

## COMMENTARY ON HANS TIETMEYER AND HERBERT SCHAMBECK

ROCCO BUTTIGLIONE

If I were to indicate the common ground of the lectures of our colleagues Tietmeyer and Schambeck I would point out the concept of *Ordnungsliberalismus*, a liberal attitude that is however conscious of the relation obtaining between liberty and truth. Liberty does not exist in a void but in a concrete situation and must be exercised within this context and respecting the nature of the things constituting this context. This is particularly relevant when the objects of the action of human liberty are other human beings who can never be reduced to mere objects of the action but must always be considered at the same time as subjects, who also exercise and must be made able to exercise their own freedom. The conviction of the absolute value of each human person engenders here an ethics of the consequences. That is an ethics of responsibility led by the principle of the respect for the human person. There is an order, dependent on the nature of things and on the nature of the person, that offers the context within which the liberty of the person has to be exercised and which the person has to respect in her choices and in her actions. These principles apply to the market as well as to all other spheres of social action. Here the consequence has to be drawn that the market is not an absence of rules but rather a specific rule of behaviour. A functioning market excludes both violence and cheating.

Adam Smith (so often quoted but not always carefully read) knew that very well. He knows the invisible hand of the market, but he also knows the visible hand of the state that sets the rules of the market in order to make it subservient to the common good. There are also moral and religious presuppositions of a functioning market. For example the two commandments of God: *thou shalt not steal* and *thou shalt not lie*.

The paper of Mr. Tietmeyer deals mainly with 'thou shalt not lie'. One of the roots of the present crisis and perhaps the main root of the financial crisis is that the commandment 'thou shalt not lie' was not upheld by responsi-

ble individuals and was not adequately reinforced by appropriate regulations. On the contrary existing regulations were weakened or even altogether erased.

A whole market of financial commodities has arisen out of the control of the regulating authorities. Instead of carefully evaluating the merit of the credit many bankers gave money under conditions that made improbable the repayment of the loans and, instead of setting aside reserves to compensate for the possible failure to repay the loans, sold the doubtful credit to the public. The risk was divided with other operators. This strategy worked until it was used by a limited number of financial operators. When it became commonplace the market was inundated with bad debt and it collapsed. Moreover some financial operators bought collateral guarantees against the possible failure of the credit certificates they had issued and sold. They were not covering their own risk but rather making a wager on the risk of others. All this could happen because regulations were weak and because international financial operations take place in a space that is not adequately controlled by any public authority. Here we find the link between the paper of Mr. Tietmeyer and that of Mr. Schambeck: do we stand in need of a global governance? It is easy to answer: up to a certain extent yes. The financial markets cannot be regulated by national authorities alone. We stand in need not only of increased cooperation between national banks and of better coordination of the legislation of the different states. We also need a certain measure of international institutions to overview international markets in order to protect the customer of financial commodities but also in order to protect the whole human community against the consequences of irresponsible behaviour on the international market. It goes without saying that we also need to strengthen the common authorities within the European Union and even more within the euro area. Here we have clearly a task for which individual state authorities are inadequate and here therefore the creation or the strengthening of a European authority would be justified according to the principle of subsidiarity.

We do not want to impose upon all financial operators high moral standards, we only want to restrain an excessive measure of vice that is detrimental to all and incompatible with the good functioning of the markets.

Now allow me please to enlarge the focus of this reflection. Are financial markets the only area in which we stand in need of a global authority? I think there are other instance in which such an authority is desirable. The international agreements on tariffs and trade have created a world market of commodities. We have all reaped the advantages of this market in terms of better quality and lower prices. This globalization has also had undesir-

able consequences. The balance of power between capital and labour has been altered in favour of capital. If they deem it to be advantageous companies can move their productions to countries where wages are extremely low and labour rights are thoroughly ignored. We have a competition on the market of labour with rights (free labour) and labour without rights (slave labour). This is unfair and detrimental to the interest and rights of workers both in the developed and undeveloped countries. Perhaps we stand in need of a General Agreement on Wages and Labour to offer minimal protection to the rights of workers throughout the world. It is a matter of fact that in many countries today there is no labour market. You have a market where two free subjects bargain between themselves until they reach an agreement. Where one of these subject is absolutely weaker than the other there you have no bargain and no market but the imposition of the interests of the stronger through the sheer weight of force. I am conscious, of course, of the delicate nature of this issue. It is better to be exploited by the market than to be excluded from the market, and therefore the regulations adopted must be flexible in order not to hinder the entrance in the world market of new countries and new subjects whose only chance is the low cost of their labour. We need however to control the process and to progressively upgrade the level of protection of workers in the global economy.

Here we are not considering a world government but, according to the principle of subsidiarity, authorities and institutions of a world governance that respond to demands national governments are unfit to cope with. The WTO has established itself as one such authority and I do not see why on a similar basis an authority for the supervision of world financial markets or for the protection of the rights of labour should not be established.

