

THE ACADEMY'S ALERTS ON THE WEAKNESSES OF GLOBALIZATION AND THE PRESENT CRISIS

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INTRODUCTION TO THE ROUND TABLE ON THE SUMMARY ON GLOBALIZATION AND THE PRESENT CRISIS

Perhaps it's not proper behaviour to say 'We told you so'. But, as it can be seen in the quotations presented in this paper, an important part of the work of our Academy on Globalization¹ was focused on the failures of the governance of globalization and in the very negative consequences it could entail,

¹ The complete list of the meetings of the Pontifical Academy of Social Sciences (PASS) on globalization is as follows. A) *The Social Dimensions of Globalization* (2000, workshop). B) *Globalization: Ethical and Institutional Concerns* (2001, plenary session). C) *Globalization and Inequalities* (2002, colloquium). D) *The Governance of Globalization* (2003, plenary session). E) *Charity and Justice in the Relations Among Peoples and Nations* (2007, plenary session). Other issues related to globalization have been dealt with in the following plenary sessions. F) *On Democracy* (1998). G) On different aspects of *Intergenerational Solidarity* (2002, 2003 and 2006). H) The seminar of the Joint Working Group of the Pontifical Academies of Sciences and Social Sciences on *Globalization and Education* (2005). Other relevant and pertinent works of the Academy are the following. I) Edmond Malinvaud and Margaret S. Archer (2003, editors), *Work and Human Fulfillment*, Michigan: Sapientia Press, a synthesis of the work of the Academy on work, employment and unemployment (1996, 1997, 1998 and 1999 plenary sessions). J) The forum on the priority of labor that took place on May, 5, 2003 (published in 2004). K) The synthesis of the work of the Academy on democracy (a workshop in 1996 and the plenary sessions of 1998 and 2000), prepared and edited by Hans F. Zacher (2005), *Democracy in Debate. The Contribution of the Pontifical Academy of Social Sciences*. The PASS website is at: http://www.vatican.va/roman_curia/pontifical_academies/acdscien/index_social_en.htm. A short summary of most of these meetings can be found in Juan J. Llach (2008, editor), *Summary on Globalization. Main Outcomes of the Work of the Pontifical Academy of Social Sciences on Globalization*, Vatican City: The Pontifical Academy of Social Sciences.

particularly in the field of national and international finances. Of course, we were not the only group of people who warned against these risks. But the fact is that all of us failed, the worst world economic crisis since 1929 exploded and the costs in terms of increased unemployment and poverty are going to be tremendous. It is very evident that something went wrong.

1. THE PONTIFICAL ACADEMY OF SOCIAL SCIENCES' SUMMARY ON GLOBALIZATION²

1.1. *Governance in general*

"1.2.1.2. *Multilateralism and the weakening of world governance*"³

Whereas unilateral, bilateral and regional actions and organizations proliferate in the international arena, multilateralism seems to be weakening dangerously. This can be seen in a broad variety of issues... like the serious problems of finding ways to fix world financial and trade imbalances and misalignments of exchange rates. In parallel, there is a deterioration of multilateral institutions, such as the UN, the WTO, the IMF or the World Bank and their regional counterparts, whose roles are either blurred or increasingly difficult to perform. As it is developed in section 2.9 of the book, the need for sound, solid world governance is one of the main conclusions of the previous work of the Academy, and the crisis of multilateralism is a serious obstacle to it".

"2.2.6. *Universal common good and the governance of globalization*

Because of the worldwide dimension of the problems confronted, the constitution of a public authority with universal competence and oriented towards a universal common good centered on the human person is needed (HH John XXIII, *Pacem in Terris*, 1963). Now is the time 'to work together for a new constitutional organization of the human family', an organization that would be in a position to meet the new demands of a globalized world. This does not mean creating a 'global super-state', but continuing the processes already underway to increase democratic participation and promote political transparency and accountability in international institutions (HH JPII, *PASS*, 2003)".

