Global Landscapes: Business, Ethics and Sustainability in the 21st Century

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US Financial Crisis, Ethics and the Needed Sustainability Measures for the New Global Financial Architecture

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Introduction

Ethics and ethical practices are needed in the financial industry and the governing institutions which operate, safeguard and regulate its market. The sudden collapse of the global financial system dominated by American institutions is clear proof of the failure of US corporate boards of the banking and capital markets to produce sound governing policies to guide senior managers to the best practices. Incorporating sound, well developed, transparent and accountable governance regimes and practices became a necessity in the era of globalization where cultural proximities (time and space) are minimized.

In light of the complexity of the topics, an interdisciplinary research approach is adopted and applied; practical or action research design will be used. According to Charles B. Smith, the goal of this kind of research is to find knowledge that applies directly to alleviating a specific problem or improving a current practice. [1]

Why did the US Financial Institutions Collapse?

In the summer of 2007, US and world financial markets found themselves facing a potential financial catastrophe and the US Federal Reserve Board found itself in a difficult situation.[2] It was becoming clear that banks and other institutions in the financials market industry in the USA and worldwide would certainly lose tens or even hundreds of billions of dollars from their exposure to sub-prime mortgage market loans.[3] Since bank lending is closely tied to bank capital (and net worth), bank regulation requires that loans not be more than a certain multiple of capital.[4] Thus, the Federal Reserve Board faced the danger of a sharp contraction in credit and bank lending in a way that would lead to a deep recession or maybe an economic depression.[5]

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[1] Charles B. Smith, A Guide to Business Research, Developing, Conducting and Writing Research Projects, (Chicago, Nelson-Hall, 1981), pp 6-7

[2] Steven G. Cecchetti, "Crisis and Responses: The Federal Reserve in the Early Stages of the Financial Crisis," The Journal of Economic Perspectives, Volume 23, No 1, Winter 2009, p51

[3] Ibid

[4] Ibid, p73

[5] Ibid

On August 9, 2007, according to this analysis the global financial system started to crack down and the financial industry around the globe (with the domino effect) was confronting the reality that the marketing value of mortgage-backed securities were worth less than they thought and it had become very difficult to asses the value by using the prevailing doctrines of finance used by capitalism regimes.[6] Financial institutions and investors all over the world started to look to the USA, the global financial decider who had been lending, led the globalization for an answer and remedies.[7] The answer seems to be not anymore in the hands of the US Treasury Department or the White House (in a presidential election year) or the US Congress rather than in the hands of members of the board of directors and privileged senior executives of Wall Street financial institutions. The corporate elites have led the world to a selfish capitalism after receiving a tacit approval from the G.W. Bush administration.

The Evolution of the Concept of Business Ethics in the USA

Ferrel, Fraedrick and Linda Ferrel presented an outstanding summary of the literature of this area. They stated that prior to 1960; the US went through several organizing phases of questioning the concept of capitalism and its engine and tools. In the 1920s, "living wage" was defined, by the progressive movement, as family income sufficient for education, health, recreation and retirement. [8] Businesses were asked to check unnecessary price increases and many other unfair practices that would compromise a family's "living wage." In the 1930s came the New Deal, which specifically blamed business for the country's economic crisis. Hence, business was asked to work more closely with the government to raise family income. By the 1950s, according to Ferrel, Fraedrick and Linda Ferrel, the New Deal had evolved into the Fair Deal by President Harry S. Truman. Truman's program defined issues of business ethics as part of individual civil rights and environmental responsibility as ethical issues that business must address. [9]

The 1960s witnessed the new political and social movement that attacked the so-called military-industrial complex, the rise of consumerism activities undertaken by individuals, groups and organizations to protect their rights as consumers. President John. F. Kennedy delivered a special message on protecting the consumer interest in which he outlined four basic consumer rights: the right to safety, the right to be informed, the right to choose and the right to be heard or the consumer's "Bill of Rights."

