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MARKET FUNCTIONALITY AND INSTITUTIONAL REFORMS

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Abstract
This presentation will examine market functionality in relation to the reform of institutions and key national and international institutional organizations. With reference to the causes of the current, now global, financial and credit crisis, I shall attempt to explore the need for reform of the role of the state and of some international institutional organizations, making the economic system less vulnerable to crises, more able to function for the benefit of a regulated 'social market economy', on both the European Union and global levels.

Keywords: Market functionality, institutional reforms, institutional organizations, social market economy, political convergence, economic governance, Economic Security Council, eco-social development, European eco-social territory.

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Introduction

The theme of our Conference, *Market Functionality and Institutional Reforms*, was selected by the ASECU General Assembly in March 2007, that is to say long before the first signs of the global financial crisis appeared. Obviously, the current crisis makes the topic extremely timely. Therefore I shall concentrate on the relationship between the crisis and the various institutional bodies it involves, and the role they should be playing in preventing and mitigating such crises. I shall also discuss some reforms to a number of basic institutional bodies which would allow more efficient functioning of the "*social market economy*" – the economy which, as a system of values, not just market activity, should be able to combine freedom with responsibility.

Firstly, the topic chosen in itself would have suggested –even before the onset of the crisis– that there was a need for institutional reform to improve and strengthen the functionality of the market, a market currently characterised by monetarism and so-called neo-liberalism.

This market model which, with relatively minor variations and deviations, has dominated the world economy for more than three decades, rested, as you are all aware, on a framework of principles known as the "Washington consensus"; it can be encapsulated in the three notions of privatization, deregulation of markets and macroeconomic stability, combined with severe curbs on any state involvement or intervention in the market. Eventually, however, this system snapped at its weakest point –the USA sub-prime property market, revealing like a series of tumbling dominoes the abuse of "market freedom" by the entire financial system– a system which had used enticing slogans like "Take the waiting out of wanting" and "Enjoy now – pay later!" to promote a model of widespread "*affluence on credit*", a model whose consequences for the so-called real economy were, of course, every bit as widespread.

This credit crisis, now spreading into the real economy and growing ever more severe, has prompted even dogmatic supporters of the neo-liberal model to set aside the basic tenets of their philosophy and turn to the state to rescue the –until recently– bloated and arrogant private financial giants, to seek, as a matter of urgency, the nationalization of their huge losses, despite the fact that for decades they had been happy to keep their massive profits firmly in the private sector.

It appears that from now on the market will have to function under some form of state intervention, the scope and severity of which will vary depending on circumstances (national and international), government decisions and the balance of power among the various social groups and classes in each individual state.

Socio-economic life, with its pursuit of many non-identical interests, demonstrates that the economic system does not tend towards any one stable point or balanced trajectory; instead it evolves, with greater or lesser momentum, in a state of imbalance. In other words markets and the economy as a whole are the result of a game involving many and diverse players, a game in which the sudden, the unforeseen and the urgent play a decisive role[1]. It is not the game of participants acting in the market all in the same way, the purely micro-economic interpretation given by neoclassical traditional economics. This means that the axiom of instrumental rationality of neoclassical theory, which assumes that the agents are fully informed, and that thus the cost of the transaction is zero, does not correspond to reality. Agents are invariably imperfectly informed and make their choices with (asymmetrical) feedback of information, and therefore with transactional costs, a phenomenon rendered by the axiom of procedural rationality[2]. Processing of information by the agents involved, as a result of the cost incurred in transactions, lies, therefore, at the basis of the creation of institutions; only if we lived in a world where all information was available would institutions not be required.

To return to the topic of our Conference, what we should be seeking is that type of market functionality, and those institutional reforms, whose mutual reinforcement in productivity of the production factors, competitiveness, investment and products made and consumed would be directed, as far as possible, to socially fair and environmentally sustainable results.

Some causes of the current crisis

The causes of the crisis, described by some as systemic, are related to a number of factors: the inadequacy of the institutional-regulatory and organizational framework of the financial markets (policy of deregulation), the negligence of the supervisory authorities and the corporate governance of the financial institutions (emphasis on the principle of self-regulation), the inadequate implementation of the International Financial Reporting Standards (IFRS), and the mistaken monetary policy pursued by the FED over the period 2001-2007, as well, of course, as the imbalances in the global macroeconomic system, with the surplus balance of payments seen in China, Japan, Germany, Holland etc., and the deficits in the USA, UK, the countries of south-eastern Europe, etc.

We should not overlook, of course, the Marxist theory of cyclical crises, seen as an inherent feature of the capitalist system. In this case, Marxists would point to a crisis of over-production, linked to the extensive technological automation of production processes in combination with the autonomy enjoyed by the globalized financial system.

