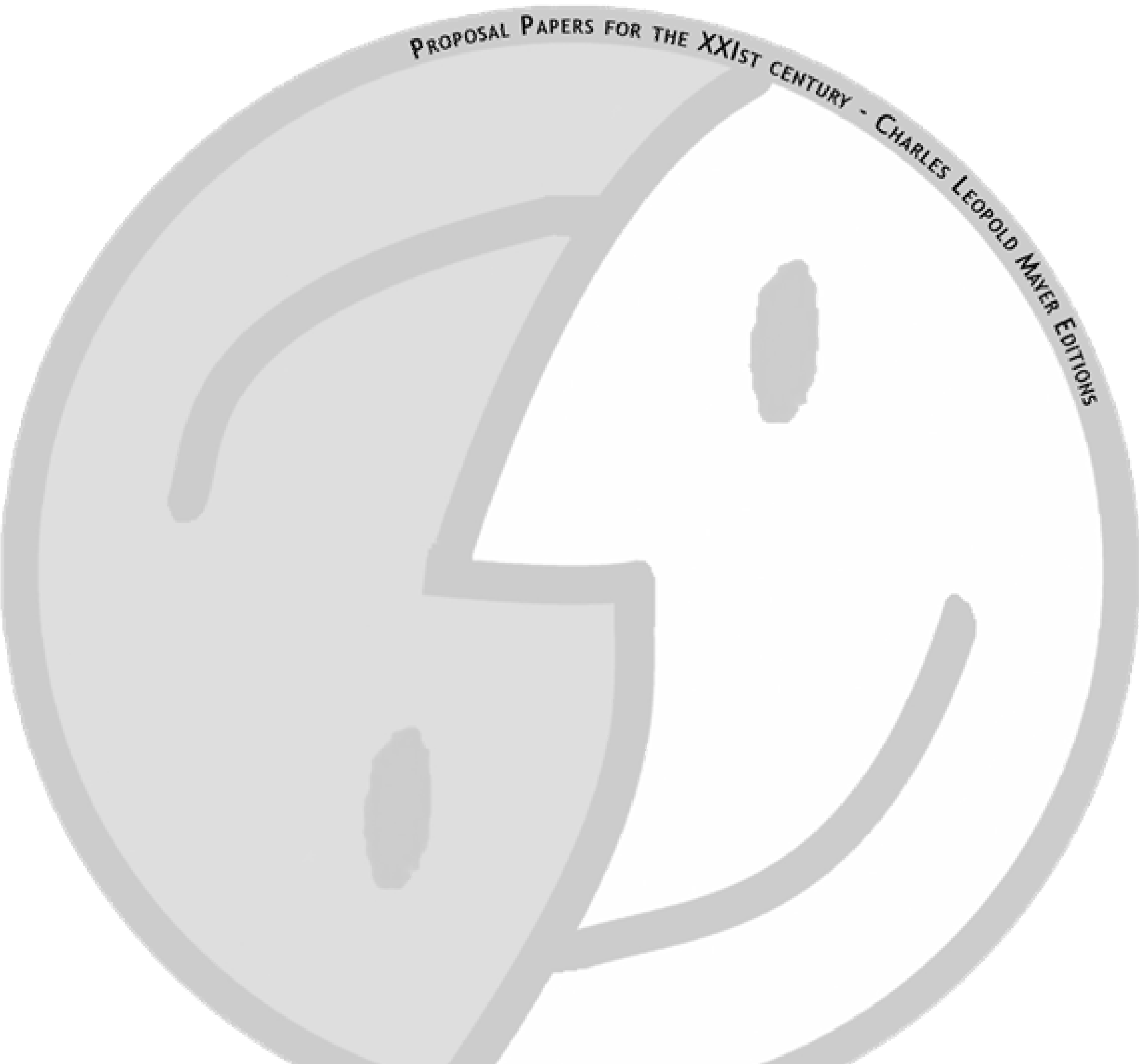
SERIES SOCIO-ECONOMY OF SOLIDARITY

Escaping from the financialisation maze: finance for the common good



Proposal papers for the 21th century

The proposal papers are a collection of short books on each decisive area of our future, which assemble those proposals that appear the most capable of bringing about the changes and transformations needed for the construction of a more just and sustainable 20th century. They aim to inspire debate over these issues at both local and global levels.

The term ‘globalisation’ corresponds to major transformations that represent both opportunities for progress and risks of aggravating social disparities and ecological imbalances. It is important that those with political and economic power do not alone have control over these transformations as, trapped within their own short-term logic, they can only lead us to a permanent global crisis, all too apparent since the September 11th attacks on the United States.

This is why the Alliance for a Responsible, Plural and United World (see appendix) initiated, in 2000-2001, a process of assembling and pinpointing proposals from different movements and organisations, different actors in society and regions around the world. This process began with electronic forums, followed by a series of international workshops and meetings, and resulted in some sixty proposal texts, presented at the World Citizen Assembly held in Lille (France) in December 2001.

These texts, some of which have been completed and updated, are now in the process of being published by a network of associative and institutional publishers in 6 languages (English, Spanish, Portuguese, French, Arabic and Chinese) in 7 countries (Peru, Brazil, Zimbabwe, France, Lebanon, India, China). These publishers work together in order to adapt the texts to their different cultural and geopolitical contexts. The aim is that the proposal papers stimulate the largest possible debate in each of these regions of the world and that they reach their target publics whether they be decision-makers, journalists, young people or social movements.