Ralph Nader's book entitled Unsafe At Any Speed, published in 1965 was the starting point of the modern consumerism movement. He criticized the auto industry as a whole, and GM Corporation, in particular for putting profit and style ahead of lives and safety. Nader's consumer protection organization activities succeeded in passing legislation that

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[6] Ibid

[7] Washington Post, April 2, 2009, p 1

[8] O.C. Ferrel, John Fraedrick and Linda Ferrel, Business Ethics, Ethical Decision Making and Cases. (New York: Houghton Miffin Company, 2008) pp 10-11

[9] Ibid. p11

required automobile makers to equip cars with safety belts, padded dashboards, stronger door latches, head restraints, shatter-proof windshields and collapsible steering columns. [10]As a result of the aforementioned activities, business ethics began to develop as an independent field of study in the 1970s, 1980s and 1990s with academic and practitioners exploring ethical issues and attempting to understand how individuals and organizations can make ethical decisions.[11] For more details please see table 1-2, exhibit #1

Less attention however, was given to the issue of corporate governance or the operations and internal dynamics and process of corporate board directors until the 1970s. Avinash Dixit presented an outstanding review of the concept of governance in his lead article in the American Economic Review, March 2009, when he stated that the concept of governance has risen from obscurity to buzzword status in just three decades. [12] Econ list shows only 5 mentions of the word governance in the 1970s. By the end of 2008, it was mentioned 33,177 times[13]. The much more specific phrase "economic governance" has appeared 192 times and its more popular cousin "corporate governance," 9, 717 times. [14]

As early as 1987, the US federal government seemed to be aware that something is so fundamentally wrong with the structure of corporate governance that it required a legislative remedy[15]. Alan Greenspan, the Governor of the Federal Reserve Board argued that:

> "In principle, corporations are run for the benefit of their shareholders, within the context of laws that are designed to protect the rights of third parties. Such protections, whether for employees, the community or the environment, should not be obligations of corporate management. They are appropriately left to statute…"[16]

Events of the 1980s have made corporate governance a leading issue area for American Business executives. Ivan Boesky, Texas/Pennzoil, and T. Boone Pickens, Jr., have made such specific governance issues as "insider trading," "shareholder disputes," and "hostile takeovers," common phrases in the language and terminology of the business-conscious America of the 1980s[17]. A 1987 compilation of major national issues found that "corporate governance" was atop ten issues[18]. As Alan Greenspan aforementioned public statement may indicate, corporate governance goes beyond economic and managerial

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[10] Ibid, p12
[11] Ibid, p12
[12] Ibid
[13] Avanash Dixit, "Governance Institutions and Economic Activity," The American Economic Review, March 2009, Volume 99, No 1, p5
[14] Ibid
[15] Ibid
[16] Robert I. Tricker, International Corporate Governance, Text, Readings and Cases, (New York: Prentice Hall, 1994), p8
[17] Ibid
[18] Ibid

matters. It has social and political implications on all stakeholders at the national and international levels (in a multinational corporation).

The American Empire in the Era of Globalization

"The USA is the only nation whose influence is truly global," said Stephen Burman in his excellent text entitled "The State of the American Empire, How the USA Shapes the World." In shedding light on this role, he stated that, the demise of the Soviet Union at the beginning of the 1990s left it without a military rival and in the 21st century, the US international role has been described increasingly in terms of empire.[19] US power, the argument runs has undoubtedly grown in recent years in the area of capital which includes: investment, US multinational operations, capital transactions and power of the US dollar, which makes America the world's banker, with all the advantages that brings [20](please see exhibits # 4).

The movement of US capital is parallel and complements the trading of goods and services in international economic relations[21]. In the era of globalization and US leadership in all spheres of influence capital has been moving in two ways: by companies owning shares in companies in other countries (equity capital), or by corporations owning or controlling the management of business enterprises in the other countries (direct investment)[22]. Over the years, the USA (since the 1990s) has built up a significant stock of capital abroad, which gives it control over the shape of other countries' economic, political and social development[23]. For instance, exhibit # 2, indicates US foreign direct investment in 2004 estimated to be $2,242 billion compared to FDI in the USA was $1,526 billion.[24] But this, later figure according to the same analysis was passing through the US banking system and US capital market and a large portion of it is invested in the USA.[25]

US Multinational Corporations (MNCs), as exhibit #3 indicates, are responsible for much of the movement of capital throughout the global economy particularly in the service industry[26]. Over a third of the 100 largest MNCs are based in the USA. Overseas operations of the US MNCs accounts for half of their profits – twice as much as would be expected from the size of their overseas production.[27] Since over a third of the 100 largest

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[19] Ibid
[20] Stephen Burman, The State of The American Empire, How The USA Shapes The World, (Berkely: University of California Press, 2007), p40
[21] Ibid
[22] Ibid
[23] Ibid, p44
[24] Ibid, p45
[25] Ibid
[26] Ibid, p44
[27] Ibid

MNCs are based in the USA, US MNCs are responsible for much of the movement of capital through the global economy. [28]

In the era of one superpower, the USA became the guarantor of world capital transaction's stability. No other world power seems to be capable of playing this role that requires a stable political and legal framework that is sympathetic to capitalism and market economy.[29] The author of this paper disagrees with this statement. The European Union, in the last 5 years, seems to be trying to catch up with the USA and even compete with her in some emerging markets, such as the Middle East due to the uneven-handed US approach and policies toward the Arab-Israeli conflict.

