



UNIAPAC FOUNDATION

**Reforming the international financial and
monetary systems to the benefit of the
common global good**

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REFORMING THE INTERNATIONAL FINANCIAL AND MONETARY SYSTEMS TO THE BENEFIT OF THE COMMON GLOBAL GOOD

OPINION SERIES N° 3

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UNIAPAC FOUNDATION

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**(*)The Opinions expressed in this Note
commit only the author of the paper and not
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Prologue: International Institutions and the Global Common Good

Cardinal Turkson, head of Justice and Peace, convoqued a group of eminent scholars , policymakers , banking executives , practitioners and Foundations, to air their views on an important Note issued months ago, and with the umbrella topic

named: "Towards Reforming the International Financial and Monetary Systems in the context of a Global Public Authority".

An important meeting for dialogue and discussion of the topic was held in mid September at the site of Bundesbank, Frankfurt (Germany), organized by UNIAPAC EUROPE and other key organizations.

The Uniapac Foundation was invited to participate in all panels of the work day, plus, to present a particular paper on the topic of Institutions required for securing an orderly path towards the Global Common Good.

Given the interest of the Foundation on ethical issues concerning both the Economic System and the Globalization epoch, we decided to be active and respond positively, to the calls of both the Cardinal and UNIAPAC EUROPE .

The result of such response is embodied in the present Note, which will conform exactly now Opinion Series issue number Three, under UNIAPAC FOUNDATION.

It is useful to understand and capture the fact that, when the financial world stands in crisis and subject to changes, many voices from differing visions come out to propose big reforms and changes in regulations and in standards. These changes are never " neutral " in their scopes and effects, and care should be taken in designing them with outmost seriousness and taking into explicit consideration the impacts on the entrepreneurs working in very many sectors of the so called "real economy".

We were invited in the Bundesbank held Colloquium to express our views on one main aspect of potential reforms in the long term: the question of the Global Authority needed now to address the issues of the Common Global Good in the Monetary and Financial area.

We are living in a scenario of opportunism and adhocery, and in spite of some useful timely progress, we are still very very far from generating a rational and stable Monetary Financial Framework.

The International Financial Community needs to wake up, and carefully and rationally redo this disorderly manner of proceeding. And to do it having in prospect the tasks and duties required to walk forward to a Road conducive to the Global Common Good .

In what follows we develop a principles based analysis, which builds first on reviewing what International institutions exist today, how they are placed regarding both their Statutes and scopes, and in which ways we can make these more conducive and effective when driving to the aims of the Global Common Good. Our approach follows in method more of a systems analysis, and does develop a specific

concrete proposal which we are happy now to offer to our UNIAPAC constituents for information, analysis and debates.

That is precisely the aim of our Opinion Series, of which this one represents issue number Three .

As in earlier issues, the rule here is kept: the opinions expressed in this Note are only the responsibility of the author -Dr. Eduardo Aninat- and in no ways at this point do they express an institutional opinion of Uniapac as such.

We invite readers to use the network of Uniapac for both disseminating this Note to their colleagues and to send comments or reactions to it via Foundation Uniapac.

September 25th, Paris, France

FONDS de DOTATION UNIAPAC

I. Introduction: the Issues

We can all agree twofold I judge : In the novel context of Accelerated Globalization, the need for International Coordination and Cooperation is of the essence to World Governance , and , when dealing with Monetary Systems and International Finance , outmost care is needed when building up for long run and sustainable solutions.

I will address the question of the Panel only in relation to what I think is the best Institutional Framework to address the shortcomings of the present in two Areas : role of Monetary Policy contributing to the common good and role of policy institutions on overseeing globalized financial entities.

I shall leave out analysis of many Micro Externalities that have been affecting the scenario of the present crisis.

In passing , this remark allows me to allude in criticism , to some present day academic Schools of Thought : the fact that for the benefit of specialization , these have tended to isolate the main thrust of their Macro thinking , away from the present consideration of Micro developments , thus producing papers or research which becomes rather incomplete for Policy Prescriptions as suchQuestion now becomes thus : how can a given Macro authority prescribe particular Policies for addressing the Crisis (ie quantitative easing or new discount facilities on bonds and others) without explicit and due consideration of the Micro Incidence effects of these ? That is certainly an area where we would need high core academia and policy Think Tanks to research and carry on thorough analysis!

Because ...is it not of the essence of the Global Public Good concept, that ...reflection and analysis is done, on the distributive effects of policies (who bears the costs , who gets the benefits) ? We have lost the old and classical tone and analysis of policies in the light of the prior consideration here annotated.

My focus here will be on two questions :

What is the underlying nature of the Governance Economic issue we are facing today ?

What is the role to the future for the Bretton Woods institutions as such ?

We shall intent to analyze these with the framework of Christian Ethics and principles closely related to the concept of Global Common Good.

II. Governance, Global Common Good, Financial International Institutions

The document by Justice and Peace provides the international community with a host of Challenging Questions, that need thorough discussion. It was very important that the Foundation had a first class opportunity , to participate actively in the discussions and contribute with a formal presentation in one of the plenary panels.

