Market, Money, Capital

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In the discussions of our research-group, sometimes, the question came up, if market(s) could be seen as belonging to the 'givens' for humankind. This question is related to another one: if - from an ecumenical point of view - the role of markets and money in society should be seen as, in principle, respectable, desirable for the life of a community, or as one which, already from the beginning, bears some distortive or alienating characteristics. Let us try to use this question as starting point for some ethical reflections on the place and role of market, money and capital in our time, which will constitute the first part (A) of this contribution (par 1 –4). In the second part (B) (par 5 and 6) we will deal with the practical implications of this view, with specific attention to the role of the nation state and of international regulations vis-à-vis an economically and financially rapidly globalising world.

A. MARKETS AND MONEY IN HUMAN SOCIETIES.

I. Traditional markets.

Let us begin with some words about our terminology, combined with some historical empirical comments about the origin of markets.

In social theory, usually a distinction is made between *barter* and *market*. Barter implies a direct exchange of goods or services between persons (or groups of persons), while a market always involves an element of in-direct exchange in the sense that use is made of some kind of intermediary (for instance shells, pearls, parcels of salt, silver or gold, coins). Following that distinction, it can be said that barter of some form has always been present in human history and in all civilisations - but that the same is not true for markets.

In the economy of primitive *Sumeria,* archaeologists found, for instance, traces of a temple-centred storage economy, where the distribution of goods and the allocation of resources was entirely registered by the temple. Under coercion, the temple-hierarchy took all agricultural surpluses, but also delivered from its stock all the seeds for the coming year. Davisson and Harper call it therefore a 'central storehouse economy' with a 'status-distributive system Barter-relations were restricted to the *kar*, a place where townsmen could meet the people of the desert to exchange directly grain for manufactures. If we use the ideal-typical distinction of Karl Polanyi between three possible viable economic systems: the system of *reciprocity, of redistribution, and of the market,* then the early Sumerian system seems to be built mainly on the second element, but does not use the last at all.

But what does that imply? Two general comments look necessary to place examples like these in a correct historical and cultural perspective.

1.1. the general appearance of markets.

The *first* comment is that there is a non-disputed historical and empirical evidence that almost all indigenous cultures of the earth make or have made use of some forms or types of intermediary exchange (thus of markets), whether or not their main economic structure was that of a market-economy.

The *reciprocity-economy* is in our context perhaps most interesting, more than a redistributive type of economy which presupposes by definition a central control of the entire process of production and distribution. For reciprocity-based economic systems do centre around the role of mutual gifts within a community: Gifts are given in order to evoke an obligation to give something back, which in return will evoke a similar obligation – " a never ending chain of gifts and obligations". Harris states: 'Reciprocity refers to the principle of exchanging goods or valuables without overt reckoning of economic worth, or overt reckoning that a balance needs to be reached, to establish or reinforce ties with persons'. Empirical data show that most African tribal economies are indeed originally reciprocity-based. The main source of wealth in such a culture is the richness or quality of one's social relations. For by 'investing' in those various relations you can gradually create more obligations towards yourself and so guarantee in the best way the well-being of yourself and your family. Because social relations differ within a human community, it should thus not surprise us to see that in those tribal economies not just one, but often three or four types of intermediaries are used in mutual exchanges. Money is related to the various social circuits (e.g. daily household, cattle, hereditary- and marriage-transactions). Money is thus fully present but steered by and dependent on reciprocity.

An interesting example of the subordination of money to the goals and life-style of the community is also present in the Uma-economy of *Sumba,* one of the islands of Eastern Indonesia. The word *Uma* stands for household, the living-place of the family where agreements are made what should be produced, which tasks have to be performed by whom, etc. Traditionally, but remarkably continued in time until today, the indigenous people of Sumba prefer in their economy an exchange *in natura* above buying and selling for a money-price (in this case the Indonesian rupiah). For in their so-called 'morality of exchange' priority is given to the maintenance of personal relationships in which elements of communal reciprocity are present. Official money is seen and valued as something for 'strangers'. If you deal with 'strangers' you use rupiahs, but often not without an effort to treat them as close kinsmen, so that "reciprocity becomes the most appropriate mode of exchange". "People in Lawonda try to reduce the social distance to potential partners which could offer them something they are short of" (Vel 1994: 247, 241). The official Indonesian money is thus brought under the rules of reciprocity: "the Lawondese try to incorporate people with a cash salary in their networks of exchange of resources .. .. cash is good means to create worthy social relations“ (ibid, 247,180,11). Because of these findings, the use of money in the context of the Uma-economy should, according to Vel, be detached from any form of turning resources into commodities, in which so called products-for- use unavoidably turn into products- of- exchange, just because of the introduction of money (Vel,11). Her observations run to some extent parallel to those of Mauss (*The Gift,* 1990), where he discusses the very complex trade relations between the inhabitants of the islands of the *Trobriand-Archipelago*. Between these islands symbolic, seemingly useless luxury objects are systematically transported over hundreds of miles. This seems entirely irrational, until one becomes aware of the fact the supply of these intermediary objects strengthen community-ties and thus can be seen as carriers for possible ‘other’ connections in the future.

All these examples suggest that, from an ethical point of view, it may be wiser to look to the cultural context or structure in which various forms of money are used, than to jump from the simple existence of money and markets to far-reaching general consequences about the course and quality of human society.

1.2 the possibility of inherent economic growth.

A *second* necessary comment relates to the role of money and markets in the context of the possibility of *economic growth*. Especially in poorer communities an urgent need or desire may exist to realise a structural increase in the (material) standard of living. The ancient Sumerian society was, as we saw, characterised by the yearly cycles of sowing and harvesting in the traditional way. Some dynamics may have originated from the religious-military realm, but any ‘inherent’ form of economic growth – a growth with the potential to widen the possibilities of choice for the community as a whole– seems to be absent here. But if such a wish exists among the members of a community, can such a desire then be implemented without any form of structural change or adaptation? This looks very doubtful. It leads even to the question, whether the rise of a sustained pattern of economic growth in any human community is not always to some extent dependent on the entry of money and markets.

The answer to this last question should, no doubt, be more nuanced than the answer which is given by most economists in the line of Milton Friedman (the so-called free-marketeers), who suggest a kind of mono-causality between economic growth and the presence of money and markets. This becomes clear when we look into those several possible forces in a human community which can function as '*economizers'* (our terminology) - that is, as powers which are capable of inducing a sustained process of growing production- and consumption levels. Classical economists - more than the later neo-classical economists – intensively studied those possible growth-promoting potentials in a human society, and came to a list of at least four of those 'economizers" (an analysis which by the way was called by Baumol the 'magnificent dynamics' of the classical school):

a) the use of *surplus time*. Surplus-time is the time which remains available in a community after those hours of economic activity which are minimally necessary to produce the goods which are needed at subsistence level. This surplus time can of course be used as '' leisure time'. But it can also be used for the production of additional goods;

b) the use of *instruments* (also called *capital-goods*). Their use makes it possible to produce the same amounts of goods in less time than before. Especially in combination with factor a) thus more output can be realised than before in the community. A real 'economic surplus' emerges which widens the possibility of choice: a real economic growth takes place.

c) the use of *labour-division* and related *organisational devices*. Often a differentiation or specialisation in tasks among people is possible, which, via a well-organised cooperation between them, leads to a rise of their joint labour- productivity;

d) the use of forms of *barter or trade*. Here the growth-potential originates from the use which can be made of the differences in productivity – often related to different so-called natural endowments - which exist between various groups of people for a whole range of specific products. Each of the involved groups can then reach by barter or trade an in principle higher level of consumption than before within the same amount of labour-time.

Already at first sight it is clear that at least three of these four dynamic potentials for economic growth are *not* from their very start market- or money-dependent. Even for the last one (d) this is only partially the case. This, however, implies that *within each community some original potential for substantial non-market derived economic growth obviously exists.*

It is, however, important to be aware at the same time, that such a self-sustained inner-community- process of economic growth will never possess an *unlimited or infinite* character. For undoubtedly, at some moment, the essentials of the existing community-life themselves will be threatened if always higher levels of material welfare have to be achieved. This comes to the fore, for instance, in a remarkable study of the economic life of the *Australian aboriginals* (the so-called *Stone-age Economics*). The study shows that these tribes already possessed for a long time the technical knowledge to work with more advanced instruments (factor b in our list) and to come to a further specialisation of labour (factor c). But they deliberately made the choice not to implement these ‘economizers’, because they expected from them a disruption of their present preferred style of working and living. For such an implementation would in their view, firstly eliminate the possibility of working together in very small groups; secondly it would take partially away their time for community-life (aboriginals ‘work’ or hunt usually for no more than four hours per day); and, thirdly, it would hinder them in their essential mobility over the region. (the aboriginal word for “wealth” for instance means literally: what you maximally can take with you on your head).

Facts like these illustrate *that within every human community always at some time a choice has to be made in relation to the desired ultimate level of 'wealth' or material 'growth'*. This, however, implies *that choices about the adequate level of (yearly) economic growth and material standards of living should never be seen as merely technical/economic choices. They are primarily cultural and moral choices, because they regard all the members of a living community.* This looks even true if these choices are made elsewhere, so that the changes comes by way of external enforcement upon a community.

II. The next step: self regulating markets.

The general comments which were made in paragraph I – that money and markets exist in almost every civilisation, but are not by definition dominant, even not if economic growth is desired and needed – seem to suggest that the possible cultural dominance of money and markets within a human society can always be avoided, because it is only and purely a matter of the human (collective) will. But is this really and unconditionally true? What happens for instance, if either voluntarily or by external enforcement a community is confronted with the entry of so called self-regulating markets, in which prices are no longer agreed or fixed by the participants but begin to float freely?