Presentation of the Paper « Escaping from the financialisation maze: finance for the common good »

The importance of finance in the western vision of society has grown in parallel to an increased confidence in the future of the system and to the multiplication of assets and financial transactions. This process can be qualified as the "financialisation" of the economy: the extension into the economic world of the financialisation of mentalities. Before becoming an economic reality, the financialisation of mentalities is a social fact that leads to the setting up of self-referential restraints and establishing them as dogma, as universally applicable economic laws, when in fact they are no more than institutionalised actuarial gambles. It follows that Northern societies become more isolationist, with a parallel mechanism affecting the Southern economies. However, concern for the common good implies and pre-supposes opening up to, taking into account, indeed even welcoming, others. More consideration of others in current financial decisions would constitute an important step towards the common good. It should do so without bearing any prejudice towards financial activity itself, which is an essential element in economic life. The three areas where the explicit consideration of others seems to be required most urgently are credit, investment and intermediation activities.

Escaping from the financialisation maze: finance for the common good

Paper co-ordinated by Paul H. Dembinski

Summary

(Con)Fusion between Money and Finance

Money is the basis for exchange: transactions

The monetary phenomenon has taken on different forms in different cultures, ranging from rationing systems with more or less ritualistic, if not sacred, components to open and global exchange networks governed solely by an economic rationale. In a context where everything is up for sale or purchase, where everything has a price, money is the expression of the debt that society, as the issuing party, owes to those who possess cash at any given moment. At the time when the notes in circulation were guaranteed by gold in the central bank, the money holder had, in the worst case, the prospect of exchanging it against precious metal, perceived as a value transcending the existing monetary system. Today, the debt of the issuing party is no longer guaranteed by a stock of metal, even on the surface. This underlines all the more clearly that money is a social institution based on trust, renewed each time money is used for a transaction. With this process, the participants are indirectly expressing their commitment to a social pact embedded in the monetary order.

In the everyday world, money represents purchasing power, a down payment endowed with the power to trigger transactions and exchanges, whereby objects and rights change ownership. Totally fungible and transferable, money is particularly well suited to settling anonymous and instantaneous transactions. And money is in constant circulation. At the time when it had physical form, money literally "changed hands"; nowadays it has become pure information that draws its meaning from the monetary order in which it circulates.

Monetary circulation helps to structure economic activity. By making transactions possible, it encourages participants to specialise, and contributes to the forging of interdependency. Subsequently, specialisation provides society with the advantages of economic efficiency.

Finance builds the future: relationships

In contrast to money, used for instantaneous transactions, finance can only be conceived in the long-term. Finance creates relationships rather than transactions. Whilst money adapts to the anonymity of the protagonists, financial relationships are based on the commitments of players who, theoretically, are known. These commitments promise or guarantee future payments and, in the intervening period, become "financial assets". Whether it is a matter of national debt, a bank deposit or company shares, at least one of the two parties to the financial relationship is identified, although the other can change over time.

Finance lubricates monetary circulation because it allows players with surplus cash to put it back into the economic circuit in a way that is both temporary and redeemable. At the same time, it provides players with cash flow problems with the means to finance their projects. The power of finance to enable future transactions to be secured means that it is an extension of, and complementary to, money.

From the economic point of view, finance complements and broadens the action of money, promoting as it does increased efficiency through the constant re-allocation of capital within the economy. Two conditions are necessary for the development of finance: a monetary order and a minimum level of trust.

Money becomes finance

In a post-industrial and globalised economy, the respective functions of money and finance – clearly separate at the conceptual level – lose their autonomy. In effect, providers of goods and services are giving increasing importance to the relationships they are creating with their clients in terms of anonymous and instantaneous transactions. Thus the place reserved for "relationships" in economic life is growing at the expense of "transactions". As a result, money is becoming increasingly engulfed by finance. Furthermore, technological developments are bringing about changes to the structure of the monetary order: the physical basis of money has lost importance, thereby strengthening the rules that regulate the system in which monetary information circulates. Consequently, the various functions of money – previously grouped together under the same physical umbrella – have become the preserve of specialised sub-systems. In particular, the traditional function of "inter-temporal value reserve" has very clearly become the preserve of finance.

Financial innovations have been mirrored in the ever-increasing complexity of the methods used by banks, both in their interbanking relationships and their customer relations. This facet of financial innovation has set banks the challenge of drawing a line of demarcation between what is, and what is not, money. Because of the growing importance of financial intermediation, the clear conceptual boundary separating money and finance has become blurred. Between the totally liquid asset, best represented by the bank note, and the government-issued bond, there is a whole range of gradations that make a clear distinction between money and finance impossible, to the point where it is apposite to talk of the (con)fusion between money and finance. This fusion has very far-reaching consequences, since it blurs the boundaries between the responsibilities of the public sector, traditionally in charge of the monetary system, and the private sector, habitually concerned with finance.

Blind Faith in the Future

Trust in a variety of forms

Trust enriches both money and finance. Where money is concerned, trust is confined to the possibility of converting money held into goods desired. As far as finance is concerned, trust has two key aspects. The first aspect corresponds to shared trust (collective or social) in a future that can feasibly be envisaged and where it is possible to imagine oneself both individually and as part of a group. This trust opens up horizons for building the future via a fabric of financial relationships that establish interdependency between today and tomorrow. Such confidence in the financial construction of the future is somewhat rare historically, even if it can appear quite "normal" in modern Northern hemisphere nations.