The problem of tailoring, selecting, building and focusing on what kind of global Organization is needed for advancing the ethical and institutional aims of the Global Common Good, in the area of Monetary and Financial issues is crucial

This is a key subject to address, and to discuss, on at least two grounds :

- a. The importance of an Orderly financial framework, for sustaining the work of millions of small and medium enterprises that have to cover financial needs in their daily undertakings and everyday production activities. The stability of institutions geared to ordering the savings and investment functions, in the modern economy are of the essence
- b. The emerging trend on new and added regulations, both in the international and national scenes, a subject which on Subsidiarity principles cannot remain an indifferent one, for our Uniapac movement: one that has grounded so much work and testimonials on the principles that must govern an Economic System that makes sense to the people participating in it.

III. Authority to a Reformed IMF: what are the key Challenges to reform the way Global Institutions are working today ?

The essential question is how to make Order of the present Economic International Disorder.

And more specifically: how to align better the roles, mandates and actions of the many International Organizations that in the economic sphere work to sustain stability and order, in order to allow secure a framework conducive to the Global Common Good .

We accept there are specific functions in each of the Global organizations working in the International Financial field, that purport- each according to its own structure - to produce achievements in favour of world stability and world economic growth .

The fundamental aims are to work towards progress favoring Global Common Good , where three characteristics are of essence : the assurance of Freedom and Subsidiarity, the obtainance of Stability, and the consecution of conditions for Peace.

The organizations dealing with Monetary issues and International financial markets need contribute to these aims; they strive to do that in more indirect, subtle, sophisticated and intangible ways . The entities working in the financial sectors do not per se generate direct tangible outputs, but they fulfill crucial functions as suppliers or intermediaries of credit flows and connected services. It is this crucial but -alas- indirect nature of their mandates that needs to be understood well and soundly, before attempting reforms or additions of any class. I state thus my clear position - for discussion- on the latter point: I judge it , with the information we have, that there is no rational need to still design and build another Global Institution to

screen , guide or control where we can go , in actions concerning Monetary and Financial affairs of a Global nature , and , to the benefit of the Global Common Good.

When in this Note we rule out the need for the construction of yet another Global economic institution, and prefer to stick to mandates and reforms on existing ones - in a framework of hierarchy and cooperation - it is because, when we read the Statutes or Constitutions of the many existing ones, we find that global targeted aims are well covered in what today exists in institutional Capacity. It could be true that actual International entities lack all of the effectiveness that the Global Community needs , but still the framework and ground support is clearly there.

Why then design and build from scratch, yet another Global player, and not harmonize the roles and better improve the delivery of what we have already today ?

When we read the Articles of Agreement of the International Monetary Fund, we can identify precisely in the Statutes where we find a mandate to address most of global relevant matters in the realm of money and finances.

We cannot find, unambiguously spelled, the same matters or scope, when we contrast the charter of the IMF with charters of Regional Banks, or the Bank for International Settlements, or in Arbitration Institutions, or Financial Supervisors with international mandates, or Insurance schemes, or the many institutions related to Foreign Trade, to Codes and Standards, or in the Supranational Authorities built on Integration pacts. We cannot find how their mandates would relate clearly and unambiguously to the Global sphere, with a universal scope (ie a complete geo political representation).

Representatives of very many countries of the world met in the nineteenth forties at the village of Bretton Woods , in New Hampshire USA, presided by the master minds of John Maynard Keynes and Harry Dexter White. And with very precise rules of deliberation focusing on the longer of longer terms, set the basis and the first Charter of what we now name IMF and World Bank. They did it with a presumption and intention of universality: clearly debated for in very many sessions by a universal group of sovereign players that took the Global Commons as a serious and shared matter!

True: the IMF has added on occasions to its essentially Monetary and Trade functions , other classes of functions (such as macro programs on anti poverty aid), like those contemplated in the named PRGF facility, etc , etc. And a criticism of mission creep and over - extension, has also been levied by many critical voices in the past and in the present (perhaps.... with valid reasons).

But still : when one examines Article One of the Agreements, it is clear that all of the six sections in it, describe the central objectives that fit well with the key targets set in my Note : stability, full employment, cooperation and facilitation of orderly exchanges.

Let me quote one specific Article which fits perfectly well with the Grand vision conducive to a Global Common Good in these matters , *Article I section (5)* :

"To give confidence to members providing them with opportunity to correct mal adjustments in the balance of payments, without resorting to measures destructive of national or international prosperity".

And we add a quote as well from another section, this time from *Article IV*:

Section 1 General Obligations of members :

"Recognizing that the essential purpose of the international monetary system is to provide a framework that facilitates the exchange of goods, services, and capital among countries, and that sustains sound economic growth, and that a principal objective is the continuing development of the orderly underlying conditions that are necessary for financial and economic stability, each member undertakes to collaborate with the IMF".

To what we may possibly add even another quotation of the Statutes related to these matters :

Section 3 *Surveillance over Exchange Arrangements*

(a) The Fund shall oversee the international monetary system in order to ensure its effective operation, and shall oversee the compliance of each member with its obligations under section 1.