In the social institution of markets which function like independent robots or machines, indeed something new is entering human society. These type of markets is, in any case, very different from the organic, culturally-oriented markets about which we have already discussed: an element of deliberate architecture now even seems to enter the scene. But we have to study this possible artificial element more carefully to prevent too hasty conclusions.

2.1 an analytical approach.

A good way of doing this is an *analytical approach of the 'new' market-structure*. In traditional economies, market- prices are usually negotiated prices.

They are agreed between parties dealing face-to-face with each other. In various cultures it is also possible to fix prices in advance - for instance by those who produce or deliver the good or service (like the guilds in medieval times). But in pre-modern economies we find in fact never the third possible type of market, in which the prices themselves move 'freely'. This 'modern' type of market, which can indeed be seen as a fruit of modernity (the coming of the modern era), is namely only feasible if at least three presuppositions are fulfilled. The first is that a large number of individual actors or participants are present on the supply-side as well as on the demand-side of the market. The second is that the potential trading partners deal only with homogeneous or homogenised goods, and third is that they, together, accept one kind of money as common standard and medium of exchange. In this situation, prices indeed begin to take a kind of independent course, 'free' from the will – and thus also of the power! - of any of the individual trading partners. For as soon as differences exist between the quantities of goods which are offered (supplied) and those which are demanded, price-movements are initiated which lead in a mechanical way to a new equilibrium between supply and demand. The word mechanical is well chosen, because this type of market has, from its very start, an 'in-built' feed-back mechanism, so that prices 'automatically' rise when more is demanded than is offered, and go down if the opposite is the case.

Today, there are big markets in the world, especially in the sector of agricultural primary products, which work mainly according to the same formula. But are these in all aspects un-problematic? What is the concrete background of their formula?

Here it has to be noticed that this 'third' type of market is always related to the effort to deconstruct already existing trade-transactions. These transactions are namely broken down into at least *two* separate parts. The first part we could call a 'price –supply' part, the second a 'price-demand' part, which both stand on their own feet. The 'price-supply' part deals with the meeting of any potential supplier with a, for him, 'given' equilibrium price. The availability of such for the current given price makes it possible for persons or groups who have something to offer to abstain from the energy to look for another concrete person or party (who may be willing to enter into an act of exchange). For those who want to sell a good sell it from now on ‘to the market itself’, for the current prevailing price (the suppliers will thus usually never know the persons who will buy). At the other side of the (original) market something similar takes place: those who demand a good, buy from now on just and only ‘from the market’. They are no longer in need to look for any specific producer, but buy against the price which is suitable for them.

But if so two almost fully independent economic transactions emerge, then they can also be separated from each other in *place* and *time*. One can now produce for future clients elsewhere who you do not know, and consume from those remote suppliers whom you will never meet. *The market is, so to say, emancipated from the will of the joint trading partners. It only needs the capital or money-input from some persons or institutions, which are willing to bridge the gap in space and time – so ‘financing’ the gap - between the potential demanders and suppliers.*

And that is a change which, no doubt, also has important cultural implications. For those persons or groups who are demanding or supplying goods, market-behaviour becomes mainly anonymous and the market itself an institution. Market-behaviour exists no longer in the sphere of *I–you* relationships (Buber), but enters in the sphere of separate *I-it* relationships. In the extreme theoretical model of so-called *pure and perfect competition*, which was to a large extent admired and glorified especially by the neo-classical economists, indeed every personal relationship or contact is systematically eliminated. Buyers and sellers never meet each other but trade only at, what is for each of them, a given price. That price is not a chosen price, but merely the result of an interaction of anonymous forces of supply and demand, which, in their turn, are composed of innumerable separate individual and anonymous buying and selling decisions.

2.2 ethical evaluation.

For a good ethical evaluation it may be important to ask the question, whether every human community or society will indeed always be spontaneously prepared to accept the coming and presence of such self-regulating markets. This is at least doubtful. Of course, a lot of social energy (and growth-potential, see below par 3.1) is saved if suppliers and buyers of goods are no longer obliged to seek their possible counterparts. This is a benefit the importance of which can scarcely be over-estimated. But on the other hand, the entry of some or more self-regulating markets confronts each human society or community with the nasty question as to which 'place' should be allowed or given to them: socially, culturally, as well as politically. For once this domain of self-regulated markets is installed in society, it will tend to stay and to grow as a separate, independent part. It becomes at least a sub-system, of which the only inner dependency is that enough intermediary capital or finance will be or become available to let it function in that way. But both this tendency towards autonomy within society, and the growing inner dependency from the availability of financing capital, could be considered by a living community as a possible threat for its own existence, or as the germ of some kind of economic/financial domination of society in the long run.

It is interesting to evaluate the rise of the so-called mixed economy in Western society from this perspective. It can, so to say, be seen as an deliberate effort to bind this so called free market-sector - which tends towards self-regulation and autonomy - to some well chosen public goals, clear restraints, and distributive rules. Ethically, there are, in our view, no grounds to reject this possible option a priori. For a mixed economy can be a fully responsible choice of a human community which wants to make more room for some necessary economic growth without sacrificing the essential goals and characteristics of their own community life.

From an ecumenical-ethical point of view it should however always be kept in mind that this solution contains an element present of what we could call an historical compromise – and historical compromises do not spontaneously endure over time. Just note, for instance, the inner dependency of this social subsystem on the availability of capital which bridges the gap in time and space. That inner dependency is not taken away in this compromise. While capital, almost by definition, resides and accumulates in private hands.

III. The third step: a free-market constellation as coherent machinery.

3.1 the classical view.

It is very interesting to look now in more detail at the way in which the *Western classical economists* analysed the phenomenon of 'free' markets. Of course, the dynamics of money and markets was not their invention. Long before the classical economists wrote their essays, several dynamic - though mainly monopolistic -markets had already entered western society. Next to coined money, also credit was used: international credit-papers were already known from the time of the Renaissance (bridging, so to say, the gap in time). We know also of important staple-markets for colonial products (bridging the gap in time and space) which contributed considerably to the enrichment of Great Britain and Holland since the 17th century. But what fascinated most classical economists was something else. They were looking intensively for the possibility to make the widest possible use of the 'model' of dynamic self-regulating markets – a model which they observed to some extent in these historical prototypes, but which they far more derived themselves from the 'enlightened' insights which were offered by the new equilibrium-analyses of the natural sciences, and the general mechanical, 'modern' worldview of their time. And not only as a theoretical exercise, but also and mainly with a practical political purpose in mind (political economy!) – namely to overcome in that way the blatant poverty of their time and to promote the possibility of a continued material progress of, especially, the Western countries: this was the new epoch of 'the wealth of nations'.

The fascination with that possibility was no doubt at least partially grounded. Firstly, because here a formula seemed to be present to de-couple economic processes from the constant abuse of private powers: for prices are here, so to say, elevated beyond the control of the individual participants. Secondly, because the overall introduction of this type of market has in each economy the potential to work like an additional – fifth - *economizer:* it creates the possibility of new markets and, because of that, of additional economic growth. But there is even more. The emergence of a coherent constellation of autonomously working markets - so they tried to prove - is also capable, under some explicit political pre-conditions (hence the term 'political economy'), to energise or even to 'electrify' each of the other four–mentioned forces. *For each of these four growth-factors can be merged together by this fifth factor – the quintessence! – into a new social phenomenon: the creation of a full-blown market-economy which guarantees a process of dynamic continued economic growth for the benefit of the society as a whole.*

Let us just look again to the previous list of four economizers:

a. *Surplus time*: If it becomes possible to produce all goods 'for the market', then also separately functioning production-households can and will emerge. They will need the input of human labour against the lowest possible price (wage). So, parallel with the rise of separate production-units, so called *labour-markets* will develop. These markets make it possible to separate working-time from any kind of leisure-time during the production-process and to introduce also a regime of long, efficient working hours as one of the working-conditions. *Surplus time* is thus immediately 'socialised' or 'economised'.

b. *The use of capital goods*: working with technical instruments gets 'wings' as soon as the production for anonymous self-regulating markets become possible. A substantial decrease in the average costs of production of goods becomes possible by the introduction of mass-production. Producers will be strongly motivated by the market to adapt every cost-reducing technological innovation, because otherwise they will be eliminated by their more-advanced competitors *(technological competition*). This increased use of capital-goods leads, in its turn, to the need for further financial means: a *separate capital- market* becomes necessary, where it is possible to obtain investment-money in exchange for future financial rewards.

c. The *specialisation and differentiation of labour* will also be driven in these mass-production markets to the highest forms of efficiency: the striving for labour –division, together with its organisational devices (conveyer belts, Taylor systems, etc). Labour may perhaps change into fragmentised, monotonous work adapted to the machine - but it will always be more productive than before. Also *land, nature, natural resources* will ask for separate markets to obtain the highest possible 'factor-productivity'.

d. *International trade* between countries, combined with specialisation on the their most productive branches and sets of articles, now also offers much higher benefits for all participating countries, especially when it becomes possible to sell to, and buy from, independent international markets. The so-called theory of comparative costs (Ricardo) teaches that even countries with higher cost-levels can benefit from this growth of 'free trade'.

This overview shows that, indeed, the working of all four growth- producing forces in a society will be rapidly (even to a revolutionary extent) intensified, as soon as anonymous markets with a freely moving price are thus introduced, into the commodity -markets, along with the (new) factor-markets (land, labour, capital). An unbelievable degree of further economic expansion can so be realised.

It is this perspective which drove most classical economists to their faith in the so-called 'free market' .It was for them the decisive, almost magic, key to lead all people - also the poor - to prosperity in the long run. But this key had from the beginning also a self-made, artificial element, which took on decisive revolutionary features in those regions where it made a break-through into the so-called factor-markets: the markets for land, labour, and capital. Their cultural introduction was no doubt inspired by the new scientific universalism and by the dreams to reconstruct, in a mechanical way, the essentials of the new modern Western society.