Are there other areas where a similar demand for international governance may be detected? Perhaps there are many. Let me mention just one of them. The non proliferation of nuclear weapons lies in the common interest of mankind and it would be advantageous for all to strengthen the powers of the existing agency supervising the compliance with the norms contained in the non proliferation treaty. A new treaty could be envisaged, more binding and extending its scope also to the cooperation against non member states attempting to build nuclear weapons. I shall not deal in this context with the needed reform of the United Nations and of the Security Council but there is a widespread conviction that such a reform is badly needed.

Let me now say a few words on some specifically European problems. Many countries of the European Union have a common currency but no common economic policies. The current crisis has brought to evidence the

inadequacy of this state of affairs. Some fixed parameters substitute in theory the missing common European policies. Under normal circumstances this may work (more or less). In front of a severe shock all parameters become untenable and we do not have adequate instruments to determine a common European response. Now it seems that under the pressure of circumstances we are moving in the right direction. The budget laws of each state will be examined by the council of financial ministers before being proposed for approval to national parliaments. I hope that this means we will have a reasonable determination of the aggregate European deficit spending. This will allow us to have more effective anticyclical and full employment policies. We need them. In all of our countries unemployment has been growing. It is not only a consequence of the financial crisis. It also depends upon the new world division of labour that makes it impossible to keep low technology productions in Europe. The difference in wages is so large that labour-intensive productions move toward the emerging countries. This process need not be a zero sum game. It may be advantageous for all under condition that we create here in Europe some millions of new jobs in technologically-advanced sectors, in the so-called economy of knowledge. We have known this for a long time. We have developed the so-called Lissabon project and the Lissabon process just in order to implement the corresponding policies. As a matter of fact these policies were not implemented because the method chosen (the so-called open coordination method) did not work. We need to allocate resources for these policies in order to make them effective.

Where can we find these resources? In the present state of our finances I can see only two sources.

The first one is a moderate and responsible reconsideration of Keynesian policies. Keynesian policies have fallen in discredit for two reasons. Irresponsible politicians used them to justify unbearable current expense deficits with the purpose of stimulating the demand and they presuppose a level of sovereignty that has been lost with globalization. When I suggest a reconsideration of Keynesian policies I do not propose to go back to the excesses of the past. Deficit spending is not justified by the purpose of supporting a lagging demand (this may be a side effect). Its purpose must be to support the competitiveness of Europe as such through investments in material and immaterial infrastructure according to the broad outline of the Lissabon process. These investments could be entrusted to the member states' authorities or could be effected directly by the European Union. There is not much Keynesianism in this. It is the old 'golden rule' that differ-

entiate also in classical economy between current expenses and investment expenses. It was proposed also in the elaboration of the Maastricht treaty but was refused mainly because of a lack of reciprocal confidence. Today perhaps we should strengthen the controls in order to prevent member states from cheating but should also show more confidence in the common project. If the common project is controlled directly by the Union it will perhaps be easier to display the needed amount of confidence. Appropriate resources should be allowed to the Union for the service of the debt and Eurobonds should be emitted and allocated. In this case the rules of Maastricht for member states should be tightened: there would be no need to allow a deficit threshold of 3%, and a balanced budget could be the rule. Or a limited amount of deficit spending could be allowed under circumstance to counteract asymmetric shocks while symmetric shocks like the one we are going through should fall in the direct responsibility of the Union.

The second cause for the aging of Keynesian policies is, as I have already mentioned, the fact that in a global economy the demand stimulus produced by deficit spending is low. Workers hired through government programs will spend a large percentage of their money in foreign goods and services and the return for the national economy will be low. In our case the main purpose is not to support the demand but to make the system more competitive. We can add that a very large part of European foreign commerce takes place between member states. The stimulus effect that would be lost in merely national Keynesian policies is largely preserved if these policies are European based.

Another source of revenue to finance a program for infrastructure and job creation could come from a tax on bank transaction. A very low tax would go practically unnoticed by the vast majority of customers but would be a formidable obstacle to speculation and reduce its extent and its force. It would also generate a very significant amount of resources to be invested to create jobs and boost the economy. Speculation bears the main responsibility for the crisis but, up to now, it has not been called to contribute to the efforts to mend its effects and overcome it. This proposal has a double advantage. It puts some of the burden on those who caused the crisis (and often also profited from it) and it helps to bring back the financial system to its true vocation and purpose, that is to allocate resources to enterprise and labour in order to support human life and create jobs and welfare for all. Of course this measure can be taken only with a broad consent, otherwise it would only have the effect to divert speculative capital from countries that introduce this rule to countries that do not. One might wonder if in this case a purely European basis would be sufficient or if we would stand in need of an agreement with all other major economic powers.