Let us then review the key elements involved here : Confidence to members; provide a Facilitating Framework; Oversee the International Monetary system; place guard on its operation, all thesesound to us here key mandates, to confront main ills of the monetary and financial challenges today.

Judged as from an institutional perspective, and with a rational and ample judgement for interpretation, the Articles of Agreement as existing today, are enough, to cover the essence of the spectrum of actions of prevention /coordination, and of concerted efforts required in the overall Global economy.

The present scope of functions and roles , as established in Statutes of the main actor in the pair of the Bretton Woods family , the INTERNATIONAL MONETARY FUND, has representativity (universal mandate) and explicit normative focus, than supersedes most or all of the Charters of potential existing candidates to lead and coordinate in this complex realm of domain (monetary financial mandate).

Not the G 20, nor the ECOSOC, nor the Fed or the ECB, nor the European Economic Council, nor the Securities and Exchanges Commissions (SECs) of various countries, nor the OECD, etc, etc, etc can effectively and over the longer term secure order and equilibria in monetary financial matters, with a universal character. They can and do exert very interesting specialized roles that may help on given set of matters, but, they lack the comprehensiveness needed in the delicate longer term approach that is required. Plus, and until now, they do lack the globality of representation that is desired, when we are dealing with the universality of partaking and complying with rules.

I assume I have convinced the reader that the IMF is the institution to stand first in line for the Global task in focus, from two important tests we need to have performed in the analysis:

Globality : A. The test of *Universality* of scope and mandate .

Specificity of goals: B. The test of *Area of Domain*: precision and focus in economic matters required.

Why have there been problems still, and where is the culprit as regards to the lack of effectiveness observed in these matters in the 2008 – 2012 period of Crisis ?

The main contentious aspect of how to assess and judge, the standing of the International Monetary Fund in coordinating at the lead of the exercises of Crisis Management, are today staged Not in its scope, nor in its know how, but directly in the realm of the Political arena !

We must question today what are, in actual real practice, the weights that both the Executive Board and the Managing Team of the IMF have in many important financial issues in the world arena, as compared to what they achieved and exercised say in the prior three decades ?

There is there an important gap in decision making gravitas, that certainly needs to be discussed thoroughly. We judge that it is in this particular domain of political weights, coordination, and agency responsibilities in practice, where a useful debate and analysis should of be promoted !

More importantly: regarding the issue of relative distribution of power arrangements and agency effective functions, it may be even more conducive and useful to ask ourselves how the international community can find ways and agreements to revert to a re-balanced situation, where priorities and agency responsibilities are geared back to what the statutory mandates signal to each relevant Institutional player

The IMF of today is unfortunately only in the second line of fire , and has been pushed to roughly a rather secondary seat , in the table where key decisions are being taken at present regarding Crisis Management, but which are certainly going to impinge and affect on the larger picture and scope of longer term horizons .

The Global Common Good requires that we work and view things with a longer perspective than just an horizon of a quarter, a semester , a trio of years ahead .

We have established a complex working hypothesis, entirely in the domain of the interplay of geopolitical domains, but which carry in their possible responses many questions that are important to the international community of citizens at large. This is a vision which is nurtured on the basis of an idea of universal brotherhood, as coherent with Christian humanism, and a shared view of undertakings in the actions of men and women .

We strive at Uniapac for cooperative and long term solutions, and for the development of a common shared understanding of coordinated deeds in the International arena: that is why we urge in following up with new dialogues on the important key matters we have laid out in this Note.

We are living in a scenario of short term adhocery, and in spite of some useful timely progress, we are still very very far from generating a rational and stable Monetary Financial Framework.

The International Financial Community needs to carefully and rationally redo this disorderly manner of proceeding. And to do it having in prospect the tasks and duties required to walk forward to a Road conducive to economic and social progress .

IV. Conclusion: a call to Action

The institutional topics we have covered in this paper, a result from the valuable invitation of Cardinal Turkson to debate and participate in the Colloquium, are of high importance and key relevance to the international community. We have had a chance of asking what we think are the right questions, and we have had the opportunity of at least sketching a path for debate, for reforms and for prioritization. More needs to be analyzed, no doubt.

The scenario of the present, at the International level, indicates to some of us that we might be living in a scenario of opportunism and adhocery, where the urgency of some matters overcomes the focus to be placed on other sets of very important matters. That is typical of some actions developed at a rush , within the international financial areas of the present.

Yes, it is true that some progress has been made, and some concerted efforts are paying off in terms of partial recoveries and the management of private expectations ...

But, in spite of some useful timely progress, we are still very far away from generating a rationally more enduringly stable Monetary Financial Framework. We have managed many of the short term perils, but we have still not been capable to come out with a sustainable and shared path for long term progress

The International Financial Community needs to wake up. It needs to carefully redo this disorderly manner of proceeding .

And to do it having in prospect the tasks and duties required to walk with cooperation and goodwill to a road much more clearly conducive to the Global Common Good .

That is what Church voices ask us laymen to work upon; that is what the future requests from all, and to the benefit of all .

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