Another source of American power was the role of US dollars as a global reserve currency as exhibit #5 indicates.[30] Since after World War II, US dollar value was set at $35 dollars per ounce of gold.[31] Other countries used the US dollar to conduct their international transactions, including settling their trade debts.[32] Without the role of the US dollars as a stable medium for international transactions, according to the same analysis, the rapid increase in international trade that characterized post World War II prosperity would not have happened. [33]

By 1971, the US government had printed so many dollars and put them into circulation worldwide that other countries lost confidence in the convertibility of the dollars into gold at the fixed price and became reluctant to use it.[34] In 1971, President Richard Nixon ended the dollar's fixed value in relation to gold and by 1973, the dollar and other major currencies had adopted the system of flexible exchange rates[35]. From that point on, the US dollar's strength had reflected, at least in part, the condition of America's trade balance and the US' relative economic strength.[36] Hence, the value of the US dollar against currencies of its trading partners has therefore fluctuated considerably. The international use of the dollar declined somewhat in the 1970s and 1980s due to the emergence of OPEC and the oil crisis after the 1973 war in the Middle East. It has grown since the 1990s and in 2004, two-thirds of official foreign exchange reserves worldwide were held in dollars.[37] According to this view, this means that, although the USA can no longer simply print its way out of economic crisis, its currency reserve role remains strong.[38] Also, other countries by holding their reserves in dollars and investing in US

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[28] Ibid, p46
[29] Ibid
[30] Ibid, p48
[31] Ibid, p49
[32] Ibid, p50
[33] Ibid
[34] Ibid
[35] Ibid
[36] Ibid, p51
[37] Ibid
[38] Ibid

treasury bonds, not only can express their continuing confidence in the USA as a stable repository of value, but develop an interest in maintaining US prosperity.[39]

By 2007, the US dollar was uniquely well placed to benefit from the defining development in the global economy and the growth of emerging markets in Asia, Europe and the Middle East, because a very large proportion of international reserve holdings and cross-border transactions are in dollars.[40]

US corporate executives in the financial industry should be thankful and capitalize on the aforementioned achievement, but instead they betrayed and defrauded not only the US public's trust, but also the trust of the entire world that looked to the USA's institutions and practices as a role model.

The Impact of Globalization on the Performance of Global Financial Institutions

Kevin Gibson summarized the literature on globalization as the integration of national economies to form a single market.[41] Globalization led by the USA takes the liberal market approach worldwide, promoting an unchecked flow of capital and goods for profit maximization. Globalization has arisen in the last two decades fueled by the formation of the World Trade Organization (WTO) in 1995. By 2000, the WTO had 149 member states that accounted for more than 95 percent of the world's trade.[42] The WTO gradually assumed the role as an unelected international trade manager and arbitrator of disputes. Consumption worldwide was encouraged. America continued to guarantee the free flow of capital across the world's borders through the mechanisms and networks of its financial institutions and multi-national corporations. The world capital led by the USA capital market was functioning "virtually" on a 24-hour basis.[43] From 1997 to the end of 2000, daily foreign exchange market trading volume surged as a result of globalization from around US $1 billion to US $1.5 trillion and more. Bt the end of 2005, it was approaching $2 trillion.[44] (As exhibit #3 may indicate). It thus dwarfs all other trading markets in size and volume[45]. As a result, America's role in the international business operations became indispensable, both as an exporter of capital and importer of capital.[46] In fact, according to this study, US import of capital was greater than exporting capital. This was a positive tendency in that it enabled the USA to finance its trade deficit. [47]

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[39] Ibid
[40] Ibid
[41] Ibid
[42] Ibid
[43] Kevin Gibson, Ethics and Business, An Introduction, (New York: Cambridge University Press, 2007), p68
[44] Ibid, p69
[45] Burman, p48
[46] Ibid
[47] Ibid

The development and advancement of the computing industry enabled the US financial industry to use computerized financial programs for three investment goals: when used to hedge large stock positions (portfolio insurance); when aimed at conducting arbitrage (taking profits on market price differences) and a speculative program trading.[48] None of these, according to this analyst should be confused with "package traders," which are largely institutional accounts of buying quantities of stock on a daily, weekly or monthly basis, as they receive infusions of capital.[49]

The aforementioned financial terminologies seem to be difficult to understand by an average investor. The difficulty of the capital market terminology coupled with the complexity of its dynamics and products have created a mystery and illusion that may trigger demands of any new, well-marketed products or derivatives.