3.2 ethical evaluation

In the first paragraph of this contribution, where the ethical evaluation of money and markets was at stake, the remark was made that it is preferable to do that in a contextual manner, always with regard to its surrounding context or structure. This view implies that the ethical evaluation of money and markets can in principle differ if the context changes, especially if radical efforts are made to transform the structure of society as a whole. Partially taught by what happened during the 19th and the first part of the 20th century in western society, but also partially because of the logic of this change itself, at least four domains of ethical concern can be formulated in relation to the organisation of a full- blown market-economy, which ask for some kind of social and political reaction:

a) *the concern about the artificial and intellectual widening of the market – concept*. Markets have their traditional origin in the trade of consumption-goods or personal services. If, however, land, labour and capital markets are structurally combined in an artificial manner, then important parts of the cultural identity of a community or society is deliberately subjected to the working of the market and brought under the régime of money and monetary valuation. *Human labour* is priced via labour-markets, *financial capital* gets its price via stock- and credit-markets, and also *land* becomes priced as a vendible commodity. But are land and labour not too near to human personhood or to the essence of community-values to expose them to such a transformation? Of course, the rise of labour-unions, and the possibility to promulgate protective laws – for instance in relation to land-regulation, or against the possible abuse of health and children in working situations – is extremely important, but are they always a sufficient counter force?

b) *the concern about a possible commodification or commercialisation of life*.

We saw above that a constellation of free markets, complemented by factor markets, has the potential to energise or electrify all existing powers (economizers) of economic growth. At the same time it became very clear that such a concentrated and intensified process of economic expansion interferes deeply in the whole of society; it changes time-patterns, labour-patterns, and the use of land and nature. Almost everyone and everything is then tested in terms of its instrumental value for further economic growth and possibly also subjected to the laws of increasing efficiency and factor-productivity. Especially if the market-constellation is allowed to act as a fully independent force, related to its own 'mechanistic' nature, more sectors of life than ever before will be drawn into this competitive domain as soon as the possibility to form a 'market' emerges on the horizon. Markets arise in education, medical services, sports, safety, in permits (for instance to pollute), in pornography, and even in human organs. But how far do you go as society in permitting all those markets without loosing your very soul? And if you want to stop them, will that be possible and effective?

c*) the concern about the behaviour of the new economic actors and the distribution of income and wealth.* In the previous paragraph the dream of the classical economists was explained which centred around the almost universal application of markets with a self-regulating (equilibrium-seeking) feed-back machinery, which opened in their view wide possibilities for cost-reduction, mass-production, but also for the sharing of benefits by all. In a competitive climate this process implies however at the same time the closing down of less efficient firms, an increase of the average size of production-units, and so, in the end, also the reduction of the number of competitors. It is the dynamics of rapid economic growth itself, which eliminates full and free competition. Oligopolies and even monopolies are emerging - and with them visible 'actors' are returning in the market-scenery.

At first sight this looks only beneficial: the realm of anonymous markets and of purely 'I–it' transactions is diminishing. We should, however, not ignore or neglect, that these actors are not identical to the previous non-anonymous market-parties. They think and act differently because they act in a separate autonomous sphere or sector of society, which has its own goals (efficiency, rentability, profit) and its own yardsticks (mainly quantitative and financial, like shareholders value). These goals and yardsticks often do not correspond with the goals and yardsticks of society as a whole. What does that imply in term of power and power-distribution and in terms of the distribution of income and wealth? History has taught that without some kind of political intervention income and wealth disparities increase parallel to these growing power-disparities. For if actors can determine or influence to some extent the growth of their own wealth and income by diminishing the shares of others – then this power will inevitably lead to a greater gap between rich and poor in the same society. And if markets grow everywhere (see b) and become increasingly interconnected, then also the possibility comes nearer of some kind of dominion over society and of its public institutions by these new, non-anonymous private economic powers. And will governmental intervention always be able to cancel also these types of risks and dangers?

d) *The concern about the role of money, capital and finance*. In the previous paragraph we mentioned the 'inner dependency' of any autonomous market-system upon the financial means which is necessary to bridge demand and supply in space and time. This highlights the possible influential and even decisive role of capital and capitalists in a full market-economy to which Marx paid such a lot of attention in his day. But is there indeed a reason for a further and separate concern about the role of money and financial markets?

The answer has to be mainly in the affirmative. As soon as capital markets enter the scene, which are related to the need for financial means of industrial enterprises and trading companies, then these financial means can not only be supplied by an existing stock of state-issued money. They need to be financed by direct bank- credits or the emission of shares. Money–creation by private banks (also called transfer-money) becomes normal, which functions next to the coined or printed money issued by the state, the Central Bank or the treasury. Here a concern arises, not only about the way in which this additional money is created or produced, but also about the underlying power to create and produce it. Can this power then also be fully tamed in the solution of a mixed economy; will it not somehow merge with the economic powers of private interest, instead of remaining serviceable to the public and the public realm? It even looks not unimaginable that, under some conditions, the creation of money may even take the lead, stimulating an economy of enrichment for the few.

IV. the last step: globalising markets, money and capital.

4.1 growing concerns

Four concerns have just been formulated, which are related to the development of a coherent set of markets in the setting of a dynamically growing national economy. Now the question arises what happens to these concerns if we presuppose a globalising economic and financial context. Will these concerns diminish or augment? Will other concerns come in? Some general remarks about globalisation may be useful in order to focus this discussion.

1. The first remark is that globalisation can indeed be seen as a further implementation of the step-by-step process of dynamic growth and of practical modernisation which we already analysed. Globalisation is, however, at the same time more than that, in any case more than a mere extension of self-regulating markets to the international scenery. For it is now Globalisation itself which works increasingly as one coherent machinery, and develops, so to say, its own global market-constellation. We should thus expect that most of the previously expressed concerns are still valid, but also be open to the possibility that they reach us with a changed form in a new context.

2. In the new global constellation, which is deeply inspired by, and derived from, modern western concepts of markets and competition, factor-markets also play an important role. But there are also differences. The global *capital-market* is,

for instance, working without almost any restraint. Capital flows easily pass all borders, especially where they enter an economy. Capital can also reside in non-public accounts in so-called financial paradises or tax-havens, exempt from any form of national taxation. Capital-flows are, of course, related to the amount of the (foreign) direct investments which take place, but also to the enormous amount of short-term capital shifts between one national economy and another – called by Ernest Backes fax-money', because it can be transferred by fax and internet overnight as 'dematerialised' or 'virtual' money. Also, in regard to the investment possibilities *land* abroad, the margins are broadening. A continuous effort is made, especially by the rich western countries, to open also 'land markets' in so called less-developed countries (see the originally proposed MAI-treaty). But a *global labour-market* is in fact not working. It is packed ful of barriers designed specifically to restrict free movement . Migrant labour is seldom encouraged, and often not tolerated at all. It looks even as if a kind of trade-off is present: the more 'freedom' is given to the movements of international capital, the less labour is allowed to move. This points, by the way, in the direction of a conscious protection of the economic interests of private Western investors by their own governments; parallel to the protection of western producers and consumers by the still extremely high barriers for the imports of products of the South (especially for agricultural products, textiles, etc)

3. Very remarkable is the growing ambivalent role of the *nation state*. Globalisation implies for most governments a growing dependency upon the presence of global capital in their economies. Often they feel themselves obliged to adapt their social safety nets and their legal and fiscal regimes so as to hold out the promise of maximum returns in their economy for the foreign capital. On the other hand, we see an increasing tendency of government-intervention, especially of rich Western nations, to protect and secure the constant input of resources from abroad (like oil) in order to secure the possibility of future investment possibilities. This is especially true for the hegemonic power of the

United States of America. So, while on the one side the position of national governments is weakened by the process of economic globalisation, especially in the poorer countries, we see on the other side a growing strengthening of the role of the state, especially in the richer nations, in so far as ‘vital’ economic interests have to be “protected”. Both tendencies, however, point in the direction of an increased interconnection between economy and polity, in which the economy obviously gradually absorbs the polity.

4. Also the important changed role of the creation of international liquidities (key-currencies) is characteristic for the present style of globalisation. Instead of originating in their home-countries, increasingly more international liquidities are born or created elsewhere, as a result of the money-creating activities of banks in the so-called euro-dollar market or by the numerous off-shore banks (often branch-offices of well-known Western Banks in, for example, the Bahamas, Panama, Monaco, the Cayman islands, Vanuatu, Jersey etc). This type of money-creation goes unhampered, even if the speed of the growth of international liquidities goes far beyond the real growth-rates in the global economy. While the amount of money-creation in the pre-globalisation era was still somehow controlled by the nation state, in this globalised era it thus escapes almost entirely from political supervision. Huge flows of speculative capital are the consequence. Credits in key-currencies are, for instance, offered by private banks off-shore as soon as prospects for financial rentability present themselves, but these may relate entirely to, and stay fully within, the financial domain, without leading to real investments. For ‘free’ international money creation almost no boundaries exist, but at the same time it remains the privilege of western banks and powers. Every effort of the poorer countries to receive some direct share in the creation of international liquidities, such as the Special Drawing Rights of the IMF, is for instance immediately blocked by the rich voting nations in the IMF. Which implies that also for the debts of the South no permanent or structural solution is possible: the only way for them to acquire the necessary international liquidities is either by borrowing, or by the growth of

their exports instead of a further development of their home-markets. Each of these ways has direct negative consequences for the abatement of poverty in these regions. The financial power to exclude becomes, also in this way, clearly manifest and is deadly in its effects.

When we combine these four observations, it becomes very clear that the formulated four concerns have not diminished, but rather they have intensified and aggravation has increased.

1. A global economy is now developing which is more geared to global capital-flows than ever before, and in which the 'liberalisation'- process takes place under the protective wings of the richest states. Especially the USA, with its 'vital interest'-philosophy, seems to legitimate the enforcement of investment- and land buying patterns in almost all other resource-rich countries of the world.