1. This view is supported also by the new discipline known as econophysics.

2. Douglass North: Institutions, Institutional Change and Economic Performance, Cambridge University Press, N.Y. 1991.

But it is also claimed on many sides (political, religious and academic) that the financial crisis is largely due to greed, to lack of confidence[3] and responsibility, and that therefore the appropriate critique should be conducted from an ethical perspective.

Ethical criticism is naturally oriented towards questions of virtue, but is capitalism, in cultural terms, really based on lists of virtues?[4] Is the financial crisis, either in terms of customers/savers or in terms of bankers, i.e. supply, a crisis of virtues? The decision, for example, to undertake considerable risk in pursuit of high returns is more a question of confidence, allowing both savers and bankers to transform risk into hope. Are the bankers, who tempted savers with these high rates of return, really immoral? They too trusted in the system. This is one explanation of why they ignored their responsibility diligently to weigh up opportunity and risk. Is confidence, then, immoral? Confidence functions like a rule, which one follows without question; it then acquires an equivalence to morality, replacing the ability to judge for oneself, and as a rule it has its own normative force: 'It must be all right, because everyone is doing it'[5].

It is difficult to give a positive answer. But morality, too, presupposes recognized and accepted rules, and when these rules are violated the transgressor is behaving in an unseemly way, i.e. not in accordance with the rules. But which rules are to be obeyed? If rules are described as cultural activities, or unofficial institutions, we cannot expect the individual conscience to react in a moral way. Thus moral rules of this kind have no systematic force, even if they appear on an individual basis. This is why appeals for humility, decency or in general for morality are intended to remind us of ideal patterns of behaviour, but do not touch the core of businesses cultures as they are actually experienced. When these cultures are eroded, them morality has an indicative function, it points up grey areas of behaviour, but without creating clarity itself. If one were to accept, without particular explanation, the stance of Friedrich Nietzsche, the philosopher who advocated a reassessment of all values (*Umwertung aller Werte*), that each virtue tends towards folly, since virtues 'grow drunk on flesh

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3. On the thoughts concerning confidence which follow, see Birger P. Priddat, Metaphysik des Vertrauens. Überlegungen zu der Frage, ob die Finanzkrise eine Tugendkrise sei, *Neue Zürcher Zeitung*, 20/21 Dezember 2008, Nr. 298, B4.

4. See Yannis Tsekouras, *The Morality of the Global Capitalist System*. Presentation at the 1st International Conference on "Recent Economic Developments and Problems in the Transition Economies", University of Macedonia, May 24-27, 2000, Thessaloniki Greece. Proceedings of 1st International Conference of ASECU, Thessaloniki, 2001.

--------"Development: Cooperation and Competitiveness", South Eastern Europe Journal of Economics (SEEJE), vol. 6, No 2, 2008.

5. See Birger P. Priddat, *op. cit*.

and blood', then there is no doubt that we should view morality with a degree of scepticism. This means that we need regulatory rules and not appeals to behave more morally. The rules are (unofficial) institutions, which conventionalize the mutual expectations of actions. This, in its turn, engenders confidence. Confidence is however, potentially, open to exploitation, and indeed to systematic exploitation, since sceptical rationalism tends to reduce confidence. And since the functioning of the markets is not rationally guided, it is better that in future we should investigate market cultures in order to evaluate the parameters of acceptable behaviour[6].

Institutions, institutional organizations, institutional reforms

Let us begin with the definition of institutions, which, in the words of the Nobel prize winner Douglass North[7], 'are the rules of the game in a society, or, more formally, the constraints invented by man which shape human interaction and behaviour'. Thus institutions –whether formal (constitution, written laws) or informal (law of custom, codes of behaviour)– are of great importance to society, since they determine the basic structure of transactions, whether these are economic, political or social in nature, and influence the performance of the economy through their impact on the cost of transactions and of production.

Official institutions are the creation of various organizations, such as political bodies (political parties, parliament, regulatory authorities, European Commission, Eco/Fin, Eurogroup, G8, G20), economic bodies [companies, unions, cooperatives, International Monetary Fund (IMF), World Bank (WB), European Central Bank (ECB), World Trade Organization (WTO), International Labor Office (ILO), Organization for Economic Co-operation and Development (OECD)], social bodies (churches, societies and associations) or educational bodies (schools, universities). It is these organizations, which affect the development of the institutional framework and are affected by it in turn, that we shall turn our attention to below – on a selective basis, of course.

