

Contents

Foreword	9
1. Introduction: The Swiss Connection	17
2. The Myths.....	31
3. The Model	47
4. The Social Construction of the Market	67
5. The Prevailing Market.....	89
6. A Copernican Revolution in Economics	107
7. Possible Markets.....	127
Our Need for a New Meta-Narrative	153
Endnotes.....	161

Foreword

This book is a critique of the prevailing ideas concerning how the global and national markets work, ideas about how they must work and why.

I contend that our leading textbooks on economics, leading policies and the forms of thought built into our bureaucracies and legal systems are based upon flawed ideas, ideas linked to a certain mythology specific to our day and age. I think that many of the people we habitually treat as authorities on these issues don't really know how the game out there works in practice. Politicians know the game of politics, for sure, professors the game of science and academia. People like myself know the game of finance and banks, of markets and money. And it all doesn't look much like the textbooks or editorials in *The Economist*.

You, the Reader

Who are you then, the reader? My aim is not strictly academic, but the text that follows may use some words and expressions that require a basic acquaintance with economics. If you are a regular reader of e.g. *The Economist*, you should be fine. The difficulty of understanding this book, I believe, lies primarily in seeing the perspective from which I am writing. If it does require a little mental weightlifting, I want to assure you, one world citizen to another, that it should be worth the effort.

This book holds no claim for scientific or academic novelty or uniqueness. But I wish to claim something else for it: importance

and urgency as it puts together a bigger picture out of existing pieces. It is my experience that most people acting within

"This book holds no claim for novelty or uniqueness. It puts together a bigger picture out of existing pieces."

and shaping our markets have not yet grasped the main points of this book. I suppose I am attacking those stubbornly recurring notions that economics is a 'hard science' with 'hard facts', and that money is the most real, hard and factual of essences in the world. It is not. In fact, as I will show you, words, habits, ideas and behaviours are the real, hard factors of the economy – and those who understand and master these have the most power to shape the world.

I hope that you are or will become one of the people who understand what I am saying, so that we can quickly move on to the next step, namely to reinvent the global marketplace.

The Need for a New Meta-Narrative

It is not that our authoritative figures are unintelligent or poorly informed. But they generally move within a certain conceptual meta-narrative, a certain way of understanding the world, which I believe is becoming increasingly outdated. A narrative is a story, a coherent pattern within which we link together events or facts. A meta-narrative is that underlying 'story of stories', how we link together all our different narratives. Why don't we talk about our meta-narrative more often? Perhaps we could use a new one, especially in our relation to the market.

As a former quant (physicist working in finance), founding investment banker, manager, and entrepreneur in real estate, IT and other fields, I have seen and heard things that leave me in disbelief and make me worry for the future – and give me perhaps a sense of sorrow for present times. Even though I have personally mostly been successful as a player on the

global markets, I can no longer believe that the system we live in is reliable, stable, sustainable, fair or intelligently self-organising. It has some aspects of each of these qualities, yes, but the market I have come to know over the years is just too far from the market that any well-informed citizen should want for themselves or their children. And our present story about us as humanity – our present meta-narrative – does not let us see the market for what it is.

Why am I Doing This?

A question, no doubt, comes to mind in some readers: the question of motive. Why would a wealthy ex-banker write a book criticising the very market system (and its corresponding ideas) that has made his own fortune? I believe there is such a thing as *postmaterialism*, meaning that existential and universal ethical values may gain strength once affluence has been achieved, in individuals as well as in societies. This view by the way is supported by the data in the World Values Survey², the world's largest bank of sociological data. Material wealth has come to mean less to me, and effort for the benefit of the world is something that I have increasingly come to seek in myself, and that I admire in others.

Some people who become wealthy at some point in life lose their sense of direction and start a desperate search for new meaning, often with tragic personal consequences. I have seen plenty of that. Others identify with their wealth and start building an empire based on family fortune for the benefit of their own family; they become little barons and countesses with vested

"I believe there is such a thing as post-materialism, meaning that existential and universal ethical values may gain strength once affluence has been achieved"

interests in keeping the strange market structures intact. And a third group goes on to ask other questions about life, about how to make a difference now that one is better positioned than most to do so. I aspire to belong to this third group. And I believe that one of the best ways to do so is by sharing my backstage insights and perspectives from a life in the market.