2. At the same time we also see in most countries another influence of globalisation taking place: a growing commercialisation of life takes place, and markets are expanding everywhere. Luxury-markets are developed, even in the midst of even those countries where the basic needs go unfulfilled, thereby driving out (the fulfilment) of old, existing scarcities by the artificial creation of new scarcities.

3. There is a growing pressure upon legitimate political processes coming from the new global actors, the transnational companies. In the ensuing unrelenting competitive struggle these pressures tend to over-rule all existing national measures to protect health, nature and safety.

4. Last but not least, the financial markets, stimulated by an excessive growth in international liquidities, try to take the lead over the course and direction of the real economy, pushing it not so much to the point of saturation but rather to a perpetual insatiable state.. This process is only occasionally interrupted by over-investment crises and extreme forms of market-volatility. The main result is a parallel growth of enrichment and impoverishment in the world of today, not

only between the rich and the poor countries, but also in the rich and poor countries themselves. Especially in the middle-income and richest countries a financially- enforced growth of luxury markets and related demand-management can be registered, while the poorest countries cannot escape enduring indebtedness and are thus excluded from opportunities to acquire the additional means to fulfil their basic needs.

4.2 some in-depth- reflection

But these combined concerns ask also for some additional in-depth analysis. Is the aggravation of these concerns simply caused by a lack of political control in the global arena - or are we faced here with trends that go even deeper? And what about the question of whether other concerns should perhaps be added to our list? To gain more insight we have to turn again - though now for a concluding time - to our previous analysis of money and markets.

In par 2.2, we discussed the concept of autonomous anonymous markets, which work on the basis of an internal feed-back mechanism, and so can be expected to be restored by themselves, by free movements of prices and/or sold quantities, the equilibrium between demand and supply. We observed at the same time that such a process initially presupposes, a kind of emancipation of the market from the will of the joint trading-partners; the market takes on the features of a separate social institution. We also referred to some kind of inner dependency of those markets upon capital or finance, which is needed to bridge the distance between supply and demand in space and time.

In this time of accelerated globalisation, this role of capital and finance has grown and is still growing immensely. But there is more. It is also a role which bears some new, autonomous, characteristics. We should thus not exclude the possibility, that the present style of globalisation also has opened a new additional level of autonomy or emancipation - this time not of the markets which deal with real goods and services, but of the financial markets themselves. Or, said differently: are the financial markets not 'liberating' themselves increasingly from the joint will of those who trade and act in real commodities – and so are tending towards their own autonomous extension in time? This is an intriguing but also important question. For an affirmative answer could indeed explain the feeling and awareness of a growing dominion of financial markets over the real economy and the factual society.

There are indeed several indications which point in the direction of such an increased autonomy of the financial sector. We mention three of these.

Firstly there is the often un-noted but important role of the so-called international *clearing houses*, that handle the technical side of the millions of financial international transactions which take place every day. In fact only two houses are operative here, Clearstream (previously named Cedel) and Euroclear, which, already in 1970, set up their own cash-transfer systems. In 1977, the so-called Swift system was established by the shareholders of these two institutions to which almost all banks of the planet are connected. These clearing houses so to say ''run the books of their client- banks, archiving transaction by transaction, and can compensate their international debt-positions by the amount of their credits. These credits then change ownership, and so 'clear' their own bank-account. The number of these clearing-transactions is formidable: Euroclear for instance transferred in 1999 about 20.000 billion French francs per day, which is the same as 3.000 billion euros. Further, now that the possibility is available to the clearing houses to also open non-published accounts for their clients, for instant in some small 'financial state", huge amounts of international liquidities leak away to the most obscure purposes and stay outside the domain of every kind of public control or taxation. Global capital so to say chooses its own taxation level. It has become free of, and has emancipated itself from, the will of the national states. It is aided and abetted by the existence of a new type of money: virtual, abstract, electronic, anonymous, de-materialised, showing up and declining in fractions of time like atomic particles

There is also a second indication, which is laid bare by George Soros in his studies on the relationship between globalisation and financial markets . He observed that while financial markets are still supposed to tend towards equilibrium and are therefore supposed to be inherently stable, balancing at all times supply and demand, they in fact tend far more to instability and volatility. “Financial global markets are *inherently unstable*. Instead of acting like a pendulum financial markets have recently acted more like a wrecking ball, knocking over one economy after another”. ”Far from seeking equilibrium, the global capitalist system is hell-bent on expansion”’ (**Crisis**, pp. xvi, 104) . And that tendency is directly related to the realm of subjective financial expectations: “If people seek to be guided solely by the (financial) results of their actions, society becomes unstable. Financial markets are given to excesses” (pp. 78, xvi). The resulting overview from his study is put in these terms: “ It is market fundamentalism that has put financial capital into the driver’s seat” (p. xx).

The third and last indication comes from, or can be derived from, *the inner logic* which adheres to or clings to the world of money and finance. The notion of an inner logic is vulnerable and should be treated with care, but it looks too important to neglect. Let us take for a moment Hans Christoph Binswanger as our guide who wrote the impressive study **Money and Magic, a critique of the Modern Economy in the Light of Goethe’s Faust**.

In Faust II, Goethe - who during his professional life was minister of Finance of one of the German states (Weimar) - gives us a lively picture of a magician, Faust who, against the price of his soul, enters in a contract with Mephistoteles who, on his side of the deal as the devil, is bound to realise all of Faust's earthly wishes. Instead of the - unsuccessful -alchemy of gold, the - successful -alchemy of printed money is suggested to Faust by Mephistoteles to realise his vision of infinite economic and technological progress. It is a magical path, because it opens the possibility of a continuous growth of wealth without a corresponding increase in effort (*ibid* pp. 6,10). But this newly created money changes also the world like the stone of the philosophers, for ‘by reducing the world to the quintessence of money the world becomes augmentable. It grows with economic growth! (p. 36) In Binswanger's interpretation of Faust 's words: "The deed is everything" (Die Tat ist alles) (contra John 1:1). The economy also gains in this way also "the transcendental character (i.e. surpassing all limits) which man formally sought in religion" (p. 37). The inner logic of the domain of money and finance is thus infinity and control: 'Money is by its nature an order for the future' (p. 88). Which is however only possible if finance takes the lead in and over the real economy: "(for) money can be increased more quickly and easily than the goods that must be laboriously obtained.. The tendency is therefore first to produce money and then, tempted or lured by profit, to grant this money additional value through a corresponding expansion of imaginary demand " (p. 89).

There is indeed a striking between these interpretative words of Goethe's Faust and what can be observed today of the world-wide dynamics of global enrichment and impoverishment. At the end of the previous paragraph (par 4.1) we have already noted the extent to which the world-economy is now geared to the ups and downs of the financial markets, and that these, by their selectivity in terms of short-run financial profitability, set in motion the two parallel processes of enrichment and impoverishment. There is both a *dynamics of enrichment* - based upon the continuous creation of new forms of scarcity and demand, especially in the western luxury markets - and a *dynamics of impoverishment* - based upon the crowding out of those already existing markets which are oriented to the fulfilment of real scarcities or basic needs. It is indeed another indication of the emancipation towards autonomy of the financial markets that these markets have not only shown themselves to be capable of creating e their own institutions, tax-free rewards and safety-havens, but are also capable of promoting and feeding their own corresponding type of neo-markets and neo-scarcities. The real economy now dances obviously on the enchanting flute-tones of a new piper, who has no other horizon than orders for infinite acquisition. Money can be a wonderful servant, but has also the hidden capacity to become an enslaving tyrant, pushing this finite world and its inhabitants over the border of its limited capacities. Blinded by the new light, Faust explicitly rejects the possibility of a caring economy; he simply cannot accept “the ephemerality and frailty of earthly things” (p. 53).

Earlier, the question was asked whether next to the already formulated four concerns, additional concerns should also be formulated. The last passage leads indeed to the formulation of new and deepened concern: that the world in all its agencies and actors becomes enchanted by the illusion of infinity which is created and upheld and implemented by the financial world. For the infinite perspective can never remove the worlds ‘real limitations‘ (p. 39). So that it becomes increasingly probable, that the rules of illusionary growth which drive the financial markets will, in the end, push the real world in its finitude, over the edge of the abyss

4.3 challenges and dimensions of further research.

The main purpose of this contribution is not to look for concrete alternatives to the present style of market- and money-oriented globalisation; that would go beyond our limits. But what we can do is to try, on the basis of our previous analysis, to formulate which challenges we find before us. These challenges, so to say, jump up from the five concerns which we found and had to articulate more sharply in the context of the present style of globalisation.

The *first challenge* is related to the concern about the universal widening of mechanistic market-concepts, especially in relation to its threatening impact on the role of land and labour in human communities. Access to land and the value of good labour are, as we saw, so near to human dignity and social wellbeing, that under no circumstance may they be extradited to the full working of an international market-mechanism which is geared to the utmost freedom of capital-movements in search of maximum, often short-run, financial gains. The challenge is how to come to feasible restrictions on the free movement of capital in relation to the protection of land and labour at the international level, combined with an adequate protection of human rights, home-markets, and nature at a national level. In part B, we will analyse the possibilities, but also the margins, for this political multi-level approach.

