

Stock-market crash 10th anniversary a timely reminder?

By Wayne Visser

Over the week or two, stock markets around the world, including the JSE, have been a little more jittery than usual. It is 10 years since the infamous crash of October 1987. This is a timely reminder of the need to regain control over financial speculators.

As described in the last Money Values article, the evolution of financial markets into a trans-national "new global commons", combined with the actual and potential effects of their increasing instability, fluidity and systemic risk, make it imperative that methods be found to "tame" these markets. But is there agreement on this, and are there any visible proposals for reform?

In fact, there is now widespread consensus for the need to control and regulate transnational financial markets, from the older calls by futurists and ecological economists to the more recent work by various regulating bodies, including the Basle Committee on Banking and Supervision (BCBS), the International Organisation of Securities Commissions (IOSCO), the US Commodity Futures Trading Commission (CFTC), and the Commission for Global Governance Committee on Global Financial Markets (GCFUN).

Even otherwise free-market economists, including Fred Bergsten, Jeffrey Sachs and Lawrence Summers, have urged the formation of a "GATT for investment and finance" in a recent article in The Economist. Similarly, George Soros, one of the biggest derivatives players (infamous for making over £1 billion from the devaluation of the pound in 1994), advocates that "all derivatives traded by banks should be registered with the Bank for International Settlements (BIS) through various national regulatory agencies".

An example is the Windsor Declaration issued jointly by the CFTC and IOSCO in 1995, which pledged to do the following:

1. Increase surveillance of big risks taken by market players.
2. Better disclose how well customer money is protected by foreign rules and regulations when it ventures abroad.
3. Establish strict accounting by brokerages and exchanges to distinguish client money from brokerages' funds.
4. Improve information available about bankruptcy laws in each market so investors will know how difficult it may be for them to get their money if their broker fails.
5. Establish a crisis team to provide other regulators with quick information at any time of the day or night.

Other G-7 proposals were even more limited and defensive, suggesting only that "there may be a need to look at mechanisms that might usefully be considered in situations of financial crisis, " including:

- an improved early warning system to avoid financial shocks;
- an ongoing system of surveillance of national economic policies and development;
- an "Emergency Financing Mechanism" within the IMF with a doubling of reserve sums for
- currency stabilisation;
- strengthening of financial market supervision and regulation; and
- a one-time special allocation of SDRs to reduce inequities in the system (IMF, 1995).

Even the mainstream financial press observed the inadequacy of these ongoing current efforts. For example, *The Guardian Finance* described the G-7 commissioned proposals for "combating risks inherent in the global financial system", which were drawn up and published in 1996 by the BCBS and IOSCO, as "wishy washy" and proposing "a global regulatory system [that] has no real chance of success".

Given that these existing measures seem inadequate to control the increasingly turbid ocean of speculation, what might more fundamental reforms include? This will be the subject of next week's article.

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