The second aspect of the trust that feeds finance is that which binds partners to a financial relationship. This could be qualified as "mutual trust". It amounts to a feeling, shared by partners in a financial relationship, of mutual understanding and the power to predict, with a strong degree of accuracy, the other partner's behaviour in unforeseen circumstances. It is based both on collective values, that are either shared or at least mutually recognised, and on the guarantee given by mutual membership of a network or social group from which it is difficult or impossible to escape unilaterally. When one partner belongs to a social unit, the risk taken by the other partner in entering into a financial relationship with that partner is reduced.

With the rise of the constitutional state, "mutual trust" has been institutionalised, but its nature has remained unchanged. The state is the expression of both common membership and the future, whilst the rights associated with the system of state control have become the guarantee of contractual respect, and therefore – to all appearances – replaced the reference to collective and shared values.

During the last quarter of a century in the financial sphere, the Northern nations have shown unprecedented vigour in expressing trust both in their institutions and their ability to construct the future. Banks, pension funds and financial markets have been the main beneficiaries of this feeling of total security, to the point that they have become the guardians of a personal and social future. As is clearly proved by the uninterrupted upsurge enjoyed by finance during the last quarter of a century. This upsurge has been fed by the unprecedented economic performances of the last few decades. Thanks to a positive retroactive effect, financial performances have further boosted the social trust from which finance benefits.

A Security Utopia: the Financialisation of Mentalities

Considered from a strictly economic viewpoint, finance is an economic sub-system expected to perform three very specific functions: (a) ensuring that payments are made, (b) acting as a repository for savings and making them available for investment projects and (c) assessing risk, giving it a price and ensuring that it is properly allocated. Although payment handling and converting savings into investments represent traditional financial functions, large-scale risk management is a relatively new function which is limited to the Northern nations and which has increased with the multiplication of financial assets and reduction in the corresponding transaction costs.

Since the last World War, conditions have been particularly favourable to economic development. Uninterrupted growth coupled with unprecedented technological advances has been accompanied by deep-reaching changes in both individual and collective imagination and mentalities. Step by step, the economy has become established as the central aspect of social life. This shift underlines the fact that today we do not hesitate to talk about "market society" when qualifying the reality of Northern nations. Only a short time ago, the term "market" was used exclusively for the economy

Whether we want it or not, economics are now at the heart of all that is social, and finance is at the heart of economics. This change is reflected in the structure of social cohesion: monetary transactions and financial relationships are as much a factor of social inclusion as their absence is of exclusion. Social cohesion is less directly interpersonal: relationships with things have tended to replace relationships with people. As a result, on both individual and social levels, economic and financial activity has ceased to be a means and become an end in itself. Consequently, monetary and financial systems have become invested with new functions, in particular the function of helping ensure a minimum of social cohesion when faced with what is known as a "weak community" situation, an analogy with what political pundits call the "weak state".

We can make three observations concerning the changing role of finance in the social universe:

- at the heart of market society, assets have become one of the main guarantees of personal security. We are experiencing the evolution of a "security utopia" where the name of the game is amassing sufficient capital to become a person of independent means. Capitalised pensions and life insurance have thus become both guardians of this utopia and the main actors in the world of finance;

- the security utopia is based on an individualisation of assets, and therefore of destinies. Assets have become established as the most important aspect of trust, often to the detriment of interpersonal ties that require obligations and are thus seen as a burden. The impoverished and increasingly fleeting nature of social cohesion is mirrored in the increase in "short-term" families and their attendant consequences: the scourge of solitude among the elderly, juvenile delinquency, single-parent families, the erosion of social capital, etc.;

- in an open and mobile society, finance contributes to making social ties more and more fleeting, because it gives assets a virtual content, thus rendering them perfectly mobile and easy to mobilise. In this sense, finance "liberates", i.e. it dissolves traditional connections by creating alternatives. It transforms interpersonal trust into trust in a future guaranteed by the institutions. Whereas the security of a financial relationship was previously based on the mutual trust of operators, it now relates to the liquidity of the markets, which thus have become a substitute for trust.

One of the only motivating prospects that western societies are currently able to offer their members is the promise of a future living based on independent means. The private means that we dream of free us from work, but also from interaction with our fellow creatures. It foreshadows the modern individual, free of traditional taboos and attachments, rootless. Alone facing the display of wealth, this individual has the means to destroy body and soul in happy consumerism, where the only limit is the ability to pay.

The shift in mentalities, as previously discussed, as well as the reconfiguration of social cohesion based on purchasing power, has changed the expectations and tasks vested in finance by our societies. The security utopia has put finance in a paradoxical situation: it has evolved from a technical sub-system designed to improve the allocation and use of resources to become the world's architectural authority entrusted with an almost eschatological mission.

Behind finance's role-change lies a change in fundamental social values. Finance is nothing more than a mirror of social change; it would be wrong to confuse it with the change itself. Furthermore, there is a pressing need to identify and debate the social choices that lie behind finance's evolution. Focusing criticism on finance in order to change society is as (in)effective as expecting the mirror to change the reality that it reflects. It is therefore a mistake to look to finance or economics to find solutions to all the ills of our planet. Nevertheless, financial activities and institutions are not neutral; they do not initiate, but once activated, they shape a social organisation structured around a number of principles. The legal, economic and ethical legitimacy of capital return is far from the least important of these principles.

