Meeting of the Socialist International Council, Palais des Nations, United Nations Geneva, 23-24 November 1998

TO REGULATE GLOBALISATION AND TO GLOBALISE REGULATION

Globalisation is a powerful driving force which can promote growth and development. However, it can also increase social and regional inequalities and vulnerability to crisis.

As the Socialist International declared at its 1996 XX Congress "globalisation has increased the power of multinational corporations, manipulators of foreign exchange markets and international organisations at the expense of governments, electors and the democratic process... We need a new system of collective responsibility offsetting the negative effects of globalisation."

The recent turmoil in financial markets is a clear example. In Asia, two fifths of the global economy is in recession, with negative repercussions already evident in the rest of the world. While its origins were complex, the lack of democracy, of transparency, of social rights, common phenomena in most of the countries where the crisis began, cannot be ignored. The deregulation of capital markets was also a catalyst for the Asian crisis.

While this is not in itself a case for the general re-introduction of capital controls, the Asian crisis illustrates the need to restructure the present imbalance between the ascendant power of financial markets and the diminished power of governments to hold them to account. Not least, while most foreign exchange transactions used to be to finance trade, now most of them are speculative.

Globalisation emerged when most of the governments in Europe were dominated by right wing political forces and the ultra-liberal paradigm was dominant. The concerns about democracy, social solidarity and environment were considered minor issues in the liberal agenda. Globalisation, specially the increasingly integrated financial markets, was seen as a process or the ability to do "anything anywhere" in order to obtain more profits. Deregulation was the key word.

After the Asian crisis, this blind faith in the markets is losing the support of public opinion. Gradually, in view of what happened, and how and where it happened, Democracy, Transparency, and Social Cohesion are recognised as precious assets in this new age of globalisation. They are essential for economic and social stability, which are important comparative advantages in the long run.

Now regulation is increasingly the key word heard in international fora and institutions. The very international nature of the current financial crisis calls for the cooperation and coordination of the international community efforts.

How is it possible to limit the negative aspects and to improve the positive effects of globalisation? In a global economy the answer can only be by globalising regulation itself. This means resolving a paradox: that trade and financial markets now are global but governance and regulation are mainly national.

In turn, this implies a choice between two main approaches to globalisation. As argued in the 1996 Socialist International XX Congress Declaration on the World Economy, there is:

- The responsible way, taking into consideration diverse regional realities and the social cohesion of different societies, thereby contributing to the global improvement of economic and social well-being and preserving the environment. This is the SI approach: globalisation, in order to be an element of progress, must be regulated.

- The ultra-liberal way, without social and environmental concerns, which will globalise poverty, not only in the developing countries but also increasingly in the developed countries, tending to standardise social rights at their lowest level.

Our actions now must be urgently focused on three main issues:

a. to reduce the present risks of deepened financial crisis and of global recession and to support countries which have been hit or threatened;

b. to improve the coordination of economic and social policies in order to gain sustainable growth with greater social cohesion at world level;

c. to reform the international framework for financial and economic regulation including the functions and roles of the IMF and the World Bank as called for by President Clinton in 1994 at the Naples G7 meeting, and the more recent call by the French Socialist Government for a New Bretton Woods agreement.

1. Crisis in the Context of Globalisation

Now, rather than with more delay, is the time to act. It also is time to recognise that we face a new kind of crisis in the context of globalisation.

a. Capital markets now are more controlled by market operators than by central banks. Leadership has been transferred from industrial capital and services to finance seeking short run benefits and speculative gains rather than long-term investment.

b. the liberalisation of foreign exchange and opening of stock markets recently undertaken by several reforming or developing countries both under pressure from the IMF and to attract foreign investment was precipitous and lacked an adequate institutional base. The banking system, stock market organisation and the rules for credit provision were insecure. In Asia, denominating borrowing in dollars increased debt repayment when currencies depreciated. Liberalised capital markets meant that decreased confidence unleashed a massive capital withdrawal and lead to dramatic depreciations, a severe reduction of credit, a strong increase in the debt burden and a fall in national production and employment.