² See last quotation in footnote 1.

³ Numerals in brackets refer to the Summary quoted in footnote 1.

“2.2.8. Worldwide nature of the social question, globalization in solidarity, integral human development and the role of freedom

The social question has become worldwide by its very nature and answers to it must be found in a new vision of integral development, which ‘fosters each man and the whole man’ (HH Paul VI, *PP*). Thanks to their freedom, human beings will strive to overstep existing boundaries, particularly state or knowledge ones, and globalization has the potential to increase any kind of exchanges based on the principle of freedom”.

“2.9.1.1. Weak governance

We are experiencing a stage of weak governance, characterized both by an insufficient consideration of ethical issues and a prevalence of technical approaches. These have not been able to solve any of the most important challenges we are having, like war, trade or the environment, or an even more urgent and elementary task such as humanitarian aid. More than that, a mere technological approach is the one that underlines the idea of solving world problems with wars conceived as surgeries. Instead, conflicts and wars must be prevented through justice and integral development. So we need to escape from a technical approach and go into a world governance based on ethics”.

“2.9.1.3. Chaos risk

National institutions no longer suffice when seeking to establish the right order for a global world. But globalization bears a chaos risk, because of the erosion of the ordering and pacifying role of the national state and because of the deficits of international policy and the lacunas of international law. A more international government carries the risk of institutionalizing ‘bad’ governments. There is no place for the crucial, civil society-government dialectical relationship at the world level. There is a big, dangerous gap developing between the global social space and the domains of particular entities. Global society is too weak and tentative to play that role. Lack of democracy at the international level is impeding the humanization of the global system (‘to temper globalization’), contrary to what happened at the national level because of the development of democracy. Bargaining powers are different at the international level and, very frequently, governments did not represent their peoples, particularly the poor. Subsidiarity affirms

the value of international institutions, but avoids uncritical acceptance of internationalism. It promotes freedom and integrity of local cultures, without reducing particularism to pure devolution”.

“2.9.1.4. *The question of a world government*”

It is impossible to deny the impression of precariousness within the international order at the economic, juridical and political levels. Wars continue to break out and there is a shortage of effective and just global initiatives. The structures of the international milieu seem to resist any form of democratic control. On the threshold of the twenty-first century, global governance requires a new set of international ethical standards. Civil democracy founded upon public opinion, non-governmental institutions and the acceptance of the standards of international agreements, constitutes one of the premises. Additionally, appropriate governance solutions should take care to limit the weight of purely economic considerations. One of the main motivations for the *request for a world government* is the need to keep peace through binding international law and sanctions, and it is also connected with the notion of universal common good. It is utopian to think of it as a structured central government, but not if we think of a coordination of the decision-making process at the international level. World governance requires the participation of all the governmental levels – local, national, international – as well as a first class leadership. In this framework, an alternative concept to globalization can be envisaged, and it is universalization, emerging at the social, more than at the political level, as the proliferation of a lot of NGOs shows. It is possible to feel that the embryo of worldwide governance is developing, following a growing consciousness of a common responsibility. This can be seen in the recognition of the right to intervene, the legitimacy conferred to the UN Security Council, the institutionalization of world leaders’ summits, the efforts towards a rational and joint management of the planet’s resources, together with the preoccupation for a sustainable development and the establishment of a worldwide judiciary system – like the one put in place in the International Criminal Court – in which all governments could be summoned. But power politics is still alive, and it seriously threatens all that has been done during the last twenty-five years to build an international order based on cooperation and consultation. Additionally, other reforms are yet to be performed to implement a better governance of globalization, like the reform of the UN and its economic institutions; putting in place new norms to regulate the environment, trade, finances, investments and the activities of

transnational corporations; the elaboration of a worldwide tax or fiscal system and the building of new relationships between civil society and the public and private sectors”.