It is essential to take into account the change in the social role of finance in order to grasp the true nature of the issues currently building up around finance. It is patently obvious that neither the political environment, nor the institutional framework, nor even the conceptual tools set up when finance played an exclusively technical role, are suitable for the present situation. The time when it was possible to regulate and construe finance as if it were separate from the social sphere has gone, since it has become an increasingly important social factor.

Financialisation of the economy

The importance of finance in the western vision of society has grown in parallel to an increased confidence in the future of the system – the feeling of having arrived at a stable state, at the end of the story to paraphrase Fukuyama – and to the multiplication of assets and financial transactions. This process can be

qualified as the "financialisation" of the economy: the extension into the economic world of the financialisation of mentalities discussed above.
A relatively recent phenomenon, large-scale financialisation of the economy started during the 1970s. Shares available for trade on the market have increased considerably since then. It was fuelled by, among other things, western economies all turning to debt creation. This primarily involved government debt, but also included company and individual debt. At the same time, the wave of share issues affected many areas. Subsequently, petroleum products, agricultural commodities and raw materials became financial assets. The same process applied to national currencies. These assets are sought after components of increasingly sophisticated investment strategies that make significant use of derivatives and other financial innovations

The demand for shares is a measure of how far the financialisation of mentalities has come. It has been fed by a growing percentage of traditional savings as well as contributions for old-age pensions and other insurance schemes being channelled onto the corresponding financial markets. Thus, the financialisation of the contemporary economy is not an external event, but actually the result of economic policy choices (financing public deficit through debt rather than inflation) and choices made by society (financialisation of mentalities).

In a slow but continuous movement, and without being aware of it, western societies have subjected a growing portion of revenue, from countries and people as well as businesses, to the fluctuations in the value of financial assets. This has resulted in – at the macro level – growing exposure of the national product to financial market fluctuations. If financialisation were to continue indefinitely - all other things being equal – the percentage of return on capital in the national product could rise well above the current 20% to 30%. Thus we are coming closer to a society peopled by those of independent means, a society whose survival would be at the mercy of a collapse in transferable securities or some other system catastrophe.

There is another side to the coin: the value of financial assets does not only depend on their relative scarcity, but also on the prospects and expectations pertaining to added value-making activities, whether industrial or service-based. This relationship, stretching from the "real" to the "financial", is not new; it demands that financial investors not lose sight of "the basics". Thus, in a race that is repeated daily, analysts throughout the world examine this relationship as if it were separate from them, whereas they are in fact redesigning it with their analyses.

Today, like twenty years ago, the companies quoted on stock exchanges throughout the world provide a maximum 30% of global product. On the other hand, the relationship between the capitalisation of these businesses and global product grew very noticeably in the 1990s. The same is true of the global importance of public and private debts, although it remains more difficult to calculate. The levels attained by market capitalisation and by the intensity of the flows necessary to maintain them mean that any change in economic prospects or in how they are perceived will be more strongly accentuated than in the past. The resulting variation – in absolute terms – of the values of assets will therefore be greater. This variation will, in turn, have a real impact that will contribute to giving economic projections concrete form. This system can lead equally to euphoria or despair. In other terms, financial markets act like an immense sounding board; they amplify the noises they pick up and – in certain configurations – add their own sounds. Little by little, the inherent volatility of finance infiltrates the entire economy.

Thus, financialisation increases the exposure of economic activity to the psychology of the markets and mass movements. We could ask ourselves if the causalities are not about to be reversed: if the administration of the financial heritage, traditionally harnessed to the "real", isn’t in the process of taking over control of reality as a function of its own needs and demands. There are reasons for thinking that the future that we have built on the back of sacrosanct financial contracts is weighing increasingly heavily on the present. Proof lies in the fact that capital profitability takes precedence over the remuneration of labour, and that the primacy capital has over labour is becoming ever more pronounced.

An Anachronistic Institutional Framework

The financialisation of mentalities affects primarily the Northern nations, but the ensuing financialisation of the economy extends throughout the world. Thus, in thirty years, the nature of international economic relationships has fundamentally changed. During the sixties, commercial transactions between national economies that were relatively isolationist were at the forefront of international preoccupations. Today, the trans-national nature of production processes and the importance of capital movement have pushed commercial transactions to the background. Financialisation has contributed a great deal to these changes which, over the years, have gradually revealed the increasingly anachronistic nature of the international institutional framework inherited immediately after the war.

The historical backdrop

The Bretton Woods system (henceforth BW) was conceived at a moment when the memory of the crash of 1929 – and also the tragedy of the war – was still very much present in everyone's mind. So the mechanisms for regulating the international economy were designed to prevent the emergence of the vicious circle which, from devaluation to protectionism, almost totally stamped out international transactions in the thirties.

In this context, inter-governmental consensus was the only feasible form of governance. It clearly demonstrates the division of responsibilities between the public and private sectors. Governance was meant to rest on three institutional pillars, which thereby became the backbone of the international economic system: 1) the International Monetary Fund, whose role was to ensure stability in change and help countries to face transitory and structural deficits in their balance of payments; 2) an international trade organisation (at first GATT and then the WTO), which, built around the principles of reciprocity and the most favoured nation status, was to hold any protectionist tendencies at bay; 3) the International Bank for Reconstruction and Development (later the World Bank), which aimed to help war-torn countries initially, and later underdeveloped countries, to build the infrastructure necessary for balanced development, i.e., provide long-term funding.