Background on Derivatives

Eugene F. Brigham and Michael C. Ehrhardt enriched the literature of derivatives. They described derivatives as a risk management instrument and as a security whose value is determined by the market price on an interest rate of some other security[50]. One of the first formal markets for derivatives was the future's market for wheat. Farmers were concerned about the price they would receive for their wheat when they sold it in the fall and millers were concerned about the price they would have to pay. The risks faced by both parties could be minimized if they could establish a price earlier in the year.[51] These early future dealings were between two parties who arranged the price of business transactions between themselves to reduce risks.[52] Soon middlemen came into the picture and trading in futures was established.[53] Soon, a third group of middlemen called speculators entered the picture and became new players in the financial market.[54]

Brigham and Ehrhardt observed that since most derivatives including futures are highly leveraged, then a small change in the value of underlying asset is likely to produce a large change in the price of the derivative.[55] Generally speaking, they concluded their observation by stating that derivatives markets are inherently volatile due to the leverage involved, and their risk to speculators themselves is high.[56]

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[48] Ibid
[49] John M. Dalton, Editor, How the Stock Market Works, Second Edition, (New York: New York Institute of Finance 1993), p226
[50] Ibid
[51] Eugene F. Brigham and Michael C. Ehrhardt, Financial Management, Theory and Practice, 10th Edition, (Mason: South Western Thomson Learning, 2002), p937
[52] Ibid, p918
[53] Ibid, p919
[54] Ibid, p 919
[55] Ibid
[56] Ibid

Derivatives markets have grown more rapidly in the years preceding the current financial crisis for several reasons including the advancement of computer and electronic communications made it easier for counterparties to deal with one another.

The Need for Ethics in Finance and Corporate Governance

John R. Boatright argues that some cynics jokingly "deny that there are any ethics in finance, especially on Wall Street."[57] However, a moment's reflection reveals that finance would be impossible without ethics.[58] The very act of placing our assets in the hands of other people requires immense trust. An untrustworthy stockbroker is like an untrustworthy physician or attorney.[59] Financial scandals shock us precisely because they involve institutions that we should be able to trust. For example, Maddof, an investment banker in New York, defrauded hundreds of individuals and organizations including New York University. His financial brand scheme wasted billions of dollars for the university, endowment funds and pension funds all over the country. Dennis Kazlowski, a former CEO for Tyco, was indicted on 38 counts of misappropriating $170 million of Tyco funds and using $430 million from improper sales of stock. He used the funds to purchase a $15 million vintage yacht, a $3.4 million painting and throw a $2 million party for his wife's birthday.[60] Arthur Anderson, a US accounting firm with branches all over the world, was convicted of obstructing justice after shredding documents related to its role as Enron's public auditor. [61]

Executive Reward and Corporate Governance

Academic interest in the study of executive compensation has increased significantly in recent years in parallel with the aforementioned financial scandals that shocked the world. [62] This reflects concerns within business, political and popular circles that levels of executive compensation in the USA are excessive in both absolute and relative terms because they frequently appear both unrelated to corporate performance and at odds with the fortunes of other corporate stakeholders such as other employees, shareholders, suppliers and customers.[63] Even in times of financial crisis, US corporate executives in the giant American International Group (AIG) found ways and means to unethically claim bonuses for themselves despite their poor performance which led to the AIG's insolvency and request for a government bailout, which came from tax payer's money. This raises an ethical question about the ethical standards of AIG's board of directors and their competency to govern this giant global corporation. Those payouts are expected to