“2.9.2. *Towards a democratic international order*

2.9.2.1. *The nexus between the rule of international law and democracy*

2.9.2.6. *Governance of international institutions*

‘Unfortunately nothing is less democratic or less open to participation than some international institutions in which one single vote has a greater weight than that of the majority. Unless there are serious reforms in governance, the legitimacy of the institutions will be undermined; unless there are serious reforms in the practices, there may well be a backlash’”.

1.2. INTERNATIONAL FINANCES

1.2.1. *Diagnoses*

“1.2.2.2. *International finances: world imbalances and weaknesses and increased autonomy of emerging countries*

‘International finances have also reached the new millennium with contrasting news. On the one hand, the already mentioned twin surpluses of many emerging countries imply that they are financially more autonomous than in the past, even up to the point of becoming relevant bankers of the planet, creating problems of idle capacity for their traditional lenders like the IMF, the World Bank and the regional banks. The flip side of the coin is the continuous increase in the balance of payments deficits of some developed countries. Taken together, these imbalances reveal a misalignment of some of the most relevant exchange rates and are, at the same time, a potential problem for the stability of the world financial order and a threat to the continuity of the current world economic growth. This risk is leveraged because of new financial developments that rapidly increase world liquidity and offer new opportunities for development financing but, at the same time, threaten world financial stability. International coordination of monetary and financial supervisory authorities is more necessary than ever to gain in coordination and codes of conduct. Already many people think

that some financial developments like the explosive growth of private equity and derivatives markets could be excessive when compared to the 'real' economy. While the Bretton Woods system had a clear mandate to create a fair system of aid to developing nations, the governance structure of the current system, almost exclusively in the hands of private agents and speculative investments, carries a risk of contagion and is frequently unfair'.

'Because of a perverse interaction between the inherent volatility of financial markets and the paramount importance of reputation in them, capital flows are very frequently going against theoretical predictions, i.e., from developing to developed countries. It also seems convenient to re-think the global system of monetary reserves that could be neither the optimal one nor the most equitable. A cautious reform of this system might eventually generate resources to finance the development of the least developed countries''.

"2.9.3.2. *Governance of international finances*

Financial globalization accelerated in the 1980s with the fast liberalization of international capital movements in many countries. After a series of severe financial crises in a number of emerging countries, we witness a widespread questioning of the vision which had led to expect from the earlier trend manifest and widely shared benefits.

a) *Ethical issues in the globalization of finance and responsibilities and duties of international financial institutions (IFI)*. The most developed countries and especially multilateral institutions have a duty to advise LDCs on what are prudent levels of debt, and on how to manage their risks, but they have not done so and have often provided advice which has exacerbated the risks for LDCs.

b) *Countries' insolvency and bankruptcy regimes*. A very delicate question concerns the solution for those cases in which a country is perceived to be insolvent. The comparison with the legal treatment of insolvency of a firm makes ethical sense and it seems fair to institute a formal procedure for the solution of such cases.

c) *Highly indebted countries*. In some cases, the degree of culpability of the lenders may be sufficiently great that the moral case for debt forgiveness seems compelling. There is one important reason however, against debt forgiveness, namely, that it encourages bad borrowing ('moral hazard'). Until an international authority is created, it is the moral duty of rich and powerful countries to act in ways designed to help the world's disad-

vantaged. The HIPC (Highly Indebted Poor Countries) and PRSP (Poverty Reduction Strategy Papers) initiatives and the recent debt and poverty reduction strategies of Bretton Woods institutions, are allowing significant progress in the countries which have already benefited from them.

d) Policies to confront crises. In emerging countries crises have meant much disarray and misery. Their recurrence shows that they have a systemic character, which calls for a reconsideration of practices and policies applied during the last decade.