The *second challenge* is related to the growing commodification and commercialisation of life in the context of a capitalistic, materialistic style of globalisation. It will be clear that the corresponding challenge is only partially of a political nature, namely about how to defend the public realm against profiteers, and how to push back commercial pressures. It is also and even mainly of a cultural-spiritual nature. Dimensions are entering here like the question which horizons of happiness are chosen in a society and by ordinary people, and how to break through the false illusions which are awakened, in our time, by the world of economy and finance – a point which was also stressed in our fifth and last concern. This is however a challenge which goes very deep. In our view nothing less is needed than a kind of re-direction or re-orientation of the human mind itself, firstly and mostly in the world's richest and rapidly growing societies. Which, in its turn, can only be reached in and by a persistent, also spiritual struggle, on a frontier where the churches cannot and must not be absent. If anything, they should be the first to go the way of demasking the alienating powers of this world, and lead the way of a practice of real caring and sharing in the perspective of a deeper fulfilment of life than materialism can ever offer. But will they really be prepared, in our time, to choose for this path-breaking realism? The frontier does not lie outside the churches, it passes right through their midst.

The *third challenge* is related to the distorted behaviour of economic actors in the national, but also and especially in the international domain. We noted the rise, in our time, of unrelenting competition between trans-national giants, a competition driven up by the financial markets in order to maximize their share-holders returns without consideration for nature, other cultures and their own labour-force. In relation to this concern there is a real need for appeals to come from the business world itself, but even more of strong countervailing powers. In this context, however, it does not seem wise to look first to national governments and their corrective authority. They are often already weakened by their dependency upon the input and presence of global capital within their national borders - in this sense the 'historical compromise' of the mixed economy seems to come to an end in our days. More can and should also be expected from world-wide civil movements, which have already developed remarkably sharp insights into the concrete forms of misbehaviour and often act as mobilizers of a new alert public consciousness in relation to the protection of this world and its weaker citizens. One of the challenges of our time is thus to broaden the support of, and cooperation with, these positive-critical movements. This challenge also comes to the churches when, having criticised their own governments, they come under attack. There are good reasons to view these movements as the inaugural advocates of a rising global democracy.

The *fourth challenge* is related to the growing domination of financial capital as such in our present world. The world of finance needs, so to say, an adequate re-anchoring in the real world, supported by necessary political reform and/or democratic restructuration. Elements of 'global governance' are needed which are founded in a culture of rights, and exercise also a substantial influence on the course and direction of the financial domain. In Part B this will be further elaborated, with the inclusion of some thoughts about the struggle against speculative capital –movements and tax paradises.

B. THE PRACTICE OF GLOBAL FINANCE AND GOVERNMENT

V. global democracy and global governance

The current process of globalisation is indeed profoundly affecting the conditions necessary for an effective and democratic operation of national governance. The world is witnessing a significant shift from classic (post-war) multi-lateralism to a more complex system of multi-layered global governance in which national governments delegate, or share, competencies with local, regional, transnational and global agencies of both a public and a private nature. A fatal flaw, at the heart of this new constellation is, however, its lack of *democratic* credentials. To a large extent, it remains highly unrepresentative of the world community and is characterised by deep inequalities of power and access to resources. Whether, in the twenty first century, globalisation can be tamed and justice as right relationships can be established, will depend to a large extent on the question of whether truly participatory ways of governance can be installed.

Globalisation, as we have noted already, can be described as the widening scope, the deepening impact and the speeding up of inter-regional flows and interaction within all realms of social life, from the economic to the ecological, from the cultural to the criminal. This systemic inter-connectedness creates powerful forces of both convergence and divergence, limiting state action as well as creating new possibilities. But it is also accompanied by a growing gap between rich and poor. For while markets are globalising, redistribution policies are surely not. Globalisation unites and divides, the strong are becoming stronger and the weak weaker as the benefits of globalisation accrue to a minority of the world's peoples, whilst poverty and social exclusion continue to increase. **The Economist** (June 16th 2001) reports that the world now has 7.2 million people with investable assets of at least $ 1 million, up from 5.2 million in 1997. Those 7.2 million millionaires control about a third of the world's wealth. Some of those rich people seem to suffer from "affluenza" and find it a challenge to think of ways how to spend the money. The recent $ 20 million trip on a Russian rocket, taken by Dennis Tito, is a case in point.

Underlying this trend is however a structural shift in the organisation and exercise of *economic and political power*. In a globalising world, power is no longer solely organised and exercised on a local, national or international scale but increasingly acquires a transnational, regional or even global dimension. Nation-states are increasingly unable to effectively control economic forces. The classical correspondence between the state, power and territory is being disrupted. Globalisation has increased the demand for multilateral co-operation and the provision of global public goods such as financial stability, standard setting and environmental protection. The last three decades have witnessed both the intensification of multilateral co-operation, at both global and regional levels, and the proliferation of (formal and informal) international regimes. There are now some 300 formal global (intergovernmental) organisations, more than twenty regional associations and a plethora of international regimes.

Obviously, these developments present a serious challenge to sovereign statehood. The supremacy of nation-states over what occurs within their territories is increasingly compromised by the expanding jurisdiction of institutions of international governance and international law. This is not inherently bad (the trial against Milosovitch!) but it does affect the participation of citizens in decision-making processes which directly affect their daily lives. The territorially based concept of sovereignty is being displaced by a new regime with a power locus which is still diffuse. For many countries in the South, this is nothing new as they have, for centuries, experienced limits to their sovereignty. Other countries have to get used to the fact that there are now effective constraints on state intervention and re-distribution policies.

In compromising the principle of self-governance, globalisation strikes at the essence of democracy and people's participation. This is not to glorify the concept of the nation-state or to elevate that model to the only possible way to build effective democracy and people's participation. The limits of that model have already become apparent in a world in which global warming connects the long-term fate of many Pacific islands to the actions of tens of millions of private motorists across the globe. Effective control over crucial factors which directly affect the lives of the 'communities of fate' on the Pacific islands lies well beyond the democratic reach of the people who are directly concerned. This example shows the urgency of finding new and effective ways and institutions which reflect the reality of a globalising world.

Growing global inequality further exacerbates the tensions between democracy and globalisation as social solidarity is corroding and popular disillusionment with the present functioning of democracy is heightened. The expanding authority of global and regional institutions, combined with the political and technical complexity of much public international decision-making, masks the location of power and diffuses political responsibility.

Under these conditions, territorial democracy is undermined. The same development, however, has inspired new democratic energies and solidarity and advocacy networks such as the Beijing Women's Forum, Jubilee 2000, the Landmines campaign, and, hopefully, the recently established Ecumenical Advocacy Alliance. People are increasingly organising and mobilising across national boundaries in pursuit of particular interests and trying to bring governments and international agencies to account. The number of international NGOs has grown dramatically from around 6,000 in 1976 to more than 40,000 in 1997. *This explosion of 'citizen diplomacy' constitutes the rudiments of a transnational civil society*. However, not all the members of this transnational civil society are either 'civil' or representative. Some seek to further reactionary causes whilst many lack sufficient accountability and transparency. Considerable inequalities between the different members of transnational civil society exist, in North and South and between North and South, in terms of resources, influence, and access to key centres of decision-making. In this respect, transnational civil society cannot be considered as truly representative of the world's people and peoples.

Globalisation is not (yet?) bringing about the end of the nation-state – or the end of politics for that matter – but is transforming the conditions of state action and democracy. Governing is becoming a more complex and volatile process. The reconfiguration of public and private power (due to privatisation and deregulation), the altered capacities and roles of the state, as well as the complexities of governing modern societies, have contributed to a paradigmatic shift from government to governance in which the state plays a strategic but not necessarily the dominant role.

In this respect, Thomas Friedman of the **New York Times**, refers to what he calls the “Golden Straitjacket”. These are the policies which, according to current orthodoxy, are necessary to establish the markets’ confidence in any particular economy and its government: balanced budgets, moderate taxes, light regulation, privatisation, etc. What transpires when a country puts on the Golden Straitjacket?

> *Two things tend to happen: your economy grows and your politics shrinks... The Golden Straitjacket narrows the political and economic choices of those in power to relatively tight parameters. That is why it is increasingly difficult these days to find any real differences between ruling an opposition parties in those countries that have put on the Golden Straitjacket. Once your country puts on the Golden Straitjacket, its political choices get reduced to Pepsi or Coke – to slight nuances of policy, slight alterations in design to account for local traditions, some loosening here and there, but never any major deviation from the core golden rules.*

Just as globalisation has contributed to the transformation of the state, so it is leading to changes in long established *forms of international governance*. The increasing power of non-state actors (e.g. TNCs) is just one factor in this process. As a consequence, there is a movement from the classical multilateralism of the post-war order to a more complex architecture of multi-layered global governance. This shift is by no means fully articulated but it is clear that we are in a period of transition in which the old and the new order exist in dynamic tension. Multi-layered global governance is different from the notion of world government which presupposes the idea of a central global public authority. Rather, it refers to an evolving system of political co-operation and co-ordination amongst public authorities and private agencies. Of course, exclusive clubs such as the OECD and the G7/G8 continue to wield important power but they are increasingly embedded in a wider system of multi-layered global governance. In this respect, globalisation has outgrown the political shell of the old multi-lateralism which nurtured it.

Five principal layers of governance can be distinguished: the supra state (e.g. the United Nations system), the regional (EU, Mercosur etc.), the transnational (e.g. civil society and business networks), and the sub-state (e.g. community association and city governments). Sandwiched between these layers is national government. There is no single and easily identifiable locus of authority and power. This is not to say that there would be equality of power between the different layers but to acknowledge that political authority is fragmented.

A central characteristic of this system is a redrawing of the boundaries between public authority and private power, if only because of the policies of privatisation which have been pursued over the last decade in all parts of the world. Another example constitutes the major bond rating agencies which make critical judgements about the credit status of governments and public authorities around the globe. Much of this privatised governance occurs in the shadow of (global) public authorities. However, to the extent to which corporate and private interests have captured the agendas of such bodies as the WTO, there is a fusion of public and private power. The current hype of public-private partnerships, such as the Global Aids Fund and the Global Compact, illustrate the growing influence of private interests in the formulation as well as the implementation of global policies.