The way the structure of the world's economic system was designed in the aftermath of the war rested on an extremely clear vision of the relationship between the monetary and commercial dimensions of international economic relations. At the end of the war, it was obvious that the world needed trade, and that free and smooth trading would be one of the most important steps towards reconstruction and growth. So it is not surprising that the international order was designed on the basis of this goal. If growth meant expanding trade, it would be necessary to ensure that under no circumstances would monetary phenomena endanger the dynamics of trade. This viewpoint sees monetary disturbances as having considerable potential to inflict harm, as is in fact proven by the monetary history of the period between the two world wars. The architects of BW also felt it to be essential to set up mechanisms for monetary governance to ensure that these kinds of problems were solved before they degenerated into protectionism. Two principles of governance were then laid down: on the one hand, intergovernmental consensus guaranteeing that any potential parity changes be made in an orderly manner; and on the other, implementation of procedures separating trade and currency and making it possible to regulate any potential problems within each of the spheres without affecting the others.

The institutional framework of BW bears the mark of the ideas of its time. Even if monetary phenomena were proven to be able to cause harm, they had to be controlled so as to open the way to trade. Monetary phenomena were perceived to be the expression of national egoism, a potential risk to the common good, trade. This view found its clearest expression in the IMF's statutes, in which its role is limited to managing monetary affairs linked to current transactions. The IMF was set up essentially to allow trade to develop.

The system established at BW set up methods to help member countries correct eventual payment imbalances. The IMF thus made the necessary financial resources available to nations experiencing transitional difficulties; if, on the other hand, it turned out that the imbalances were persistent, then the ultimate weapon provided for by BW was the concerted realignment of parities.
From the mid-sixties onwards, capital flows begun to get the upper hand over commercial transactions. International debt and direct investment, along with all manner of transfers, increased more rapidly than commercial transactions. Very quickly, events overtook the BW system. The deathblow came in 1971 when, unable to control its external debt, the United States suspended convertibility of the dollar into gold at a price of $35 an ounce. The central pillar of the BW system collapsed. From then on, the role of the IMF was reduced to gathering statistics, organising emergency financing and, to nations experiencing long-term payment difficulties, "proposing" - by virtue of its supposedly universal economic knowledge - stabilisation policies, better known as conditionality.

Since 1971, therefore, the world has been living with an IMF that no longer has any hold over the exchange system, international financial markets or trans-national financial operators. On the other hand, it has done its utmost to impose remedies on Southern nations, the effects of which on medium-term development are everything but conclusive. Today, three groups of phenomena escape institutional control. Each in its turn threatens the future of the common good.

Financial extraterritoriality

States' sovereignty over their currency was at the core of the institutional order set up at BW. From the fifties, the inventiveness of private financial operators took full advantage of this by turning to good account a major flaw in the distribution of roles. In effect, as long as the banks located in a certain country exclusively used the currency of that country for their operations, sovereignty over that currency naturally fell under their national banking supervision systems. The limitations of this modus operandi appear when the national banks start transacting in or adopting positions on foreign currency and when non-resident banks handle the national currency. Until the late eighties, supervisory authorities' control over these activities was incomplete. It was in the midst of this legal ambiguity that the Eurodollar started emerging back in the fifties. The Eurodollar opened the way to private creation of international liquid assets beyond the reach of national regulators. This development was made possible by the internationalisation of banks, particularly US banks, without a parallel extension of the supervisory bodies' scope. This innovation was to give birth to, and facilitate, international private finance, ensuring that monetary policy-makers had their work cut out for them; in the end, it was to turn the BW system upside-down.

The Euro-markets, which then became the "international capital markets", supplied a considerable range of liquid assets that could be used to feed the very rapid spread of international loans taken out by both public and private borrowers. Even though the flaws of extraterritoriality were dealt with during the eighties, the problem of supervising banking corporations in a consolidated manner does still exist. The risk that the weaknesses in this area could take their toll on global finance continues to haunt regulators.

The important role that banks play in the financial irrigation of the national economy, along with the complex nature of international interdependency, has meant that authorities responsible for supervising the financial industry have taken on increasing importance. In addition, the role of the central bank, traditionally limited to national currency management, has naturally expanded to encompass supervision of national finance. The further the fusion of money and finance goes, the truer this is.

Financial crisis and Southern nation debt

The development of international finance that followed the change from fixed exchange rates to flexible ones had two important consequences for Southern nations: it opened them up to the possibility of debt and gave birth to exchange markets. Firstly Latin America, then Asia, were the major beneficiaries of an inflow of capital raised on the international markets, through public external debt, direct foreign investments and even foreign loans from large national companies. Increasing debt among Southern nations ensued. Consequently, through the intermediary of their debts, these countries became financial assets whose day-to-day management was left to capital suppliers. i.e. to private financial institutions. The process of global economy financialisation has thus been extended to encompass Southern nations, therefore increasingly exposing them to the price fluctuations of financial assets. It goes without saying that by linking their choices directly to market sanctions, these processes have greatly limited these countries' economic sovereignty.