c. Without conviction that governments, by joint action, can stem recession, a crisis in one group of countries can be immediately transmitted by speculation to others, even if their economic base is sound.

d. Contagion from negative expectations can lead to a general shrinking of credit, especially for smaller firms, slowing down investment and growth. As stock markets fall, the income of pensions funds is reduced and diminishes the possibilities for firms to raise new finance. Investment and consumer demand slows, reinforcing the reduction of global demand and the risks of depression. The risk of beggar-my-neighbour deflation is aggravated by increased inter-dependence in globalised trade. Japan is already in recession. Other key economies, such as those of the United States and European Union, are not immune.

e. The risks of global deflation are higher because all these dynamics have occurred within a general framework of macro-economic policies targeted at price stability, despite the fact that prices have gone negative for many key commodities world-wide and the risks of a global inflationary problem are negligible.

f. In a multinational economy, competition for direct investment has meant that governments have tended to tax capital less and shift the burden of direct or indirect taxation onto labour. There have also been demands to reduce the social costs of labour without recognition of the degree to which these have in many cases been outstripped by increases in labour productivity. A competitive lowering of social benefits degrades labour and the quality of life, and also will further reduce demand unless compensated in other ways. Only some action in some countries has been taken to use fiscal policy to stem the degradation of the environment.

g. The slowdown of demand in developed countries and the contraction of world trade reduce the prospects for growth in less developed countries. This makes it more difficult to improve social standards. Social dumping then becomes common as a means of maintaining competitiveness and employment. This is compounded by widespread neglect or rejection of social rights, including the rights for women and ethnic minorities, and the right to trade union organisation and negotiation. Without such rights a pluralist democracy either withers, or cannot flourish.

h. The paradox of such negative effects of globalisation is that the blocking of growth in less developed countries hinders prosperity in developed countries themselves. This is compounded by the degree to which the allegedly global economy is not truly global. In terms of foreign direct investment, other than for minerals and raw materials, sub-Saharan Africa is virtually excluded from any gains from globalisation.

i. Meanwhile the less developed countries with the highest growth potential lack the resources to develop, and the gains for the mature economies of investing in them are neglected.

A direct conclusion can be drawn from these trends. If we want to maximise gains and minimise losses from globalisation, we need to restructure the global imbalance between public and private financial power. If we want financial markets to serve people rather than master governments, we need to ensure that they can maximise employment and welfare and minimise risks to the environment. They need rules of the game which can promote positive outcomes, for themselves and the world economy, rather than their recent record of zero or negative sum outcomes. This implies a governance framework for the global economy and to safeguard the global environment.

2. A framework for developing transitional economies

The general framework for supporting developing and transitional economies must be re-examined and re-focused and some urgent actions taken:

a. Both at national and global levels we need a stronger emphasis on transparency, adequate financial supervision and accountability, and adequate minimum standards for operators. Strengthening national supervision systems is a must.

b. The massive power and volatility of foreign exchange markets needs to be countervailed by further increases in IMF contingency funds to deter speculative attacks on, and to support, emergent markets in the developing and transitional economies. The recent example of Brazil shows the importance of such intervention. Others also may shortly need support. But IMF support should not necessarily mean deflation, devaluation and further deregulation on such economies.

c. In specific cases, not least to avoid costly bailouts, capital controls could be temporarily adopted under restricted conditions, and especially for short-term speculative flows. Long-term portfolio investment and direct investment should not be restricted.

d. Action should be taken to reduce the debt payments of those countries committed to economic and social reform. They must be helped to escape the trap of more debt to meet current debt repayments. This not only would help them since reducing debt payments could free funds for domestic investment.

It also would help creditor countries by increasing other countries' imports from them.

3. Recasting Development Assistance

More resources should be provided for multilateral cooperation, such as the issuing by the World Bank of Development Bonds, while a levy on foreign exchange transactions could raise revenues for IMF Contingency Reserves and slow down purely speculative transactions.

