguishing feature of the Euromarket is that the money is denominated in a currency different from the official currency where the deposits are located. All such money is largely beyond the reach of national regulators in the countries of origin. When US companies in need of capital abroad resorted to the Euromarket, they were complying with the US policy to restrict capital outflow from the United States. But the buildup of this huge pool of offshore dollars created a formidable alternative to the US capital market. IBM was the pioneer among US-based companies to make creative use of the Euromarket, but soon many US companies operating outside the United

States were financing their overseas operations without resorting to banks in their home country. The Euromarket expanded into bond issues and then began offering a menu of increasingly arcane money products. Soon it was serving as a 'connecting rod' for financial markets around the world that once were entirely separate.

Emergence of Casino Economics

Money itself was becoming a truly global product. In 1973, the gross sum in Eurocurrency accounts all over the world was US$315 billion; by 1987, the total was nearly US$4 trillion. This fantastic expansion was hastened by the series of deregulations of international money transactions that began when the Nixon administration forced the end of fixed exchange rates in August 1971, and governments everywhere lost much of their power over money. The value of money was now set in increasingly integrated global marketplaces, as foreign exchange traders all around the world haggled over how many lire or drachmas an ever fluctuating dollar could buy at any instant in time. In the 1970s, the eminent economist Milton Friedman convinced the Chicago Mercantile Exchange, which had established a lively futures market in hog bellies and other agricultural products in order to protect farmers and food companies from the volatility of farm prices, that a futures market for money products would be a smart idea. The more exchange rates fluctuated, the more interested investors would become in hedging their bets with contracts to buy or sell at a set price on a set date. The betting possibilities were limitless. By 1989, 350 varieties of futures contracts, most of which were financial, were traded in Chicago and in the 70-plus new exchanges that had sprouted up across the world.

US officials played the key role in the transformation of world financial markets, most notably on two occasions. The first was in 1971, when Nixon closed the 'gold window'. No longer was it possible to redeem dollars for gold. This meant that non-Americans had to keep their dollars on deposit somewhere in the world or convert them into some other currency. The second event came eight years later when Paul Volcker, then chair of the Federal Reserve Board, tried to fight inflation in the US by cutting the money supply. He used the standard tool – charging substantially higher interest rates to commercial banks to obtain dollars from the Federal Reserve. Since the dollar was the reserve currency for the world, however, the 'Fed' had unwittingly raised interest rates everywhere, and both interest rates and exchange rates began fluctuating wildly. As Michael Lewis puts it in his book *Liar's Poker* (1989), 'Overnight the bond market was transformed from a backwater into a casino. The buying, selling and lending of monetary products worldwide became businesses in themselves. Most of it had little or nothing to do with investment in either production or commerce. (However, as exchange rates became more volatile, hedging became almost a

necessity for some transnational businesses.) Foreign direct investment in the developing world fell as the leading commercial banks of the world saw that they could reap quicker profits in commissions, fees and interest by 'recycling' tens of billions of 'petrodollars' from the coffers of Kuwait and Saudi Arabia to the governments and their business associates in poor countries.

As Richard O'Brien, chief economist of American Express Bank, notes (1992), 'Deregulation and liberalization clearly encourage globalization and integration. Liberal markets and systems tend to be open, providing greater ease of access, greater transparency of pricing and information.' The flow of accessible information offers a global environment that is hospitable to homeless money, promoting what O'Brien calls 'the end of geography' in the finance and investment business.

The rise of global financial markets makes it increasingly difficult for national governments to formulate economic policy, much less to enforce it. In the increasingly anarchic world of high-speed money, the dilemma facing national political leaders is clear: impose regulations, then sit back and watch how quickly financial institutions slip away by changing their looks, disappearing into other corporations, or otherwise rearranging their affairs to make life difficult for the regulators. At the same time, bankers argue that to the extent the regulations are observed, they pose a handicap in international competition. Yet, the history of deregulation is littered with scandals and financial foolishness for which a handful of bankers, but mostly millions of taxpayers and depositors, have paid a heavy price.

Global Race to Deregulate

On 27 October 1986, the 'Big Bang', as the chair of the London Stock Exchange first called it, went off in the city of London, ending 200 years of comfortable, stately, and expensive trading practices on the London Stock Exchange. Overnight, the market was deregulated and opened to foreign banks and securities firms of all sorts. An electronic marketing system modelled on the new US computer-age stock exchange, NASDAQ, was installed to take the place of old-fashioned floor trading. Traders could now bypass London and deal directly with markets in New York and Tokyo at much less cost. Deregulation was a strategy for trying to get lost business back. As the New York Stock Exchange had done more than ten years earlier, the London Stock Exchange abolished fixed commissions for traders, and it now permitted firms to act as both wholesale dealers and brokers. Suddenly, US commercial banks that were barred from the securities business at home could plunge into this market in London, neatly jumping over the wall of separation between investment and commercial banking provided under the Glass-Steagall Act of 1933, the cornerstone of modern US banking regulation. (With the Great Crash and its consequences still fresh in mind, the act was intended to forbid banks to act as underwriters for corporate securities.)