After a period of euphoria that barely lasted ten years, financial crises began to appear. During the eighties, they were mostly limited to Latin America; in the nineties, they affected every continent, including the former communist countries. These crises not only threatened the global finance system – which is the repository for the Northern nation’s security utopia – but they once again plunged a large part of the populations concerned into unacceptable living conditions. To keep intact confidence in the financial future – an important component of the social pact in Northern countries – the whole burden of readjustment has been shifted onto Southern nations, which remain the weakest link within the global economy.

Recent financial crises have arisen at the interface between the national economy and the markets: when external operators decide to suddenly reduce their involvement in a country, then that country is plunged into crisis. There are two scenarios that can lead operators to abandon a country: either they realise that they have overestimated the country's ability to fulfil its commitments (in the case of debt) or its promises (in the case of stock market investments, for example), or they are influenced by reasons that have no direct relation to the country's situation (contagion). Once the exodus has reached a certain level, the government's room for manoeuvre becomes extremely small: it is torn between the need to boost confidence among external operators, thus keeping them dealing with the country, and the need to avoid an internal social crisis.

Once begun, the process is unstoppable: to meet the external pressure, internal debts explode and, one way or the other, end up being taken over by the state which, in turn, puts pressure on the taxpayer. The vicious circle of financial crisis very quickly becomes a stranglehold that smothers and crushes those that have no other choice but to suffer the effects.

Inefficient allocation

The influx of liquid assets for investment in stock markets – including emerging stock markets – can be explained on the one hand by the generalisation of modern savings methods as represented by investment funds and, on the other hand, by the fact that banks have abandoned their traditional function as credit suppliers. The way in which the financial system carries out its function of transforming savings into investment has experienced a profound change.

Today, many banks prefer to sell shares in investment funds to their clients rather than making firm commitments within the framework of a savings account and then subsequently lending – at the bank's risk – to small or medium business that they don't know very well. Although understandable from the bank's point of view, this change in the way that savings become investment can have a double negative effect on the whole economy, and all the more so on society.

According to official estimations, more than 90% of transactions on the most important stock markets amount to no more than a change of hands of stocks that were already in circulation: it functions as a sort of "second-hand market". Consequently, the volume of new issues rarely exceeds 10% of stock market transactions. However, even if a certain amount of liquidity is necessary for the markets to function well, it is only the new issues that supply business with financial resources and effectively transform savings into investment.
Being quoted on the stock exchange allows businesses to significantly reduce their financing costs, both debts and equities. It obviously follows that quoted companies enjoy greater financing advantages than non-quoted companies, which tend to be small and medium-scale businesses. Consequently, it is not

surprising that quoted companies have a greater ability to substitute labour with capital than non-quoted companies. Behind this logic, impeccable from the financial point of view, lies the risk of drifting towards an economy – and society – that operates at two speeds.

On the one hand are very large businesses with high-intensity financial capital and primarily employing highly qualified personnel. On the other hand are smaller businesses, relatively labour intensive and with higher financing costs. These businesses employ a local workforce, less mobile and often less qualified. The gap between the conditions of access to financing that these two categories of business enjoy continues to grow in the North and, more especially, in the South. This development will have disastrous social and economic consequences. The financialisation of the economy could thus easily lead to an inefficient allocation of savings, and therefore investment. Once again it stems from an inversion of priorities between the present and the future, or, which is much the same thing, between labour and capital.

How to Escape from the Financialisation Maze?

Before becoming an economic reality, the financialisation of mentalities is a social fact that leads to the setting up of self-referential restraints and establishing them as dogma, as universally applicable economic laws, when in fact they are no more than institutionalised actuarial gambles. It follows that Northern societies become more isolationist, with a parallel mechanism affecting the Southern economies. However, concern for the common good implies and pre-supposes opening up to, taking into account, indeed even welcoming, others. In a society where considering others is not a constant concern at every decision-making level (people, companies and institutions), there can be neither responsibility nor solidarity. This is particularly important in complex societies, like our own, which tend to overlook concern for the common good in the professional sphere and confine it to the private sphere or public life. In order to advance towards the common good, it is therefore essential to be watchful that openness to others is present at every level, in all the main areas of life. It is the quality of these various links, and their cohesion as a whole, which to a large extent determines the outcome.

Neither structures nor institutions are independent elements; they have developed in response to the forces working on them. These forces have sometimes consolidated existing institutions, sometimes weakened them, and have given rise to new forms of organisation. In this process, which has seen periods of acceleration and stability, the behaviour of individual operators plays a very important role. This being so, institutions are, and will remain, artefacts and instruments, made use of by societies to obtain a given result. As artefacts, the institutions will never be capable of paving the way to the common good on their own. They provide the framework and the ground in which individual behaviour that is, to varying degrees, favourable to the growth of the common good can take root. In spite of the feeling of fatalism and powerlessness that is often induced by the inertia of existing institutions, individual behaviour is the ultimate architect of the common good. The people concerned with the common good are therefore faced with a double task: to work for the development of institutions and structures most likely to encourage a quest for the common good, and to build the common good through their own behaviour, independently of existing structures

Innovative behaviour, isolated to begin with, can serve as an example and go on to become widespread. Under pressure from these innovations, some traditional structures have adapted, whilst others have disappeared to give way to new ones. In free societies, on the fringe of existing structures and tried and tested practices, there has always been a constant simmering going on, like a laboratory from where there have progressively emerged the embryonic institutional solutions of tomorrow.