Both theory and practice have indicated, on the international and national levels, the organizations-institutions deemed necessary to support or improve market functionality. Of course, these organizations-institutions have not been able to avert the various crises. This is the reason why they need reform and reorganization. On the international level, examples of the main organizations defining the rules of the game, and therefore the institutions which largely govern the financial system, which has caused the current global crisis, are as follows:

6. See Birger P. Priddat, *op. cit.*

7. Douglass North, *op. cit.*

- The WB and the IMF, both founded in 1944. Characterized by a loose structure and limited competences and resources, they are largely controlled by western states, mainly the USA.
- The Bank of International Settlements (BIS) was established in Switzerland in 1932, while the more Europe-focused institutions include the European Investment Bank (EIB), founded in 1958, the European Bank for Reconstruction and Development (EBRD), founded in 1991, the European Central Bank (ECB), founded in 1998 and, of course, Eco/Fin, Eurogroup and the Commission.
- In the area of international trade there is the General Agreement on Tariffs and Trade (GATT), set up in 1947, succeeded in 1995 by the WTO.
- In the area of labour relations, there is the ILO, whose attempts, in common with the WTO, to link trade and labour relations have so far been unsuccessful.

We must also mention the G8 and, above all, the G20, which represents 85% of global national income and ¾ of the world's population. It is to these powerful players, who bear the brunt of responsibility for the crisis, that mankind looks –despite their socio-economic differences– to find the will to bridge their differences of view and, *in the short term, coordinate plans to escape from the current crisis* (Konjunktur-Stimulus), and in the medium and long term to play a decisive role in global economic cooperation and in shaping the necessary new architecture for the global financial and economic system – an architecture characterized by justice and solidarity, not only among themselves, but towards the less powerful nations too (the $S_{(mall)}160$).

At their recent meeting in London the G20 leaders agreed on a number of rules and measures which were adjudged to be a movement in the right direction. It remains to be seen whether there will be effective control of their rapid implementation, with specific sanctions in the event of failure to implement.

On the national level we must mention the institutions of the state and of the central bank, which must operate with a high degree of independence from interventions dictated by political expediency, must coordinate macroeconomic policies, adjust interest-rate and monetary policy[8], in order to serve the needs of growth and long-term (domestic and external) stability of the national currency, also contributing to ensuring that the banking system, stock market and finance management systems operate effectively and transparently to the benefit of the *social market economy*, i.e. the market which meets the contemporary social needs of all members of society.

8. The central banks of the member states of the Eurogroup have transferred their responsibilities for exercising monetary policy to the European Central Bank.

The role of the state

On the national level, the state is the most critical, the most important of all institutions. An intelligent and efficient state, one that legislates and governs wisely and effectively, with justice administered by an experienced, trained, non-bureaucratic, honest and independently-minded judiciary and legal system. A state and public administration which operate independently of party political interference, with transparency, free of red tape, bribery and corruption. A state whose governance is effective in the production of clear and practicable laws relating to a relatively fixed, simple and transparent tax system, investment, (international) trade, the labour market and competition among enterprises, with proactive and effective policies, financial transparency and access to finance, accountability and protection of ownership rights, mediating institutions for resolution of business disputes, not only through the courts, which lack the necessary qualifications and independence, but through alternative extra-judicial administrative channels for resolution of disputes, such as arbitration, which is still under-developed in all the countries of south-eastern Europe.

Clear and enforceable legislation is also required in relation to barriers to business entry and exits, the removal of bottlenecks to ensure access to regulated infrastructure utilities, such as telecommunications, transportation, electricity and water, and more generally to improve the quality of infrastructure services like education and training, scientific and technological research and innovation, health, the insurance system and the environment.

For the final success of any (national) economic policy, a key role –during both framing and implementation– is played by not only the public administration but also the more general political culture[9], the attitudes and values of society. Changing these attitudes and values is a time-consuming and difficult undertaking; the process must begin with education of the young. But the degree of institutionalisation of the 'rules of the game', the stability of the operating framework of that game and its predictability are also among the necessary factors in supporting the complex procedures of economic, social and even cultural development.

The absence of a stable statutory framework, usually evinced by frequent and unexpected changes in the rules of the game, and by complex and non-transparent procedures, creates a diffuse sense of insecurity, which impels socio-economic subjects towards a "logic of short-term prospects and horizons, and consequently a failure to

9. See Nikiphoros Diamantouros: Δημόσια διοίκηση και ανάπτυξη: Οι πολιτισμικές διαστάσεις μια κρίσιμης σχέσης [Public administration and development: The cultural dimensions of a critical relationship] in Ελληνική Οικονομία: Κρίσιμα Ζητήματα Οικονομικής Πολιτικής [Greek Economy: Critical Issues of Economic Policy] ALPHA BANK, Athens 2008. pp. 161-180.

frame long-term and credible policy for the economy"[10] and indeed for other areas of public life.