The global expansion through large corporate mergers and acquisitions gathered steam in the 1970s, and this global restructuring of industry required the amassing of huge amounts of capital. At first, large banks dominated this market because they were the ones with the financial power and connections to syndicate large loans through networks of foreign banks. But in the 1980s, as capital needs mushroomed, corporations in search of funds found that it was much cheaper to raise the capital by issuing bonds and other sorts of commercial paper. Financial institutions of all sorts packaged a bunch of small loans and sold them as securities on world markets.

Borrowers all over the world, including the largest corporations, could now shop around the world for money, and they could borrow it in many different forms on a wide variety of terms. Investors could hedge against risks in one national economy or in one industry by buying foreign stocks. Global markets in securities offered opportunities for diversification. Laws and regulations that had previously put international investments out of bounds came tumbling down. Markets in securities were losing what few geographical ties were left. It was now possible to invest in the New York market by buying New York Stock Exchange index shares on the Chicago Board Options Exchange.

The Big Bang triggered an explosion of deregulation in other financial centres all over the world. Screen-based markets offering instantaneous flows of global information took over an ever larger share of business from traditional floor trading. In addition to the speed and convenience, there were fees and taxes to be saved. Stocks in foreign companies became internationally traded products. London, Amsterdam, Paris, Frankfurt and Zurich competed in offering the most cosmopolitan menu of stocks, options, swaps, and futures in companies around the world. By 1990, the buying and selling of foreign equities on the London Exchange exceeded that of British equities.

The Final Barrier

With the juggernaut of deregulation having just about completed its sweep across the developed world, there remained one final barrier to ultimate freedom of movement for money and for the ability of the great financial conglomerates to control world markets. That barrier was among the poor countries of the developing world, who still stubbornly refused to open their commercial banking sector to outside domination. The Uruguay Round of the GATT took care of that.

In most of the world's poorest countries, foreign banks were traditionally welcomed for the services they performed, but only up to a certain point. The foreign banks were appreciated as sellers of retail credit and providers of capital under controlled, specific conditions. But foreign banks, with few exceptions, had been prohibited from buying into ownership positions in commercial

banking. Developing world governments argued that since finance is central to development, the financial services industry should remain firmly in domestic hands, serve domestic interests, and keep money within the economy.

The US led the challenge against the developing world's control of its own financial markets during the Uruguay Round of GATT negotiations. The US and other Western nations argued that 'efficiency' and 'fairness' required that all foreign banks be accorded national treatment in every country. *National treatment* essentially means that foreign banks must be treated just as if they were local banks, so, for example, US banks must be permitted entry into developing world financial markets even if they gain full control of the local institutions. Local governments would have to give up all attempts to sustain control over local financing activity.

This was one of several important points that kept GATT negotiations stalled for seven years; but eventually the US and the other Western powers forced the poor nations to cave in and, under the WTO, a financial invasion is now underway.

While those negotiations proceeded, the US pushed hard for deregulation of financial services with Mexico and secured an agreement that the US negotiator said would give US banks 'dramatic new opportunities', a situation later solidified by NAFTA. As a result, one treasury official bragged at an off-record briefing, 'They [Mexico] gave us their financial system.' Indeed they had, and in January 1995 the world was given a taste of the consequences. The Mexican economy will not recover for a long while. Ordinary Mexican citizens will ultimately pay the bills for the bailout by the US of hundreds of its own speculators, notably Chase Manhattan and Goldman Sachs.

Clearly, Mexico in 1995 and much of the rest of the world in 1997–1998 were just the first of many such debacles to come. In a globalized economy, wired together by technologies capable of moving unimaginable funds instantaneously around the globe at the behest of speculators and immune to any ability to regulate or control this movement, we are in for more frequent catastrophes. Yet, this is a condition the world will not be able to tolerate for long. It makes banking services even more difficult and distant for local communities, small businesses and ordinary people. Worst of all, it puts the entire international economic apparatus into a most precarious situation. Global finance could tumble down quickly, like the house of cards it has become.

Ultimately, change must come in the form of a financial system not based on speculation, but a system that uses funds with geographic roots and some connection to goods and services that cater, as they once did, to the interests of local and regional economies. The examples of the Grameen Bank in Bangladesh and the South Shore Bank in Chicago, running directly counter to the trend, are informative, optimistic models. Only by such a change in direction can the financial community be remotely in service to ecological and social sustainability.