It is evident that structural adjustment policies, reinforced by cross conditionality, have in large part been paid for by the poor, and that trickle-down rarely occurs while upwards income shifts have been marked. To break this circle means taking a Gordian knot approach to cutting poverty by a global programme for direct expenditures on nutrition, housing, sanitation, health and education for the poorest people in both the less and the least developed countries.

A new approach should start with a careful examination of the specific local conditions in order to make adequate proposals. Such social investments should be monitored and subject to social conditionality, i.e. good projects would be rewarded and could be extended; inadequate projects would not, and misallocated funds would be penalised.

All projects undertaken by the World Bank should be subject to the condition that they protect or enhance the environment, i.e. environmental conditionality.

More emphasis should be put on expanding domestic demand and meeting basic needs rather than on export-led growth.

Development deficits on trade should be expected for many of the developing countries pursuing investment in the social sector, and exempted from financial conditionality.

All this implies that the International Monetary Fund and the World Bank are provided with more resources, new terms of reference and clearer roles. In particular, there was merit in the original distinction that the Fund was an agency for short-term balance of payments support as a means of avoiding unwanted devaluation or unnecessary deflation, while the Bank was conceived as a long-term development agency. These roles became confused from the 1980's when the Bank insisted on cross conditionality by the IMF before it would undertake development programmes. World Bank President Wolfensohn recently called for such a redefinition of roles and stressed that the central concern of the Bank should be with social development. He should be supported in this.

One reason for the low level of institutional investment in many developing countries is both the internal weakness of their own financial intermediaries and the associated risk. This was evident also in some of the newly industrialised countries in Asia. But in the less developed countries this could be offset by strengthening local institutions in cooperation with the multilateral agencies. In particular, institutional investors are attracted to public bond issues at a time when stock markets have declined and their future is uncertain. It is in this sense that the World Bank should be a major player in the issue of Development Bonds which could co-finance a range of diversified investments in less developed countries. To offset the credit squeeze and strengthen business capacity, it also should introduce a Global Venture Fund to co-finance venture capital markets for small and medium firms in developing countries.

4. Promoting sustainable growth by coordinating economic policies

Stable and expanding demand is essential to sustain growth. As stressed in the preamble to the WTO treaty, trade liberalisation and an opening of developed countries' markets, need to be complemented by effective demand to achieve full employment. The further opening of developed countries must be encouraged with some guarantees against the risks of unfair competition due to social dumping. Free trade should also be fair trade.

To effect this, the World Trade Organisation should adopt a system of preferences favourable to less developed countries, combined with the adoption of a social clause, forbidding forced and child labour and including equal opportunities for men and women, trade union freedoms and collective bargaining.

But the central responsibility remains with the developed countries, in the general interest and in their own interest. They are the core of the world system. By their economic policies they determine global demand. Their role in defining global long-term interest rates should be to sustain a virtuous cycle between savings and growth and to trade-off the current low risk of inflation against the higher risk of underproduction and unemployment.

Several governments already understand that the main danger now is not inflation, but deflation, depression and unemployment. To tackle these dangers, it is necessary:

a. both to reduce the interest rates and to ensure that the exchange rates of the major currencies either are stable or can be adjusted in a coordinated way;

b. to increase investment in both infrastructure and human resources, with new financial instruments for public-private partnerships in investment;

c. to increase investment in the social sector, including health and education, as well as urban renewal and protection and enhancement of the environment;

d. to focus supply side policies on process and product innovations, and innovative services in meeting social needs. as well as extending the skills of and retraining unemployed workers. Special attention should be paid to the basic education of low skilled workers in order to promote their employability.

Such policies, should reduce unemployment, social exclusion and improve welfare.

These issues are particularly crucial to the European Union. On the eve of the single currency, the EU Member States must improve their coordination and define their policy mix to achieve a strategy for growth and employment. This new policy mix should exploit the increased strength that will emerge from the single currency and increase the feasibility of macro-economic policies coordination between the main global economies. In particular, with a single monetary policy, the Euro Zone should play an active role in international regulation and make a major contribution to a new global financial order.