Left or Right? – Can I Have Both?

Has the investment banker gone Marxist, is that it, you may wonder? No. If this book were simply the story of a successful banker gone leftwards, it wouldn't be very interesting. On the other hand, I am not trying to defend or excuse the obvious misuses of financial and corporate power or the deeply irrational consequences of the global market in its current form.

While I do share some of the Marxist critique, I view myself as a supporter of free markets and enterprise. People on the Left, intellectuals in particular, have a tendency to say 'Oh, so the market as we know it is a myth? What's new?' These groups tend to have aversions or prejudices against free markets *a priori*, viewing them as inherently impersonal, exploitative or unnatural. What I am saying in this book is that we currently have the *wrong kind* of global market, and the *wrong ideas* about it.

I also have qualms with our dominant financial and monetary systems, although I look quite sceptically upon the whole 'did you know that private banks create money?' movement that has recently become so popular.

Another debate that is dominant today is the one between neo-classical and neo-liberal economists (roughly a political Right) – and corresponding institutionalised practices – and neo-Keynesians of different brands (roughly the centre Left). Should we indebt government to invest our way out of the

crisis, or is fiscal responsibility ever more important in an unstable world? Are we in the grip of a great demon of austerity, ravaging the Greek people and others, or are we suffering the consequences of poor growth strategies and unsustainable social spending? The combatants of this conflict have entrenched their views and we can expect long, tiresome trench warfare ahead. The title and general argument of this book could make it appear as though I side unambiguously with neo-Keynesians. But to me, the question of Left or Right itself largely misses the mark. I think it creates false opposites and uses much too categorical solutions that are insensitive to each specific case. Rather, I support a more *holistic* view of the economy, where the market rules and games of everyday life can and must evolve. Evolving the market itself does not only mean rapid growth of industrial output, rapid growth of international trade, and explosive growth of direct foreign investments. The market evolution I speak of means a deliberate cultivation of kinder and saner human relations and structures, in the market and beyond.

"The market evolution I speak of means a deliberate cultivation of kinder and saner human relations and structures, in the market and beyond".

When I say holistic, I mean in the sense that for instance Jeffrey Sachs and the Brundtland Commission are speaking of, that social and ecological sustainability must be taken into account. I look sceptically upon many movements that call themselves holistic. They have a tendency to disregard hard economic realities in favour of spiritual and existential questions. I aspire to grasp both extremes.

One last caveat. While this book criticises the overconfidence of mathematical economics in the classical model, I still have the deepest respect for mathematics and the stringency of mathematical logic. Too often is the field of economics blamed for being

mathematical, simply because people don't like calculus or aren't proficient in it. To me, the point is this: just because something looks mathematically elegant or 'scientific and difficult', it doesn't have to be correct, applicable or coherent. The question is of course what kind of mathematical modelling is employed. As I will return to later, I see great promise in behavioural economics (where the modelling is linked to actual, empirically observable behaviours) and complexity economics (where relative positions and relationships are accounted for in the models). Another promising area, which I don't discuss in this book, is the new mathematical sociology powered by computer science. To be clear, I am not prejudiced against mathematical modelling *per se*. As a former physicist and quant, how could I be?

The Wrong Kind of Market?

The baseline of my argument will be that in order to have more human, but still efficient, markets we should have a minimum of external regulations, but keeping in mind that even the "free market" is a human construct and could be very different.

The argument that we have the wrong kind of market, goes something like this, starting from negatives:

1. Is there any reason to believe that the market system, as we know it today, is the only possible one? The answer must be no.
2. Is there any reason to think that the market as it is conceived of and reproduced today is the best possible alternative, of all conceivable options? Nay.
3. Is there any reason to believe that the ideas we generally hold about the market – explicitly or implicitly – are the best possible ones, given this stage of economic, social and technological development? Certainly not.