The cultural pattern of definition of cost-benefit which governs the framing of public policy in most, if not all, of the countries in our region, is constructed on a "zero-sum" logic, with no scope for more consensual outcomes based on a "positive-sum" logic with its inherent concept of compromise. Such compromise is seen as a humiliating sign of weakness, a "defeat", and this is why refusal to compromise, accompanied by disobedience and resistance to institutions and the state are ranked so highly as moral values in the popular imagination[11].

"Zero-sum logic, then, and its associated cultural pattern, are related to the familiar concept of "political cost", which leads directly to a lack of fixed institution frameworks for the framing of public policy with long-term development objectives"[12]. Thus political parties, parliament, the executive, the judiciary, the public services with their culture of bureaucracy and corruption, and the media –all have lost, to a greater or lesser extent, their credibility– thereby exacerbating among ordinary citizens a suspicion towards all these institutions, particularly the mechanisms of public administration, and encouraging a tendency among various social groups to resort to lawless or illegal practices.

It is worth pointing out here[13] that the quality of the democratic system of a country is a key factor in the creation of an institutional environment that can promote the economic and developmental dimension of policy. The main elements of such a democratic system are accountability, transparency, institutional checks and balances to control the executive, the smooth and unimpeded functioning of the state operating in accordance with the law, a stable, clear framework of rules enshrined in law, robust enforcement of those rules, and finally a range of forms of interdependence and synergy among all these elements.

What is required, then, is not only suitable policies, but the appropriate political processes which make it possible to exercise effective public policy. Thus the ability to reform the state itself (modernization and rationalization in its organization, functioning and decision-taking, and particularly in the implementation of decisions), in combination with the social capabilities a society possesses to manage many and various changes, are inseparably linked, the one dependent on the other. Everyday

10. Nikiphoros Diamantouros, *op. cit.*

11. Nikiphoros Diamantouros, *op. cit.*

12. Nikiphoros Diamantouros, *op. cit.*

13. See Tasos Yiannitsis: Introduction to the book: Ελληνική Οικονομία: Κρίσιμα Ζητήματα Οικονομικής Πολιτικής [Greek Economy: Critical Issues of Economic Policy] ALPHA BANK, Athens 2005.

governmental administration must be planned and methodical, coordinated and effective, while governance must set the objectives of intervention policies in both introducing new rules and in promoting new perceptions and/or strategies, defining operational methods and determining the role of the various parties and agencies involved. Because in fact, despite whatever differences may exist among the political parties and factions, there is little disagreement about what needs to be done; the difficulty lies in the "how" – i.e. in what way the objectives that have been set can be attained[14].

For as long as political leaders and the political class[15] lack the necessary knowledge to prevent their ideology and election promises, their ambiguous political discourse, from becoming mere substitutes for scientific analysis, for as long as they lack the inspiration, will and resolution to free our societies and economies from excessive legislation, red tape, corruption, nepotism, client politics and absence of meritocracy and continue to pursue their own social advancement and the enrichment of themselves and their families, for so long will any reform of institutions remain on the drawing board, or if implemented fail to produce the anticipated results, and for so long the "informal negative institutions", such as the black economy and corruption, will continue to gain in strength.

Therefore, above and beyond the convergence of our region's socioeconomic indicators with the norms of the European Union (EU), it is vital and therefore urgent, the "*political convergence*", the process of bringing our own systems of governance closer to those of the more advanced European countries. This "*political convergence*" would mean convergence in the capacity of our political system and governance –in the context of the real abilities of society and within a realistic time frame– to attain the objectives promised to our peoples at the lowest possible economic and social cost[16].

In more practical terms, I believe that the committee of experts and academics which advises on the drafting of legislation should be granted the legal capacity to issue decisions binding on parliament, in respect not only of the constitutionality of parliamentary bills but also of their clarity and simplicity. Because lack of clarity is what allows multiple interpretations of the laws, resulting in frequent recourse to the courts, weakening or undermining altogether the positive impact on the economy that these laws were intended to produce, increasing the cost of doing business and the cost of production and reducing economic performance.

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14. See Tasos Yiannitsis, *op. cit.*

15. See T. Veblen: The Theory of the Leisure Class, New York: Dover Publication, 1994.

16. See Tasos Yiannitsis: Η πολιτική διαχείριση της οικονομίας [The political management of the economy], *To Vima* newspaper, *Ideas section*, 23.4.2006.

Furthermore, even when there is no absence of institutions, we see these institutions ignored and flouted in the name of freedom –or, more precisely, impunity. It would thus be useful to create independent authorities endowed with the powers and resources to protect institutions and to oversee, control and assure the enforcement of the laws in all areas.