Thus, a number of ways forward can be glimpsed on the horizon, each one sharing the common denominator of looking for better harmony between financial activities and the common good. Each in its own way, each at a different level of action, they have attempted to loosen the hold that financialisation has, firstly on mentalities and then on economies. These proposals attempt to increase openness to others within financial and economic activity, and therefore to strengthen the social cohesion that has been threatened by financialisation.

Strengthen subsidiarity in the organisation of economic activity at all levels: local, regional and global

The vicious spiral born of the financial crises is positioned at the interface between internal and external factors. It arises from the synergy between, on the one hand, the lack of judgement and the speculative instinct that drives external investors sometimes to euphoria, sometimes to despair, and, on the other hand, the weakness and versatility of internal structures, especially banking structures, incompetence, misappropriation of public funds and corruption among politico-economic elites, fluctuations in export price, and so on. This raises the problem of the significance, and possibly the methods, of applying the principle of subsidiarity to economic life. Although a creator of wealth, specialisation also often leads to dependency. On the other hand, autonomy from complex processes leads to independence and liberty, but demands a sacrifice on the purely economic front.

Several experiments and innovations at the micro-economic or local level are attempting to increase the autonomy of various operators, especially in relation to the financial system: complementary currencies, micro-finance, the principle of profit and loss sharing among businesses and their financiers. These various initiatives have attempted to increase the autonomy of operators in terms of the unknown factors over which they have no control, and which present them with risks they cannot afford to take.

Following the example of the political domain, the principle of subsidiarity must once again find its proper place in the organisation of economic activity at the local as well as regional and global level. It is not a matter of advocating a return to the idolatry of the nation-state, but of recognising that extreme dependency is dangerous. For example, subsidiarity applied to the exchange markets would raise the question of their legitimacy since, by means of these markets, the daily life of some people becomes the object of speculation by others. The same thing is true for the raw materials markets where speculative transactions are often the most important. Admittedly, the rediscovery of subsidiarity as far as economy is concerned demands choice on the part of political communities, but it equally requires that self-regulation be practised by people, businesses and societies.

Stabilise the relationship between the three major currencies through international agreements

Today's world economy is tightly controlled by the three-way influence of the American dollar, the yen and the euro. The relationship between these three currencies is a product of the market, while the other currencies, operating as satellites, gravitate either around one of these axes or around the system as a whole. The secondary currencies are sometimes the outlet for tensions between the major currencies, resulting in exchange rate fluctuations that threaten the survival of the weakest and most exposed economies.

In the name of subsidiarity, it is imperative that international agreements stabilise the relationship between the three major currencies, which will have a spin-off stabilising affect on the secondary currencies. For such an agreement to be credible to market operators, it must be based on close co-operation between the three major world powers. A fixed or partially fixed exchange system would diminish the influence of one of the main sources of upheaval within modern finance, namely the exchange markets.

Recognise the monetary and financial system as a universal public tool via a new international structure built on public and private sector collaboration

The financial monetary system must be recognised as a universal public tool and therefore treated not as the result of the specific interests of individual countries and businesses, but as part of a greater whole. The new international financial structure must be based on different principles from those underpinning the Bretton Woods conference in 1944. On the one hand, it must be absolutely global and not just inter-governmental. On the other hand, it must explicitly be extended to the monetary and financial spheres and be given powers of regulation and supervision, especially in terms of criminal finance. Finally, the new structure must be built on close collaboration between public and private sectors. And the latter should – and this is new – bear a considerable degree of responsibility for the proper functioning of this structure. Such a co-responsibility, whose precise mechanism remains to be identified, is the only way to make the financial system answerable to users – whether large or small – and thus to put an end to the reverse situation that prevails today.

Establish inclusion and debt stabilisation methods at individual, business and state levels

Finance has led to exclusion both internationally (the debts of Southern nations) and within countries. It is essential that mechanisms for promoting inclusion be established. To do this, it is not a matter of abolishing finance, or of undermining the basis of the discipline it imposes on operators, but simply to make sure that the outcomes of exclusion finance are not definitive and that there is a process for returning to economic life. Several mechanisms can be set up: the oldest, taken from the Old Testament, is the tradition of the Jubilee. According to this tradition, economic time is punctuated by intermissions that are also periods when possessions are returned to their former owners. The idea of submitting economic activity to such a pattern, where all debts would be written off and account books consequently closed, may not be directly relevant in our time, but may be used in an analogical way.

Debt reduction and stabilisation of past debts are part of the same logic. In addition, the world needs corporate and personal bankruptcy procedures that leave a door open, in contrast to those that condemn permanently. For example, non-payment of "unmanageable" debt should be established in principle both at the international and national finance level, anchored in an arbitration tribunal.

No matter what method is chosen, its consequence should be to divide the risk of non-payment more fairly than is currently the case between debtor and creditor. In addition, the establishment of “return” mechanisms should result in lessening the importance of finance.

Responsible financial decisions for the common good

No regulation will be effective if it is not accompanied by an increased understanding by operators that their responsibilities extend beyond the purely legal and include taking others into account, those others who offer neither penalties nor rewards. The search for the common good demands a consideration of others, of those who have no say in the matter. More consideration of others in current financial decisions would constitute an important step towards the common good. It should do so without bearing any prejudice towards financial activity itself, which is an essential element in economic life. The three areas where the explicit consideration of others seems to be required most urgently are credit, investment and intermediation activities.