From a historical point of view, privatised governance is not a new phenomenon: the British East India Company and its Dutch counterpart, the West Indian Company, had their own private militias. What is distinctive about the current era is the scale of this privatised global governance.

In addition, the past two decades have witnessed a trend towards deepening regionalism. Although this takes various forms, from the political-economic project of the European Union to the trade-led NAFTA, regionalism plays a significant role in managing the terms on which states engage with a globalising economy. The European Union even went as far as to make regional economic integration an almost *de facto* condition for the ACP countries under the Cotonou Partnership Agreement (the successor of the Lomé Convention).

As global competition to attract foreign investment has intensified, cities, regions and sub-national authorities have become increasingly active in global and regional arenas. Many regions (including German Länder) within the European Union have established missions in Brussels to promote their interests. These developments lead to an increasingly complex patchwork of overlapping jurisdictions generating ambiguities about the locus of authority and political responsibility. This is particularly evident where conflicts of legal or regulatory principles occur, such as in the case of the ‘precautionary principle’. Should global, regional, national or local rules take precedence and how is this decided, by whom, and according to which criteria? Where a global machinery exists to address these issues (such as the WTO dispute settlement mechanism), it is often subject to concerns about its democratic accountability.

An additional trend which accompanies globalisation is that certain aspects of governance have become very complex and are ‘farmed out’ to experts and technocratic networks. Such ‘epistemic communities’ tend to de-politicise issues by redefining them as technical matters which are best addressed and resolved by experts through a process of technical deliberation. The ‘ignorant’ are excluded whilst expert knowledge becomes a primary credential for participating in the process of global governance.

The relocation of political authority between different layers of governance has created what some refer to as a ‘new medievalism’ since the present system resembles the bewildering complexity of competing jurisdictions, unclear administrative boundaries and multiple levels of political authority which characterised medieval Europe. As a metaphor for the twenty-first century global order it is perhaps unfortunate given that medievalism was succeeded by absolutism.

If multi-lateralism was the central organising principle of post-war international governance, the post Cold War era could be defined as a post-multilateral order. The world seems to be moving to a situation of ‘governance without governments’. *The most critical question to be asked regarding this emerging system of multi-layered global governance is: governance of what, by* *whom, in whose interests, for what purposes, and guided by which ethical convictions?* The ecumenical movement, which has made important contributions to the United Nations system, is now facing the question how justice as right relationships should be pursued in this newly emerging reality.

VI. Global finance

The international financial system illustrates the phenomenon of multi-layered global governance. The various bureaucracies involved in global financial issues have each developed their own ideas – often conflicting with those of others – and each is determined to guard its turf. Among the major players are the G7 (United States, Canada, United Kingdom, Germany, France, Italy and Japan), the G22 (an informal group of 22 emerged and emerging economies), the G10 (a group of central bank governors and finance ministers from, confusingly, 11 industrial countries, closely linked to the Basle Committee on Banking Supervision, both based in the offices of the Bank for International Settlements), and the IMF. Except for the IMF, the other organisations are self-appointed. This illustrates the democratic deficit when it comes to the running of, and the proposals made for the organisation of the international financial system. Before we turn to some of these proposals, we should like to give a brief description of the present state of affairs regarding the international financial system.

6. 1 The dominating role of the dollar

In paragraph 4, reference was made to the hegemonic power of the United States. One of the areas in which the US can exercise this power is in the field of global finance. The value of the US dollar is propped up not by the strength of US exports, but by vast imports of capital. The US, a country already rich in capital, *has to borrow from abroad almost $2 billion net every working day* to cover a current-account deficit forecast to reach almost $500 billion in 2002. This is a tremendous drain on world savings!

The dollar is not only a matter for the US because it happens to be that country's currency. Over half of all dollar bills in circulation are held outside the borders of the US, and almost half of the US Treasury bonds are held as reserves by foreign central banks. The euro cannot yet rival this global reach. International financiers borrow and lend in dollars, and international traders use dollars even if Americans are at neither end of the deal. No asset since gold has enjoyed such widespread acceptance as a medium of exchange and source of value. It can be argued that the world is on a de facto dollar standard, akin to the 19th-century gold standard.

In the days of the gold standard, the volume of money and credit in circulation was tied to the amount of gold in a country's vault. Economies boomed when gold was abundant and deflated when it was scarce. Nowadays, the world's currencies float, in principle, freely in value against each other, but in reality few float freely. Countries fear loosing competitiveness on world markets if their currency rises too much against the dollar. The more money central banks print, the more dollars they like to hold in reserve to underpin their currency. If the dollar is the new gold, Alan Greenspan, the Federal Reserve chairman, is the world's alchemist – to follow the line of thinking of Hans Christoph Binswanger.

But the US can play this role only if it is happy and confident enough to allow foreigners to build up a huge mass of claims on its assets – and if foreigners are happy to go along. Actually, these foreigners cannot risk or afford the US stopping to play this role. If the US reined in its current account, international trade would suffer a liquidity crisis (as it did periodically under the gold standard). In the present world, the US deficit is an indispensable source of liquidity for world trade. If democracy is about having a choice, it is clear that we are again faced with a democratic deficit and that the room for manoeuvre for individual country governments is very limited.

6.2 General trends

Recent world events have made clear that the current international financial system is unable to safeguard the world economy from financial crises of high intensity and frequency with devastating social effects. The liberalisation of financial flows among industrialised and some developing countries, floating exchange rates, financial innovations and new communications techniques have increased not only the volume of financial transactions, but also volatility and the risk of contagion. Fragile domestic financial structures and weak financial regulation and supervision in southern as well as transition economies have aggravated these crises.

It is the poor, in particular, who are the victims of these crises which, as a rule, are connected with high inflation rates, falling real wages and the value of savings, and rising unemployment. Public expenditures on development-relevant sectors such as education and public health are subject to cuts, and illiteracy and infant and child mortality rates are rising. Instead of moving towards the Millennium Development Goals, recent financial crises in Asia moved countries away from reaching these Goals.

The growing role of the markets led the **Financial Times** to observe that:

> *Because they process the many billions of dollars worth of investments flowing across national borders each day, the markets have become the police, judge and jury of the world economy – a worrying thought given that they tend to view events and policies through the distorting lenses of fear and greed.*

This demonstrates a fundamental problem in the global economy: the enormous discrepancy which exists between an increasingly sophisticated and dynamic international financial world, with rapid globalisation of financial portfolios, and the lack of a proper international framework to regulate it. There is a systemic deficiency in global governance as existing institutions find they are inadequately prepared to deal with financial globalisation.

The urgent need for change

Since the foundations of today's international financial system were laid down at the Bretton Woods conference in 1944, there have been numerous calls for new institutions, new rules, or a "Bretton Woods II". When the fixed-exchange-rate system broke down in the early 1970s, and again when the debt crisis emerged in the 1980s, intensive discussions were held about the need to reform the international financial system. None of these discussions brought dramatic change. Instead, the Bretton Woods blueprint evolved organically as its central institutions took on new tasks. The IMF began to monitor the new system of floating exchange rates and shifted its main attention to the South. After the collapse of the centrally planned economies in central and eastern Europe, the IMF became the chief architect and financier of the transition from communism to capitalism. Since Mexico's crash in 1994, it has shifted gear again, providing more money more quickly to countries hit by capital-market crises. Banking rules were adapted as financial markets integrated. Leading organisations in this respect are the IOSCO, the international federation of securities regulators, and the International Accounting Standards Committee. Due to such evolutionary changes, the financial system in 2003 looks rather different from that in 1944. What remains, however, is the dominant role of powerful countries.

But global finance has changed even more radically. In the North, the 1970s and particularly the 1980s saw a widespread liberalisation of domestic finance. Freed from regulation, banks innovated, creating junk bonds, mortgage-backed securities and other new instruments. Computers made it possible to manage complicated arrangements. Turnover of foreign exchange rose dramatically.

The ideological shift towards free markets in the South – often under arm-twisting policies of the IMF and the World Bank – coupled with their need for external capital, drew new participants into the international financial arena.

Today's capital markets are international, yet they are supervised and regulated largely on a national basis. The world in which they operate is wholly different from that which the Bretton Woods institutions were designed to support.

Listing the problems may be easy; finding solutions is not. The problems we are facing are highly complex and simple solutions do not exist. For example, a policy maker trying to design the ideal financial system has three objectives:

- (continuing) national sovereignty;
- financial markets that are regulated, supervised and cushioned; and
- the benefits of global capital markets, notably access to finance capital.

Unfortunately, these three goals are incompatible. They form the "impossible trinity", or the "trilemma" which underlies the instability of today's global financial architecture. Any coherent reform proposal must favour two parts of the trinity at the expense of the third. For example, those who wish to regulate markets and maintain national sovereignty must do so at the expense of capital-market integration. Those who wish to maintain sovereignty and yet allow capital markets to integrate, must allow an entirely free market at the global level. Those who want capital market integration and global regulation can forget about national sovereignty.

Below, we will discuss a few areas and proposals for reform. From the outset, however, we should like to emphasise that, from our point of view, there are a number of touchstones/principles which are important for any reform:

- Reforms should be based on the principles of transparency, accountability and democracy;
- Financial systems should be at the service of the real economy, and the economy at the service of people, not the other way around;
- International responses to financial crises should preserve the ability of affected countries and their population to determine their own policies, priorities and long- term development strategies, and distribute risks and costs fairly;
- Any reforms of the international financial system should be designed explicitly to maximise progress towards the achievement of the Millennium Development Goals for poverty reduction, health, education, environmental sustainability, and gender equity.

6.3 key reforms

On the basis of the principles which were just formulated, a number of key areas for reform can be identified:

- international liquidity management;
- financial regulation, both international and national;
- exchange rate regimes; and
- resolution of outstanding debt issues.