The determination of such independent authorities, and of government organizations and agencies in general, to implement the statutory framework in place at any time, would also assist in the removal of outdated and inadequate institutions. Of course, from the time when the biological theory of evolution has influenced the way in which we understand social development and has been assimilated into the literature of economics[17], it has been claimed that it is competition which uproots inadequate and inferior institutions and rewards with survival those which resolve more rationally and effectively the problems of, dare I say, the fittest of men.

Last but not least, the combating of corruption must begin with the political system and the candidates for parliamentary seats, even the candidates for political leadership. These candidates spend significant sums on collecting votes, besides involving themselves with media businesses and owners, making use of "black political money" in such a way as to lose their own independence and credibility and being seen by society as "bad examples of corruption". It would thus be preferable to adopt an electoral system where voters could choose among candidates more freely, without adherence to the official party list[18], making candidates less dependent on business interests.

More generally, rationalization of the instruments and documents of transaction, the codification of the whole system of laws, the computerization and on-line networking of all public services, as well as a genuine and verifiable requirement that public figures declare their sources of wealth, along with extensive use of the internet in the citizen's dealings with the state to allow thorough cross-checking of data and avoid interpersonal negotiation between the citizen and the individual civil servant –all these changes would significantly limit bureaucracy, tax and national insurance evasion and corruption.

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17. See Douglass North, op. cit. and Alchian Armen A.: "Uncertainty, Evolution and Economic Theory", Journal of Political Economy, 5, 1950.

18. I.e. if the voter disagrees with the order of candidates on the party list, he could be permitted to put a cross against the candidate of his choice. Such a system would show more respect for the freedom to choose of the citizen voter.

The role of some international institutional organizations

The current financial and economic crisis has shown (a) that the market, and the monetarist system, is not a self-regulating and self-correcting system which will find the necessary balance for the prosperity of society as a whole, and (b) that the existing institutions are unable to deal with crises of this kind. The fact that fanatical advocates of the monetarist system are appealing for help to the state they once decried, in order to bail out the system, without any sign that they have definitively renounced their monetarist views, but are making a virtue of necessity, shows that the economic problem has once again become above all a political problem. **This has demonstrated that a new Pan-European and global perception is required of the relationship between state and economy.**

If we bear in mind the opinion of Immanuel Wallerstein[19], who asserts that capitalism is now in the second stage of the cycle, which began 30-35 years ago, following a first phase (1945-1975), the longest-lasting in its history, in which profits came from material, industrial or other production, while in phase two, to continue to make profits, capitalism had to resort to speculation, it is evident that the various institutional bodies will need to interest themselves primarily in assuring the fundamental human needs, supporting the real economy, whose interests the financial system must be made to serve. Because when internal return on capital in the financial system is in the order of 15%-20%, because the banks are acting mainly with outside capital, this, apart from the fact that it can only be achieved at the expense of labour, or of salaries, leaves no scope for increase in the internal return of investment in the real economy, and thus curbs the tendency to investment.

This global crisis –which has shown the limits of deregulation as well as the adverse consequences of divorcing the public finance markets from the real economy and the real economy from politics– requires political power to intervene in the workings of the market, to reform existing institutions and found new ones to control and guarantee the implementation of regulatory rules on the national, regional, international and global levels –given that we are now living in a world of globalized markets and undergoing a global crisis.

It is, of course, important that the founding of new institutions, or the merging-reorganization-improvement of those that already exist, should not lead to an unnecessary and/or damaging multiplicity of institutions and legislation that will weaken or completely undermine the various incentives that drive forward economic activity.

The various national, regional, international and global institutions, then, must be equipped with a cohesive, non-bureaucratic and flexible legal framework of powers

19. Immanuel Wallerstein, see interview on the topic: Le capitalisme touche à sa fin? *Le Monde* 12.10.2008.

and competences, as well as specialist staff, so that by **rapidly exchanging information** (through the Financial Stability Forum, for example, which the G20 will probably change into a Financial Stability Board) and **coordinating joint efforts**[20], they can effectively control the implementation of decisions, intervening not only to suppress irregularities and maintain the status quo, but also proactively, shaping new circumstances, new environments, etc.

Thus the WTO should defend the international/global trade in goods and services from direct or indirect, covert or overt, protectionist measures (or dumping) by individual nations. It should also bear in mind the weak position of the many poorer countries, while attempting, in cooperation with the ILO, to link trade with labour relations. On the EU level, in order to avoid the "economic nationalism" driven by internal political pressures, a golden mean must be found as soon as possible between EU and national interests, while protecting at all costs the single European currency and the common market and at the same time continuing the momentum towards political integration of the Union.

