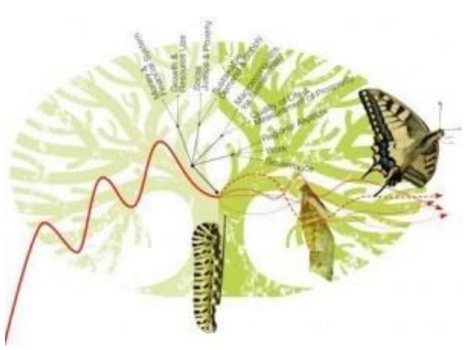
Andreas Breitenfellner (OeNB)



Parallel Session I: Money and the Financial System

Chair**: Fred Luks** (Bank Austria)
Rapporteur: **Andreas Breitenfellner** (OeNB)

Bernard Lietaer (Berkeley University, USA) gave a video message with the title: "Why this crisis? And what to do about it?". Pointing to the fact that the recent crisis has been the biggest after 96 banking crises and 176 monetary crises during the last quarter of century, Lietaer suggested that there must have been a structural cause to it. He than built an analogy between the financial system and the natural ecosystem. According to this the sustainability of any complex flow system depends on its structural diversity and interconnectivity requiring a balance between efficiency and resilience. The monoculture of national currencies, however, generates structural instability. Economic sustainability therefore requires diversification in types of currencies. As they link unmet needs with unused resources, they create employment. Lietaer concludes that understanding currencies as an open source constitutes a structural solution to avoid future crisis.

Helene Schuberth (Oesterreichische Nationalbank, Austria) started her presentation quoting an observation of the ILO, according to which a loss of 1% in global GDP entails 20 million more people living in poverty. Therefore she proposed green investment as *one* solution for *two* crises, reviving employment as well as building the foundations for sustainable economies. To understand the financial crises she alluded to three elements: regulatory capture, rising inequality and global imbalances. While the first let to deregulation of financial markets, the latter two build the domestic and international fundamentals for financial innovations and risk transfers. In combination these elements contributed to the excessive importance of the financial sector in the economy (*financialisation*) which finally led to the collapse. Contrary to the assertion of being an absorber of shocks the financial system originated it. Schuberth suggested a debate on how to make finance serve the society in providing global public goods. She also proposed a cost-benefit-analysis of all financial products as well as what she called democratization of finance.

Mathias Binswanger (Fachhochschule Nordwestschweiz, Switzerland) posed the question: „Is There a Growth Imperative in Modern Economies?" His answer was "yes", which he elaborated during the rest of his presentation. While being only a historically recent phenomenon, economic growth is attractive because it allows the economy to escape from the "tyranny of a zero-sum game". Investment builds not only on savings but also on credit expansion, i.e. money created by banks. With firms using that money by increasing their productive capacities, the real side of the economy grows. Firms need profits on investment for credit payments, for compensating risks and stabilizing share prices. Binswanger demonstrated that if the growth rate falls below a certain positive threshold level, firms will make losses and the economy enters in a downward spiral.

Robert Hill (Universität Graz, Austria) formulated the minimal consensus on the penal in the disapproval of excessive growth and centred his presentation on problems created by asset price booms and busts. Particularly price hikes in the housing market increase consumption followed by investment, leading to misallocation of resources and overvaluation of assets taken by banks in exchange for loans. A housing boom also increases inequality as renters and late buyers do not benefit. Eventually booms turn into busts entailing deflation, recession and unemployment, indebting the government and hurting the poor. In order to prevent harmful housing booms and busts Hill proposes three measures: Central banks should take asset prices into consideration when targeting inflation, banks' lending and selling of mortgages should be limited and governments should reduce debt levels in good times.