International liquidity management

The management of international liquidity has an important role in preventing and avoiding contagion from financial crises and lessening their adverse economic and social effects. An important aspect of managing international liquidity is the volume of funds. With ODA (Official Development Assistance) levels stagnating or declining (from 0.35% of GDP in the mid-1980s to 0.22% at the turn of the century) multilateral funding has gained importance. However, at present, the IMF has inadequate funds available; it acts more as an organiser of rescues than as a provider of funds. In addition, the conditions attached to the use of its funds are not always appropriate to the problems faced by countries in distress and it has very limited capacity to stop contagion.

IMF resources should be enlarged in order to enable it to enhance the stability of the international financial system. Three channels can be considered. First, effective and swift mechanisms should be devised to increase its access to official funds in times of crisis. Second, it could be granted authorisation to borrow directly from financial markets. Third, and perhaps most importantly, Special Drawing Rights (SDRs) could be created when several members face financial difficulties. This would facilitate the creation of additional liquidity at times of crises, without the painstaking negotiations of quota increases or arrangements to borrow. The anti-cyclical use of SDRs to manage financial cycles should be part of a broader process aimed at enhancing their use as an appropriate international currency for a globalised world.

Some advances have already been made such as a quota increase (in 1998) and the creation of the Contingency Credit Line (CCL), in 1999, to promote financing to countries facing contagion. With the CCL, the IMF has responded to strong demands to leave aside the principle of “fundamental disequilibrium” of the balance of payments, on which it was built, to help finance countries in difficulties prior to, and not after international reserves are depleted. The CCL has been widely perceived as a significant move from the IMF in the area of crisis prevention (in addition to its task regarding crisis resolution).

The most contentious issue regarding the management of international liquidity (and development finance, for that matter) is conditionality. In the case of the IMF, this issue has long been a central area of criticism and it has become increasingly troublesome for three different reasons. First, the scope of conditionality has expanded. Not only does it include the realms of other international organisations like the World Trade Organization (yet another example of problematic governance), it also extends to domestic economic and social development strategies, thereby compromising our principle that affected countries and their population should be able to determine their own policies, priorities and long-term development strategies. Second, even if the legitimacy of the principle of conditionality is accepted, it is unclear how this principle applies when such difficulties are created by others and affect the country at stake by contagion. There is reason to believe that, because of past practices of the IMF, the legitimacy of the concept of conditionality has been undermined. It would, therefore, be good to consider starting discussions about an international agreement on the use of conditionality.

Several principles can be advanced in this regard:

- The IMF should restrict itself to the macroeconomic issues that fell within the purview of conditionality in the past. When domestic financial regulation and supervision are deemed inadequate, it could also recommend (or require) a parallel agreement with the international authorities in that area.
- Conditionality should not include issues related to economic and social development strategies and institutions, which, by their very

nature, should be decided by legitimate national authorities, *based on broad social consensus*.

- Nor should conditionality cover areas within the purview of other international institutions and agreements, such as the WTO.
- Conditionality should not be used to force the adoption of a specific exchange rate regime by any country.
- When it becomes clear that agreements with the IMF lead to "overkill" (resulting in a greater contraction of economic activities than originally envisaged in the adjustment programmes), the restrictions should automatically be eased.
- Regular official impact assessment studies (evaluations) of IMF programmes should be introduced.

Financial regulation (international)

The recurring financial crises have clearly shown the need for international codes of conduct in the fiscal, monetary and financial areas, for principles of corporate responsibility, for improved accounting standards, for greater availability and transparency of information regarding economic and financial data and policies, and for enhanced financial supervision and regulation. These should also include international standards to combat money and asset laundering as well as corruption and tax evasion.

In view of the fact that strict global rules for financial regulation may be seen as offending against national sovereignty, "standards", rather than rules have been developed, for example by the International Organization of Securities Commissions (IOSCO). Such standards, it is hoped, will ease the trade-off between sovereignty and global regulation. The problem is that internationally agreed standards are often too vague. The Basle core principles of sound banking, for example, may be useful as a broad political statement, but they are not much use as a detailed guideline for bank supervisors. In addition, who should supervise the standards? The IMF does not have nearly enough people to check to what extent countries comply with a broad array of financial market standards. If standards cannot be supervised, enforcing rules and regulations is even more difficult. Moreover, practices in regulation and supervision tend also to lag behind in a world of constant financial innovations, and they themselves may induce such innovations. Nevertheless, it is important that efforts continue to develop regulatory and supervisory mechanisms which will correspond to today's globalised private capital and credit markets.

Special attention should be given to the need to regulate hedge funds and off-shore financial centres. The recommendation of the G7 (in their declaration of 30-10-1998) "to encourage off-shore centres to comply with internationally agreed standards" is clearly not enough. It can hardly be expected that these centres will voluntarily comply with such standards since this would mean that they would lose their "competitive edge".

Regulatory measures regarding hedge funds and other highly leveraged institutions (HLIs) are also necessary. HLIs can be defined as having three characteristics: they are subject to little or no regulatory oversight, as a significant proportion of them operate through off-shore centres; they are subject to limited disclosure requirements, and often their operations are very opaque; in addition they take on significant leverage and impact. Basically, there are three ways to tackle HLIs: to impose higher capital requirements on lending of banks to HLIs; to increase transparency on total exposures to HLIs; and to directly regulate hedge funds and other HLIs. The most frequent argument against direct regulation of hedge funds is that they would be able to circumvent such regulations, because these institutions either are already, or could easily move, off-shore. This demonstrates again the urgent need to force off-shore centres to comply with international standards.

Another issue is that of rating agencies which are the main private institutions responsible for providing information to investors. Subjective factors play an important role in rating agencies' risk analyses. This has generated a pro-cyclical pattern of risk analyses resulting in promoting first excessive investment in Southern and transition economies, and then huge and abrupt capital outflows at high social and political costs. It is urgent that risk rating should be subject to strict and objective criteria which are publicly known.

Money laundering – disguising the origin of criminal's cash and then transforming it into apparently legitimate investments – is another big issue. In 1997, annual turnover from the global trade in illicit drugs alone was estimated to have reached $400 billion. Add to this the proceeds from financial fraud, prostitution and other crimes, and the amount flowing into the pockets of criminals each year (the GCP – gross criminal product) is even bigger. An IMF working paper published back in 1996 estimated a figure of $500 billion per year. Some think that the GCP is now so big that it could pose a threat to national economies and even to the stability of the international financial system. If only for this reason, it is high time that the world's financial community set minimum standards covering anti-laundering rules. Countries which refuse to abide by them would face punitive taxes on capital channelled through their financial centres and would have international recognition denied to financial transactions taking place on their soil.

Again, advocating for standards and rules is easier than trying to implement them. A first difficulty is identifying the crime. By funnelling cash through off-shore "shell" companies, by using anonymous bank accounts and by breaking large sums of money into small deposits to dodge the rules that require banks to report all large deposits – a technique known as "smurfing" – laundrymen can easily avoid detection. Besides, it is difficult to make a distinction between "good" and "bad" international transactions. A speculator who pulls money out of Malaysia because he is trying to profit from a devaluation, is engaged in what can be considered an anti-social act. A Malaysian exporter who wins customers abroad in part by letting them buy now and pay later, is helping the country. But suppose that the exporter, suspecting that the ringgit will soon be devalued, asks his customers to pay in dollars and encourages them to take a long time before actually paying. The effect is the same as if he took the ringgit and bought dollars on the black market. There are, thus, many ways in which the line between productive business and currency speculation can be blurred, rendering the identification of crime very difficult. Second, as rules become more sophisticated, so do the dodging techniques. Single-premium insurance policies are bought with dirty money, and are cashed in early in return for a "clean" cheque from the insurer, or used as collateral for a bank loan. The possibility of transferring money electronically and of using microchip-bearing stored-value cards also present new possibilities for laundering money. Rather than in the form of physical cash (which is a logistical nightmare for criminals), dirty money can now be carried around on a piece of plastic, like a credit card. Worse, as old laundering centres are toughening up their rules, new ones are opening their doors. Because many economies in Asia are heavily cash-based, that continent is vulnerable to laundering. India and Pakistan have large "underground" banking systems and Thailand has already turned into a launderers' paradise as 15% of the Thai GDP is estimated to be associated with money laundering.

Aware of the growing threat that dirty money poses, Northern countries have tried to protect themselves by toughening up anti-laundering laws. In some countries (like the Netherlands), money laundering has been made into a criminal offence in its own right (previously it had to be linked to a prior crime, such as drug trafficking). Financial-intelligence gathering is also being improved as is international cooperation. However, banking secrecy remains a serious problem and international action against countries which practice this policy is very weak, probably for diplomatic and geo-political reasons. Getting an international agreement on minimum anti-laundering standards and rules will not be an easy task but it is clear that a concerted global response to the problem of dirty money is long overdue.

Financial regulation (national)

Besides international measures, domestic financial regulation policies are also necessary in order to limit the negative social and economic effects of unbridled financial flows. The liberalisation of national capital markets brings advantages such as access to additional capital. However, it has also caused serious problems because of the strong fluctuations in short-term capital movements that led to boom-bust cycles disrupting the real economy and affecting especially the situation of poor and middle-class people in many Southern countries. Rapid inflows, for instance, can complicate monetary policy. They can lead to excessive lending and to bubbles in equity and property markets (as the Asian crisis has shown). Rapid outflows make it harder to reduce interest rates to stimulate domestic economies. With investors fleeing one emerging market after another, leaving shattered economies in their wake, a swelling chorus insists that domestic regulatory measures are necessary to stem extreme volatility.

In this context, the attention has turned to capital controls as a means to restrict asset movements. Chile (and also Colombia) is widely cited as a model. This meant various restrictions on capital inflows, including a requirement that a portion of any money borrowed abroad be deposited for a year at the central bank, without interest. This measure represents an attempt to push back short-term foreign debt in favour of long-term loans. The percentage of the investment sum which has to be deposited interest free can be varied, providing the country with an instrument with which it can influence the extent of capital inflow. Chile's experience showed that these measures led to a relatively high ratio of direct versus portfolio investments. The fact that Chile was only affected slightly by the Mexico and Asia crises can, at least partly, be attributed to the capital control transaction controls.