The resources available to the IMF (which should ideally have the WB incorporated within it) must be increased substantially in order to support those economies needing help. It should be given the powers (a) to operate independently of the wishes of its powerful financer-states, particularly the USA, (b) to contribute to making the supervisory rules compatible with minimizing the extent to which cyclical fluctuations are aggravated, and to help macroeconomic stability and development (in other words, by implementing both inhibiting and proactive measures to foster growth), (c) to control the workings of the international financial system and to ensure the unimpeded flow of capital among financial institutions, defending against direct or indirect, covert or overt protectionist measures by individual nations and preserving liquidity for those of its member states finding themselves in difficulty, (d) fixing stable exchange rates among, at least, the most important currencies, i.e. the Dollar, Euro, Yen, Sterling, Rouble, Yuan, Rupee and Real and enforcing these rates in line with the needs of world economic equilibrium.

Alternatively, if the fixing of stable exchange rates for major currencies is not seen as sufficient to tackle imbalances in the world economy, then it must link the more important of these currencies with the upgraded Special Drawing Rights, known as "paper gold", created by the IMF itself in October 1969, as an international reserve currency[21].

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20. The globalized economy and the speed of the internet necessitate coordinated and rapid action.

21. A view also expressed by J. Stiglitz and by the Governor of the People's (Central) Bank of China, Zhou Xiaochuan.

Or, if this alternative is not implemented, mainly owing to the resistance of the USA and its fellow travellers, then over time the possibility cannot be ruled out of the Euro becoming the international reserve currency. Just as the Dollar, over a thirty-year period, came to replace the Pound Sterling, thus the Euro may take the place of the Dollar, if the EU continues its strategy of further integration and follows a united economic policy.

Because the unfettered fluctuation of exchange rates has led to a chronic disequilibrium in the trade balance, above all, of the USA, the consequence being that the massive deficits of the USA, the world's largest economy, are financed by the Yuan, Yen, the surplus currencies of the oil-producing countries, and the Euro. Thus American citizens do not feel the need to save, even during years of prosperity, and certainly not during a recession (paradox of thrift), and so their savings remain permanently close to zero. On the other hand, countries with a surplus tend to under-consume (e.g. China), investing their savings in financial assets in the countries with a deficit, in this way funding their excessive consumption.

The BIS might well re-examine the Basle II rules in order to minimize the degree to which cyclical fluctuations are aggravated.

The ECB needs to coordinate macroeconomic policies effectively, to readjust its interest-rate and monetary policy, even if it means using open-market operations (in order, for example, to avoid the liquidity trap in the current crisis), or the so-called "quantitative easing", in order to serve the needs of development, the long-term stability (internal and external) of the Euro and the general economic situation.

It must be acknowledged that the ECB has no easy task. Countries within the Eurozone have widely differing levels of growth and so when a single currency policy, for example, is decided upon, it will have consequences for the economies of the member states that differ in severity, direction and efficacy. This means that when the economy of a member state is in recession, with high deficits and public debt, or overheating, while that of other states in the Eurozone is enjoying a healthy balance, or vice versa, then a single currency policy is far from the best for the economy in question, which can no longer resort to devaluation or revaluation of its own currency, as it could have done before joining the Euro –not that this protects it, however, from exchange rate risks.

The option of the ECB issuing a Euro-bond, in order to raise money from international markets at relatively low cost in order then to lend money to the member states of the Eurozone in greatest need, is a course of action that will require amendment of its charter, which does not provide for such action, and provision for tackling the impact of the circulation of the Euro-bond in the form of competition between the new bond's interest rate and that of the state bonds issued outside the Eurozone, unless it were to lend to the non-Eurozone countries at the same rate as that of the Euro-bond.

Furthermore, the ECB, through the central banks of the EU member states and in association with the IMF, must supervise and control the commercial banks and the many credit institutions (finance institutes) which have appeared, mainly in the developing countries, creating a "shadow banking system" (Paul Krugman) and which have not been placed under the control of banks or stock markets and not obliged to adhere to clear rules for the presentation of their balance sheets and to keep own capital as reserves in satisfactory proportion to the loans they extend –a failing which also extends to the banks. These institutes have created and traded in perhaps more than 100,000 derivatives, among them high-risk speculative hedge and equities funds, futures contracts, options and so on, which remain opaque in their transactions and often unintelligible even to many of the institutes' own personnel– the result being an inability to calculate their true worth.