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[57] Ibid
[58] John R. Boatright, Ethics in Finance, (Oxford: Blackwell publishers, 1999), p4
[59] Ibid
[60] Ibid
[61] Ferrel, Fraedrickson and Linda Ferrel, p14
[62] Ibid
[63] Kevin Keasey, Steve Thompson and Mike Wright, Corporate Governance, Economic, Management and Financial Issues, (Oxford: Oxford University Press: 1997), p80

come under intense scrutiny by the US congress[64]. After the congressional approval of pumping $200 million in taxpayer funds to bail out AIG, the board of directors of AIG authorized pay bonuses including more than $1 million each to 73 employees of the financial products unit, responsible for creating the exotic derivatives that caused AIG's near collapse and the government was asked to intervene to avoid a global financial crisis[65]. Compensation to those who precipitated the financial crisis is not a tort or wrong doing committed by AIG 's board of directors, but a business crime. Members of the board of directors of AIG should be liable individually and severely for wasting taxpayers' money. Senator Chuck Grassley (Republican of Iowa) suggested that the AIG's executives should consider suicide for their culpability.[66]

International Development Organizations' Role in Promoting Good Governance to Assure Sustainable International Development

The World Bank Group, which includes the World Bank for Reconstruction and Development (WBRD), the International Finance Corporation (IFC) , the International Development Association (IDA) and the Multilateral Guarantee Guarantee Agency (MIGA) took the lending role since 1990 in promoting good governance to assure sustainable development in the emerging markets which started to be linked to the US economy as a result of the globalization integrating forces. The World Bank's publications, training programs and policy dialogue with the government of the emerging markets started to revolve around the need for "good governance," "efficient and accountable management," "transparency" as the ingredients of the efficiency of government, the private sector and markets. The World Bank was targeting the public sector, the main agent of change in the emerging markets. The training programs and policy dialogue developed by the World Bank's institute focused on reinforcing the public sector's ability to work with the private sector which comprised of small and medium enterprises with capital that doesn't exceed $50 million. For the US and other industrialized nations, the situation was different. The private sector particularly MNCs are the main engines for economic and social development. Knowledge and innovation flows from the private sector to the public sector. US MNC budgets, particularly such as AIG, GM or Microsoft, exceed the budgets of large country members of the World Bank. Their influence on the world capital markets and international business transactions exceeds and overpowers any influence of international development organizations including the World Bank Group.

Despite the World Bank's inability to influence US multinational corporations behavior, it continued to support and endorse program to promote good governance, anti-corruption and integrity management as reflected in the last World Bank Annual Report 2008.[67] The World Bank now is a leader in the development and application of governance diagnostics such as: doing business reports, investment climate surveys, public

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[64] Ibid
[65] The New York Times, March 4, 2009, p1
[66] Ibid, p2
[67] Ibid

expenditure tracking surveys, public expenditure and financial accountability indicators. Inside the World Bank itself a new vice presidency for institutional integrity (INT) was established in 1999. INT has handled nearly 3,000 cases of alleged fraud, corruption or other wrongdoing, resulting in the public debarment of 340 companies and individuals whose names have been listed on the Bank's website. [68]

Safeguards to Protect Stakeholders'

1. Since the main cause of the financial crisis as it appears in this stage of the ongoing events is the sub-prime mortgage market loans, then congress should intervene to protect consumers, particularly minorities.[69] This can be by passing legislation to give minority groups the option of choosing a fixed, simple, low interest rate, rather than the existing variable compound interest rate. The programs should include extending the duration of the loan mortgage up to 50 years instead of 30 years. A study revealed by John R. Boatright concluded that bank lending practices should be changed and should not be discriminatory against minorities. In 1990, Camerican, a Detroit-based bank, rejected 13 percent of mortgage applications from white applicants, while the rejection rate for blacks was 43 percent.[70] Across the country, black applicants are turned down at a rate that is 2.4 times higher than the rates for whites and the rates of rejection are also high for Hispanic applicants.[71]
2. Action from the United States congress is needed to improve corporate governance in the form of legislation to obligate corporations to have neutral board members constitute more than half of the number of members of the board. The FBI and SEC should screen the background of all members of the board.
3. A new legislation by the congress is needed to hold corporate board members and executives to the same kinds of rules to which Americans hold their public officials accountable.
4. Action from the United States Congress is needed to introduce a new quantifiable ethical dimension to the doctrine of new finance. The theoretical foundation for the science of finance is microeconomics and particularly price theory with an emphasis on the effects of risk and time on the valuation of assets.[72] From microeconomics, finance theory has also taken the analytical tools of utility functions and partial and general equilibrium.[73] On this foundation, finance has developed several theoretical doctrines that together constitute modern finance theory and its relevant tools and processes.[74] These tools are: the irrelevance theorem, the efficient market hypothesis, the capital asset pricing model (CAPM),