Capital export controls were introduced by Malaysia during the Asia crisis. These measures sought to prevent the withdrawal of finance capital that had previously been imported. Exports of credit balances in Malaysian currency and the repayment of foreign loans which exceeded a certain ceiling required central bank approval. It is likely that these measures increased the Malaysian government's room for manoeuvre for combating the Asian crisis by means of an expansive financial policy. Although experts predicted that the Malaysian capital export control measures would shy away international investors this never happened and the country has still not been cut off from international financial flows.

Obviously, capital import and export regulations must be accompanied by sound macroeconomic policies and must have an adequate institutional backing. Countries with a weak banking regulation system are less well placed to introduce and monitor such regulations. Nevertheless, considerations on the autonomy of low-income countries to manage their capital account should be incorporated into the discussions to broaden the mandate of the IMF. Low-income countries should retain the right to impose controls on capital import and export flows, particularly in times of crises. More broadly, they should be allowed to determine their own pace of capital account liberalisation.

The need to appraise exchange rate systems

A casual glance at the IMF's attitude towards exchange rate systems produces a confusing picture. In 1997 the IMF urged Asian countries to devalue or float their currencies. In 1998 it lent billions of dollars to Russia and Brazil to try to help them maintain their exchange rates. It praised Hong Kong for its super-strict currency board, and complemented Singapore for its flexible managed float. Given that exchange rate regimes are by definition central to currency crises, these different positions do not seem to make sense.

The inconsistency of the IMF reflects deep divisions about exchange rate regimes among economists. This explains why groups like the G7 and the G22 have stayed clear of the subject. The issue is linked to the earlier mentioned "impossible trinity". In a world of increasingly mobile capital, countries cannot fix their exchange rate and at the same time maintain an independent monetary policy. They must choose between the confidence and stability provided by a fixed exchange rate regime and the control over policy offered by a floating rate. A floating currency allows a country to adjust to external shocks through the exchange rate. In countries with a fixed exchange rate, domestic wages and prices will come under pressure. But floating exchange rates have a big disadvantage: they can become highly unstable, especially when large amounts of capital flow in and out of the country. That instability also has high social and economic costs. Moreover, floating exchange rates can reduce investors' faith in a currency, thus making it harder to fight inflation. To get the best of both worlds, many emerging economies have tried a hybrid approach, loosely tying their exchange rate either to a single foreign currency (such as the dollar), or to a basket of currencies. A more dramatic step is currency union. Either individual countries can pool their currencies to create a new one (such as the euro), or they can simply adopt the currency of another country (like Panama, which uses the US dollar).

For the future, it seems likely that emerging economies will divide into two groups: those with flexible exchange rates and a relatively low level of integration into global capital markets; and those that bind their economies together through currency boards or currency unions, and as a result have heavily integrated financial systems with strong foreign ownership. Within a couple of decades, this division could result in two sizeable currency blocks, the dollar and the euro zones, together with a large number of countries with floating exchange rates. Different countries will have taken different routes to achieving the "impossible trinity" of integration, regulation and sovereignty. Those in regional unions will have given up sovereignty for integration; those with floating exchange rates will have maintained sovereignty, but often at the cost of restricting integration with the rest of the world.

In such a new situation, global financial regulation may become easier. Reaching global agreements will become less cumbersome as the number of participants in negotiations falls.

In the meantime, however, it seems that the markets enforce a sort of double standard. Floating exchange rates work rather well for Northern countries because markets are prepared to give those countries the benefit of the doubt. But since 1994, one Southern country after the other discovered that it cannot expect the same treatment. Again and again, attempts to engage in moderate devaluations led to a drastic collapse in confidence. This double standard, resulting from fear and greed, make it extremely difficult for many Southern countries to follow sensible policies and actually force them to apply measures which would normally be considered perverse.

Currency transaction taxes

At present, global currency transactions collectively amount to about $1.5 trillion per day. In order to dampen speculative flows (which constitute the lion share of the currency transactions), several models for currency transaction taxes have been advanced. The best known is the Tobin tax, named after the Nobel price laureate James Tobin, who first proposed the idea in 1972. The proposal is to levy a tax of between 0.1% and 1% on international financial transactions. Since speculative transactions have a very short lifecycle, such a tax would make these much less attractive than long-term investments, thereby reducing volatility. In addition, such a tax would be an attractive source of income for financing development, international organisations, environmental protection, and other good causes. Studies have shown that, in principle, the introduction of currency transaction taxes is feasible. More work remains to be done on a number of technical issues whereas political will to implement such taxes is not widespread. Nevertheless, discussions on such taxes should continue.

Outstanding debt issues

The continuing high foreign debt levels faced by many Southern countries substantially limit their budgetary scope for programmes to combat poverty and to work towards reaching the Millennium Development Goals in general. If only for this reason, wide-ranging measures for debt remission should be taken. Such measures would be an efficient alternative to disorderly capital movements in times of crisis. Volatile capital flows are not only bad for debtor countries, but also for most creditors. Chaotic exchange rate depreciations and interest rate increases are bad for domestic companies and banks and increase the chances that what is actually a problem of illiquidity may turn into one of insolvency.

Poor sectors of society will bear a significant share in adjustment costs as social spending is often cut.

An important argument against debt remission is that it creates “moral hazard”. Investors who have taken excessive risks by giving loans to certain countries would be bailed out on the back of a IMF safety net. These worries should now be mitigated as most investors in Asian countries, and especially investors in Russia who bet on the “moral hazard play”, have taken very heavy losses. Even the deputy manager of the IMF, Stanley Fischer, now admits that there is a need to balance concerns over moral hazard against the costs for failing to assist countries in need.

In 2002, the world moved a bit closer to creating a better system for dealing with countries that go bankrupt. At the September meeting of the World Bank and the IMF, finance ministers gave the IMF six months to come up with a proposal for how to craft a statutory framework for bankruptcy, by amending the Fund’s articles of agreement (a plan known as the Sovereign Debt Restructuring Mechanism, or SDRM). In addition, progress was claimed in dealing with defaults on a voluntary basis, by encouraging emerging economies and their financiers to include “collective action clauses” in sovereign bond contracts. Argentina, for instance, has over 80 different bond issues outstanding (as well as different kinds of debt). These bonds have different statuses. Many are issued under New York law, which means that any individual bondholder has the right to sue and demand full payment. Others don’t have such a right. A procedure which ensures collective action among these many and varied creditors would be good. Not surprisingly, financiers involved in emerging markets don’t like these proposals. Many claim that that the plans would expropriate the rights of existing bondholders.

Although few debt crises are purely about external sovereign bonds – Asia’s financial crisis was about foreign debts of companies and banks, and Brazil’s problems are mainly with domestic debt – the proposed measures would be a step forward. The question remains whether enough political will can be mustered, especially in the United States, to proceed.

Another way to reduce foreign debts is the heavily indebted poor countries (HIPC) initiative. This initiative has been very slow in its operation due to three major problems. First, there is the complexity of the process required for eligibility, which is based on the implementation of two successful enhanced structural adjustment facility (ESAF) programmes (a fact that requires a minimum of six years to complete it). Second, there is the inappropriate definition of debt sustainability levels, which are based on two criteria (fiscal and balance of payments, with relatively high threshold levels, particularly for the ratio of debt service to fiscal revenues (25%). Third, there is a lack of adequate funds to finance it (which led to the adoption of more stringent access requirements). An additional problem is that (new) ODA flows are redirected towards the HIPC initiative.

A more ambitious, adequately financed HIPC initiative must thus be a priority on the international agenda in the immediate future. This must include the full cancellation of ODA debts of all HIPCs, debt reductions of at least 80% on other bilateral official debts, a shorter time span to become eligible (one ESAF programme), less restrictive thresholds of debt-to-exports and debt service ratios, and a lower ceiling for the share of fiscal revenues allocated to external debt service. Funding must include a partial sale of IMF gold, a fresh allocation of SDRs for this purpose, and additional financing from the North to the HIPC Trust Funds.

One of the clearest lessons for international economics in the past few decades has been that foreign capital is a mixed blessing. Some forms of foreign capital, and especially short-term bank debt, have led to serious problems in many Southern countries. There are various reasons for the debt crises. These causes have been analysed extensively in many publications. For the sake of the argument made in this paper, we should like to point to one reason which is not often cited. Banks are fragile in the sense that they promise depositors to repay deposits on demand and in full, even though they are unable to keep that promise in case a significant number of depositors ask their money back at the same time. To avoid the risk of bank runs, governments arrange deposit-insurance schemes, and other forms of assurance, thereby following the doctrine of "too big to fail". If a bank fails, it may take other banks and enterprises, not to mention depositors savings, with it. This can lead to big crisis and even depressions. The Great Depression of the 1930s, for example, was the inspiration for the modern deposit-insurance model. The result is that (Northern) banks are systematically protected from the consequences of reckless behaviour.

Modern banks keep a far smaller fraction of their deposits as reserves than banks in the past. At the same time, banks have a big incentive to compete aggressively for deposits which they can lend at high interest rates to risky projects. This is a formula for disaster, in spite of efforts by regulators to measure and curb the risks. So, critics who accuse Northern governments of being mainly concerned with bailing out Northern banks when a financial crisis hits the South, have a point. The logic of "too big to fail" not only applies in domestic contexts but also at the international level. It may sound cynical, but if you are going bankrupt, you should make sure that you are a big Southern country (rather than a small one) with debts large enough to threaten catastrophic damage to Northern economies. That way you can be assured of prompt attention. Small is not always beautiful...