The fact is that the evolution of this crisis has shown that to recover confidence in the financial system, so vital for a positive business mind-set (A.C. Pigou / W.A. Jöhr) the public sector will need not only to pump funds into the banks but also to undertake, either alone or in common with the private sector (see Public Private Investment Funds – PPIF in the USA), the purchase of 'toxic assets', while also guaranteeing the possible bad loans of the financial system. It will be essential if this is to happen that taxpayers' money be secured, e.g. through government places on the boards of finance institutes or in some cases their nationalization, while there must also be effective control of both speculative, high-risk mutual funds and of the pay and bonuses of various managers.

Another institution which needs to be mentioned, and which must function with social responsibility, environmental sensitivity and economic efficacy is none other than the public or private enterprise. The social responsibility of businesses, or corporate social responsibility, is related to the sense of moral responsibility of these enterprises and their managements, towards their workforce, the environment and society as a whole.

Is it possible that corporate social responsibility, once its content has been properly defined, can be formalized institutionally and have its implementation verified by transparent social mechanisms? Because we should not overlook that before the current crisis, on the basis of OECD figures, of the 100 largest entities worldwide in terms of GDP, 51 were multinational companies and only 49 were states. Common opinion is persuaded that businesses undertake social responsibility programmes only in the context of a broader strategy of corporate public relations, or in order to strengthen their crisis management mechanisms, but invariably in pursuit of profit in the short term and the accumulation of capital in the longer term. Thus the recommendation by some "experts" that businesses should re-orientate themselves to a "capitalism with a social conscience", neither presupposing nor limiting profits, does not appear to have taken the place of the prevalent and well-known opinion of Milton

Friedman that it is the duty of businesses to grow, i.e. to make greater profits. But since changes in attitudes are difficult to bring about, and take considerable time, the various institutions involved, such as the European Business Ethics Network, the UN Global Compact Networks and Global Compact Partnerships should receive support, since, apart from anything else, they may be able, using the Global Reporting Initiative, to document, using generally accepted evaluation indicators, the impact of business on society and the environment – and only then will corporate "social reports" have any real meaning.

Moreover, an effective and credible public finance policy, for example, requires an institutional infrastructure. This means that the principle of consistency in accounting practices needs to be consolidated and safeguarded, precisely in order for the public finances to be trustworthy and credible. This can be achieved through the introduction and use of the "International Public Sector Accounting Practices". One of the pillars, on which reliability of finances must rest, is the existence of impartial and thorough auditing, which can employ an objective body[22] of "International Auditing Standards" for public actions, which would mean that the EU requires a harmonized reform of the public finance system[23]. This would mean, of course, that the individual states would have to transfer more powers to supra-national international organizations, which will need to operate with integrity and with a sense of (global) social responsibility, not on the basis of prejudice or ideology, serving, not infrequently, specific interests.

Thus in addition to the organizations, mainly of a political-economic nature, such as the G8 and G20, there appears to be a need to establish, for the EU, which lacks a strong central government, alongside the Presidency, the Presidency of the Commission and the High Representative for Foreign Affairs, a High Representative for the Economic Affairs of the Union, exercising the role of "*economic governance*", coordinating **in a timely way** the supervision of financial organizations across its area of competence and controlling systemic risk. For the world community, it is necessary to establish, in the context of the UN, an "*Economic Security Council*"[24] and a "*Glo-*

22. The credibility of the international ratings agencies, such as Moody's, Morgan Stanley, Standard and Poors, Fitch etc. cannot be taken for granted, when these agencies earn their profits from the companies they are supposed to be evaluating. For this reason an evaluation of the evaluators themselves is required, and of the criteria they use, carried out by neutral and independent assessors.

23. See Stavros Thomadakis: Δημοσιονομική πολιτική: Νέα ευθύνη, νέες ευκαιρίες, [Public finance policy: New responsibility, new opportunities] in *To Vima* newspaper, *Ideas section*, issue 20, December 2008.

24. See Henri Weber, «Πλήγμα στους μύθους του Νεοφιλελευθερισμού» [A blow to the neo-liberal myths], in the magazine of the *Eleftherotypia* newspaper, Vivliothiki, 24.10.2008.

bal Environmental Agency"[25], whose remit will be to avert the global crisis threatened by climate change. The Economic Security Council, in view of the prospect of creation of new economic regional groupings, e.g. in SE Asia and Latin America, will have the power to take decisions and to shape, together with the G20, the architecture of the global economic and financial system, without off-shore companies and tax havens and, promoting the regulation of globalization, will be able to act to prevent crises, or at least limit their extent, attaching –of course– greater significance to fundamental human needs, and not to the system of transactions, the pursuit of purely economic values –in other words, to exercise a form of "*global governance*".