Towards a responsible debt: the relationship between the external debts of poor countries and the corruption of their governing members is another factor that has to be considered. One of the ways to lower the chances for impunity in the medium-term would be by adding a clause to loan contracts establishing that, if the debt were to be re-negotiated, the right to prosecute the individuals who may have made illegal use of the resources made available would be transferred to the creditor. Although this is not a perfect solution, governments would at least be aware that if they abused their positions, it would be in their personal interest to respect certain limits so that the national debt could be kept under control.

Towards responsible investment: responsible investment is an important part of the initiatives required to make the investment system work for the common good. The preparation of a charter would be the rallying point of the various initiatives in this domain, and would help to increase the impact of these initiatives on market-quoted companies. Other unifying steps, such as the establishment of common standards, should also be considered. At the same time, following the example of the United Kingdom, specific demands relating to investments should be made compulsory for pension funds, which very clearly have a long-term purpose. This being the case, no legal or institutional solution should exempt operators from considering the common good as one of the determining factors in their daily decisions.

Towards responsible remuneration: the volatile nature of the financial markets – and the harmful consequences that this creates for the rest of the economy – is to a major degree linked to the system for remunerating operators. These remunerations should also be stabilised by a drastic reduction in the component that depends on volume, whether of turnover, profits or capitalisation. Several alternatives are possible: encouraging self-regulation, like the Basle Committee and the Cook ratio; drawing up a charter open to institutions, and propagating ethical principles, including “best practice” standards, in this area.

All these efforts should come together to give birth to a virtuous circle that would improve the integration of long-term demands into economic and social decisions. It is obvious that the developments suggested here require profound changes in the habits of finance which, protected by the premise of market liquidity, is fed by the unexpected.

The Alliance for a Responsible, Plural and United World

WORKING TOGETHER TOWARDS THE CHALLENGES OF THE 21TH CENTURY

Ever since the late eighties of the 20th century, numerous initiatives have been but forward from different regions of the world and extremely diverse contexts. Different social actors were thus put in motion with the aim of organising a vast worldwide process seeking to explore values, proposals and regulations capable of overcoming the modern challenges humanity is faced with.

A large number of thematic, collegial and continental meetings were organised in the early nineties, a process which led, in 1993, to the drafting of the *Platform for a Responsible and United World*.

Regional groups were set up, international professional networks and thematic networks on the fundamental issues of our era were developed: the Alliance was created. It is financially and technically supported by the Charles Léopold Mayer Foundation for the progress of Humankind (FPH), among others.

The Alliance is focussed on inventing new forms of collective action on both a local and global scale, with the aim of shaping together the future of an increasingly complex and interdependent world.

The challenge of the Alliance is to actively support unity in diversity by asserting our societies' capability to understand and appreciate the complexity of situations, the interdependence of problems and the diversity and legitimacy of geo-cultural, social and professional perspectives.

The Alliance, as a space of discussion, reflection and proposals, is built around three main orientations:

Local groups aiming to bring people of a community, a region, a country or a continent together by looking at the realities and issues of their own societies. This is the **geo-cultural approach**. It reflects the diversity of places and cultures.

Groups of socio-professional actors wishing to provoke dialogue and mobilisation within a given social sector or profession (youth, peasants, scientists, local representatives, etc.). This is the **collegial approach**. It reflects the diversity of social and professional milieus, their concerns and responsibilities towards society and the challenges of today's world.

Thematic workshops seeking to create reflection groups centred around the major issues of our common future (sustainable water management, regional integration and globalisation, financial markets, art and society, etc.). This is the **thematic approach**. It reflects the diverse challenges humanity is faced with in the 21st century. Thematic workshops are organised into four areas: Values and Culture, Economy and Society, Governance and Citizenship, Humanity and the Biosphere.

Seeking both to draw on the richness of materials and experiences gathered by these reflection groups whilst networking with other citizen dynamics with a similar focus, the Alliance fixed itself the objective of obtaining collectively developed, concrete proposals. The following meetings were thus organised:
- **international meetings**, for each thematic workshop and each college,
- **synchronized continental assemblies** (Africa, Americas, Asia, Europe) and a regional meeting in the Arab world (Lebanon) in June 2001.
- a **Citizen World Assembly**, held in December 2001 in Lille, France, bringing 400 participants together from around the world.

These meetings together contributed to the drafting of some sixty *Proposal Papers for the 20th century* and a *Charter of Human Responsibilities*, published in several languages in different countries.

The Alliance has been involved in a process of disseminating and developing these outcomes since the beginning of 2002. Networks are expanding, branching out and their work themes are becoming increasingly transversal. They also strengthen links with other approaches aiming to create an alternative globalisation.

For further information, please visit the **alliance website** at www.alliance21.org, where the history of the Alliance, the challenges it is engaged in and the workshops and discussion forums being held can be viewed in three languages (French, English and Spanish).

E-mail: info@alliance21.org

The proposal papers on the internet

Whether in their provisional or definitive form, all the proposal papers and their corresponding translations can be accessed on the website of the Alliance for a Responsible, Plural and United World, at:

http://www.alliance21.org/fr/proposals

Themes available:

Values, education, cultures, art and the sciences
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