e) The global reserve system. An outsider looking at the global financial system would note one peculiarity: the richest country in the world seems to find it impossible to live within its means, borrowing in 2006 some \$850 billion a year (6.5% of its GDP) from abroad – including almost half from emerging countries. Part of the problem lies with the global reserve system, which entails countries putting aside money for emergencies. The ‘reserves’ are typically held in hard currencies, particularly in dollars, and this implies that poor countries lend to the United States substantial sums every year. The instabilities and inequities associated with the global reserve system can impose high costs on the poor.

f) Financing of the public sector that is unconnected to controllable productive projects is especially worthy of consideration. This is because of the onerous conditions often attached to such lending, where ‘onerous conditions’ means those that are more stringent than normal market conditions and that, accumulated over time, end up constituting an unbearable burden on the borrowing countries. Believing that all governments are committed to the common good of the people, that is, the well-being of each and every one of a country’s inhabitants, is an expression of naivety that must be punished in cases where the government is controlled by ruthless dictators who subject society to their will, denying its natural inalienable rights, governing for the enrichment of themselves, their families and those close to them who helped them to remain in power.

g) Recent points of progress. i) The further development and restructuring of some activities of the IMF and World Bank; ii) the establishment of the Financial Stability Forum in Basel; iii) the supplementing of the ongoing cooperation between the G-10 countries by the new G-20 grouping; iv) the intermediate evolution of many codes and standards for the financial markets and for the supervision of financial systems; v) the adoption of new anti-crises facilities in the IMF.

h) Renewed challenges. As it was mentioned in 1.2.2.2, ‘recent developments in international finance with the introduction of ever changing and

ever more sophisticated financial instruments have resulted in the current, dangerous crisis originated in the so-called sub-prime mortgages market. It is clear that new financial technologies also need new forms of supervision and regulatory norms, both at the national and at the global levels, i.e., new forms of world financial governance. In its absence, the whole promising process of economic development at the world level, and particularly in emerging and least developed countries, will be permanently at risk”.

1.2.2. *Proposals*

“2.11.11. *International finances*

a) *International financial institutions*. There is now a need for a third wave of regulatory agencies controlling the unregulated but immensely powerful global finance markets. Ethics certainly recommends a new balance in the statutes of the IMF and the WB as well as in other initiatives like the Financial Stability Forum, giving more representation to LDCs.

b) *International financial regulations*. It is essential to develop a clear vision of an appropriate financial architecture in the new circumstances, including: obtaining through international cooperation appropriate transparency and regulation of international financial loans and capital markets; provision of sufficient international official liquidity in distress conditions; orderly debt workout procedures at the international level; international measures both for crisis prevention and management; mechanisms to give or allow appropriate liquidity and development finance for low income countries and to regulate excessive surges of potentially reversible capital flows in recipient countries, without discouraging them excessively. The appropriate way to overcome crises in emerging markets is not to scale down the role of the IMF. According to its critics, it would blindly follow preconceived principles, labeled as ideological by the protesters: full freedom of capital transactions and the balance of public budgets, without enough consideration of prerequisites regarding the development of the national financial system or the surrounding business trends. These criticisms are worth considering.

c) *National policies and regulations*. Better policies are needed to make more difficult the development of bubbles on the financial markets as well as to improve transparency both in the private and in the public sectors.

d) *Developing countries’ crises*. Regarding crises, increased caution is required from national authorities, particularly regarding exchange rate

management, macroeconomic regulation and the surveillance of the financial system.

e) *Aid, foreign direct investment and debt relief.* Public and private aid via transfer of capital and the help of individuals or groups is in most cases necessary and the Church should encourage such help. But this is not enough. Aid-receiving countries themselves must also create the conditions for attracting private capital from outside (FDI, foreign direct investment), that can also play an important role in economic development. The same has to be said for debt forgiveness. Even the HIPC-Initiative of the IMF and World Bank can only contribute to more and lasting wealth for the people if the freed resources are used in a way that is really productive. Debt relief is clearly not a panacea. Further progress should now result from the active implementation of the Monterrey consensus, which aims at replacing with a partnership what has so far been a frequently frustrating assistance relationship between industrialized and developing countries.

f) *Global reserve system.* There are reforms that would address the global reserve system's problems, eventually including an annual emission of SDR ('global greenbacks'), which could be used to finance development and other global public goods".