If, of course, this new organization is doomed to paralysis owing to differences and disputes among its larger member countries, then the proposal by Nicholas Stern that an organization be set up, independent of the UN, "composed of leading economists, acknowledged as such by the scientific community, those who have occupied high-level responsibilities in multilateral institutions … the role of which would be to evaluate risks inherent to the operation of economic activity and to anticipate the possibilities of crisis", is to be preferred. Because its opinions "would have real influence on governments, but also on markets and companies to the extent the operation of such an institution preserved it from any suspicion of defending the specific interests of such and such a country or some social group"[26].

Epilogue

Joseph Stiglitz has written in an article: "The world has not been kind to neo-liberalism, that grab-bag of ideas based on the fundamentalist notion that markets are self-correcting, allocate resources efficiently, and serve the public interest well. It was this market fundamentalism that underlay Thatcherism, Reaganomics, and the so-called "Washington Consensus" in favor of privatization, liberalization, and independent central banks focusing single-mindedly on inflation".

"Neo-liberal market fundamentalism was always a political doctrine serving certain interests. It was never supported by economic theory. Nor, it should now be clear, is it supported by historical experience"[27].

Thus the current crisis might represent an opportunity to end the thirty-year dominance of the "meta-ideology" which, through the globalized market, dictates binding instructions to almost all the governments of the world, i.e. competitiveness, priority to combating inflation and reduction of deficits, liberalization of markets, reduction of capital taxation, privatization, flexibility of labour, deregulation.

25. See Lord Nicholas Stern, interview in *Le Monde*, 13.12.2008.

26. *Ibid*.

27. See Joseph Stiglitz: The End of New-Liberalism,Project Syndicate, July 2008.

National Keynesianism, which was translated politically into the social-democratic welfare state in Europe and the New Deal in the USA, was abandoned because its traditional prescriptions could not heal the permanent inflation caused by the ending of the Bretton Woods agreements and the oil crisis of 1973. Thus Keynes gave way to Milton Friedman, who found support among broader social groups because a number of state interventions, by increasing the tax burden and the non-productive use of resources, led to a client-oriented feudalization of the state by the parties in power, to union privileges, the favouring of parasitic elements in society, stifling bureaucracy and corruption, and so on.

The fact that now even the neo-liberals concede that uncontrolled markets provoke imbalances, unemployment, poverty, wider inequalities, waste, damage to public wealth and economic and ecological crises, indicates that the notorious TINA (There Is No Alternative) was a myth, one that served specific interests[28]. There are always, in fact, other choices, as long as those responsible – mainly the politicians – are prepared to look for them, and not procrastinate using the excuse that the current crisis will eventually pass.

One new way forward for the globalized economy might be a "Global New-Newkeynesianism" (a New "Green" Deal), which, with the "economics of effective demand" might balance the internationalized "economics of supply" (given that the old and familiar Keynesianism can no longer be implemented on the national level), in combination with a new Bretton Woods and accompanied by an adoption of a "globalization of responsibility", not only in economic matters, but also in questions of international solidarity, combined with the promotion of peace and disarmament.

Thus the current crisis provides the developed countries with an opportunity to seek a new model of *eco-social development*, based on research and knowledge (growth in knowledge and intelligence), clean technology and innovation, with a more just distribution of wealth and more support for the welfare state, improving the prosperity of all members of the global community and contributing to the absorption of (surplus) production.

Amartya Sen speaks of a "new world" in the place of a "new capitalism", one that will rest on social values and can be defended on moral grounds[29]. Bill Gates has spoken of creative capitalism[30], and others of "capitalism with a social conscience", while the G20, at its recent meeting in London, attended by communist China, admits that the basis for growing prosperity is "an open global economy, resting on market

28. See Thanasis Yialketsis, «Μια ακτίνα φωτός μέσα στη κρίση» [A ray of light in the crisis], in the magazine of the *Eleftherotypia* newspaper, *Vivliothiki*, 24.10.2008.

29. "Capitalism Beyond The Crisis", New York Review of Books, 31 March, 2009.

30. World Economic Forum, 2008.

principles but with effective regulation and robust global institutions". We have preferred to use the term "social market economy", a phrase which evokes both the German economic model and, more or less, that of the Scandinavian countries.

The EU may, facilitating integration and cooperation, take a leading role in the adoption and promotion of this new model, making use of alternative renewable sources of energy, forestalling the negative impact of climate change and protecting the environment. Thus, **if it demonstrates robust political will and coordinated action** –something which will require visionary, Euro-centric, not nationally oriented, leadership– it can lay a solid basis for the "*European Eco-Social Territory"*, at the same time contributing to the proper reform of EU and global institutions and the regulation of rampant globalization, **for the benefit of all mankind**.