The new policy mix should favour internal demand growth to promote employment and increase international trade.

With those aims, the European Union should:

- pursue an exchange rate policy which enhances Euro credibility but avoids its over evaluation;
- call for a monetary policy which keeps inflation low but promotes investment, growth and employment;
- match the common market and a common currency by common financial instruments such as European bonds as a means of shifting savings into new investment;
- draw on the model of US Treasury bonds - which financed the American New Deal - to finance European Investment Programmes by Eurobonds;
- adopt a fiscal policy which allows more resources for social investment and structural policies;
- promote a sustained European growth programme on these lines to contribute to offsetting recession in the rest of the world economy.

5. To reform the international framework for financial and economic regulation

International financial institutions were created more than 50 years ago, in a macro-economic context that has drastically changed. They are not equipped to deal with the challenges that the developing countries and transitional economies face today, and accordingly, they have not served their needs adequately. This should be remedied by a substantial review of the functioning of the Bretton Woods institutions. Developing countries should play a major role in the reform discussion process.

To reform and improve on the Bretton Woods framework, both governments and the multi-lateral institutions must be able to promote sustainable global growth and development, reinforce social rights and welfare, protect and enhance the environment, and ensure regulation and accountability of financial markets at world level. This, in turn, requires a new balance between collective security and individual responsibility. It should:

- define and enforce a code of conduct among operators in financial markets and sanctions for 'moral hazard';
- organise a world-wide system for monitoring financial and economic risks, including the international exposures of investment banks, hedge funds and other institutional investors;
- examine the practicality of a turnover tax on foreign exchange transactions in order to discourage speculative capital flows, raise revenue for IMF currency support and World Bank development programmes;
- increase the Contingency Fund of the International Monetary Fund and define a new allocation of 'Special Drawing Rights' in favour of developing countries and countries in transition;
- introduce in the IMF a system whereby there would be a moratorium for creditors and lenders during a liquidity crisis which would allow both sides to agree on a strategy for consolidation without inducing large capital outflows;
- improve the political accountability of the International Monetary Fund, the World Bank, the World Trade Organisation and the International Labour Organisation and in particular transform the IMF Interim Committee into a Political Council with decision-making, rather than consultative powers, as foreseen in Article XII, Section I of the Articles of Agreement;
- encourage regional integration at economic, financial and political levels both to strengthen cooperation between countries and to facilitate the consistency of macro-economic coordination;
- promote a policy dialogue and closer cooperation between the International Monetary Fund, the World Bank, the Development Group of the United Nations, the World Trade Organisation and the International Labour Organisation;
- encourage the International Labour Organisation, with its unique tripartite structure to promote workers' rights, more and better employment, appropriate social protection and social dialogue for sustainable growth and investment.

A stronger institutional framework is needed to achieve such a new system of collective responsibility. That is why we propose the creation of an Economic Security Council (an enlarged G7) within the UN framework, as a way to effectively coordinate international economic policy and to address global issues such as the stability of exchange rates and international capital flows, the avoidance of fiscal competition and action on global programmes to reduce unemployment and stimulate economic recovery. This forum is also required to increase the cooperation of international financial institutions within the UN framework. Negotiations to create such a Council should be launched immediately, involving relevant partners of both developed and developing countries.

The form of such an Economic Security Council could combine a given number of additional permanent members with a variable membership of smaller countries. A new structure on these lines would be both more representative of global realities and constitute a manageable forum for the exercise of collective responsibility.

At the top of its agenda, this Council should include not only the redefinition of the role of the Bretton Woods institutions but also a global recovery programme promoting investment, trade, income, and employment.

To regulate globalisation and to globalise regulation is not only a matter of concern to international financial institutions. It should be the means for a new international order, which can reinforce democracy and promote solidarity. It is also a central responsibility for governments and political parties of the Socialist International.