1.2.3. *Some frequently ignored traits of current globalization*⁴

"1.2.1.6. *Silent building of a new consensus on the roles of the state, markets and the civil society*

In spite of all the criticism towards world order, or disorder, and perhaps more in line with the so-called crisis of the ideologies, there are some budding signals of the end of the age of extreme alternatives on the socio-economic front, like market vs. planning and, on the political front, individualism vs. totalitarianism. A three-dimensional social order seems to be emerging instead, based on a renewed role of autonomous organizations of the civil society, together with the markets and the state".

⁴ Pessimistic views of the current wave of globalization are so widespread, particularly in developed countries, that they just ignore many of the positive outcomes for developing countries summarized here.

“1.2.2. Economic growth, trade and finances: The possibility of a long and widespread wave of economic growth

The beginning of the 21st century has been accompanied by an acceleration of economic growth almost all over the world, only comparable to what happened during the ‘golden age’ of the late fifties, the sixties and the early seventies of the last century. There are good chances that this acceleration will last, becoming a long wave of economic growth and, perhaps for the first time in human history, some of its main drivers are coming from emerging and even poor countries. First, the acceleration of economic growth in Asia, which implies the incorporation of almost half of the world population in modern patterns of consumption and a huge supply of low-wage labor, also leads to a strong increase in the demand and price of commodities, most of them produced in LDCs. Secondly, emerging and even poor countries have an enormous potential to catch up, incorporating the newest information and communication technologies in production and consumption, resulting in rapid increases in productivity. Thirdly, a new consensus on economic policies is emerging and being applied in many LDCs, centered on obtaining twin fiscal and external surpluses and accumulating foreign reserves. Fourthly, many LDCs are consistently increasing their concern over education and their investment in it. However, this developing countries-driven long wave of economic growth confronts serious threats coming from financial world imbalances, trade restrictions, environmental deterioration and social gaps and poverty, all of them mentioned in other parts of the book. But at the same time we are witnessing an impressive growth in the world trade of goods and services. Furthermore, it is a growth with a pro-poor bias because of the induced increase in commodities’ prices. For the time being, the traditional deterioration of the terms of trade against poor countries has reversed, and more so if we consider the increased purchasing power of commodities in terms of biotechnological products and information, and communications technology hardware and software, whose prices go down every year.

In this century Africa’s GDP per capita has been growing at 3.6% per year. This rate would allow the poorest continent in the world to duplicate its income per person in just twenty years. The last time Africa could do it, it took one century. Things like these have been put at risk because of the failures in international governance we have just described.

However, I do not have a pessimistic view regarding future prospects for the world economy. I think the situation is completely different from the

one the world experienced during the Great Depression. We do not have deflation, we do not yet have the brutal protectionism of those times and, most importantly, a process of consensus-building is taking place, as we saw in the G-20 meeting in early April. Every week there are signals that the world economy is landing and, very probably, it will take off in the second half of 2009. If this happens it will be due to the good economic and social policies of many emerging and poor countries and to very rapid reactions of the economic policies in most of the world. Both are good signals of the building of a new consensus on economic and social policies, closer to the Social Doctrine of the Church”.

2. WHAT CAN BE LEARNED FROM THIS COLLECTIVE FAILURE?

In spite of all our and others' eloquence, the fact is that we were not sufficiently able to find ways to speak so as to be listened to by the relevant audiences. Or it might also be that we practiced a sort of weak thinking and were not convinced of the relevance of what we were saying. We would very probably not have been successful if we had spoken in a louder voice either. Powerful interests were, and still are, opposed to the very idea of some kind of world governance. But in any case we need to find ways to have our ideas and our works known by people everywhere, and particularly by political, academic and cultural leaders in each of our countries.