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[68] The World Bank, Washington, DC, April, 1992
[69] The World Bank Annual Report 2008, Washington, DC
[70] Ibid, p21
[71] Boatright, p100
[72] Ibid
[73] Ibid
[74] Ibid, p122

option pricing theory and agency theory.[75] Boatright contends that the main problem of the new capitalism finance is that it focuses manager's attention on certain aspects of their jobs and labels others as irrelevant.[76] The capitalism new finance doctrine entails a kind of "managerial nihilism," in which much of what managers do simply does not matter.[77] This nihilism could result in harm to shareholders, other investors and the security markets generally at the national and international levels which may have contributed to the current financial crisis.[78]

5. Action from the US Congress is needed to put a cap on executive pay. The pay should correlate to real corporate performance and require all stakeholders' satisfaction with such performance.
6. The US congress should consider the nationalization option of large corporations who proved to be socially irresponsible as recommended by economist Adam S. Pagen of the Peterson Institute for International Economics[79]. It is better to temporarily nationalize undercapitalizing banks and remove the uncertainly that hangs over the financial system than to put in more of public (tax payer) money without adequate control over what is done with it. Any other alternative, taxpayers will pick up the bill and the financial system is no healthier.
7. Following the best practice from around the world is necessary. The US congress and the President should carefully weigh other options and models to help the country survive this financial crisis. The following two examples seem to be promising:

    a. The way Sweden's government handled its 1990 banking crisis has been offered as a useful case study in resolving the systematic banking crises in Sweden[80] according to Chermy and Emre Ergunon. In the early 1990s, Sweden's economy was nearly toppled by a banking sector close to bankrupt due to bad loans from the preceding decade's credit bubble. The Swedish government seized ownership of the largest financial institutions and a publicly capitalized asset manager was put in charge of managing the poorly performing banking assets and returning what could be salvaged back into the private sector.[81] Sweden used the following guidelines of crisis management to recover from the financial crisis and turn around its economy almost 360 degrees.

    - Transparency of asset losses up-front and honest communication about the extent of public intervention.
    - Politically and financially independent receivership.

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[75] Ibid
[76] Ibid
[77] Ibid, p124
[78] Ibid
[79] Adam S. Posen, "Temporary Nationalization Is Needed To Save The US Banking System" Paterson Institute for International Economics, Commentary on Google News, February 23, 2008
[80] Ibid
[81] Kent Chermy and Emre Ergunon, "Sweden as a Useful model," www.voxem.org

- Maintenance of market discipline.
- Restoration of credit flaws.

b. Borrowing from principles of Islamic finance and banking seems to be promising to alleviate the current financial crisis. In a feature article published by Richard Layard in the Financial Times entitled "Now is the Time for Less Selfish Capitalism," he asked the following question: What is progress? He said :

> "According to Anglo-Saxon enlightenment, progress means the reduction of misery and the increase of happiness. It does not mean wealth creation or innovation, which are sometimes useful instruments but never the final goal. So we should stop the worship of money and create a more humane society where the quality of human experience is the criteria. Provided, we pay ourselves in line with our human productivity, we can change whatever lifestyle is best for our quality of life."[82]

The aforementioned is very much in line with the basics of Islamic banking.[83] In Islamic banking, money is a measure of value not a commodity. Debit is a responsibility and not to be traded. Finance aims at the creation of real goods and services and not notional constructs and exchanges. Partnerships are encouraged for risk and reward sharing.[84] Islamic banking and finance is a collaborative effort between business, legal and shariah teams throughout the product life cycle.[85] Oversight of ongoing operations is needed to increase transparency. C. Fred Bergsten, Director of the Peterson Institute for International Economics argues in favor of a global policy response from all political systems and different cultures, rather than an American one due to the complexity and inter-dimensionality of the financial crisis.[86] Principles of Islamic banking and finance, which prohibit interest, can play a major role as a balancer and neutralizer of the consequences of the compounded interest rates being used by the capitalist regimes. Incorporating principles of Islamic Banking and finance with the Global Policy response to the current financial crisis is likely to move the world toward a new era of accountable capitalism.

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[82] Richard Layard, "Now is the time for a less selfish capitalism," Financial Times, March 11, 2009.

[83] Yusuf Talal Delorenza, presentation before the National Council of US-Arab Relations, "Islamic Finance and the Global Economic Crisis," February 17, 2009

[84] Ibid

[85] Ibid

[86] C. Fred Bergsten, "Needed: A Global Response to the Global Economic and Financial Crisis," A testimony before the subcommittee on terrorism, nonproliferation and trade, committee on Foreign Affairs, US House of Representatives, March 2009.