

## **Regulating International finance: a perspective from the South**

The world financial crisis of 1997-1999 has had devastating economic and social consequences. As much as \$ billion in output, or 1 percent of world GDP, has been lost. In Indonesia, the proportion of people living in poverty increased from to percent in a single year, or insert million people. In Korea. In Thailand . In the Philippines. Although the financial crisis was officially proclaimed at an end in the Spring of 1999, the effects on millions of people will linger for years.

The crisis has placed the issue of regulating international capital flows firmly back on the agenda. In the early stages, the debate raged: was the crisis due to inherent imperfections in the functioning of international financial markets or was it due to internal mismanagement in the borrowing countries? A mainstream consensus is now emerging: most people now agree that both sets of factors were at work, but some give greater weight to the first, others to the second. In fact, the issue of regulation arises on both counts. The debate relates to regulation of international capital flows *and* complementary regulation of financial systems within borrowing and lending countries. It also relates to the role of emergency lending in currency crises, the source of expanded international liquidity and the asymmetry of adjustment between borrowing and lending countries. These are the elements of so-called “architecture” of the international financial system.

The debate often ignores more fundamental questions: in whose interest is regulation to be undertaken? Who will do the regulation? And what will be its ultimate purpose? These are not technical questions: they are questions of political economy that relate to power relations and its consequences for the distribution of resources and of benefits from alternative sets of arrangements.

For instance, representatives of US interests generally emphasise the need for “market-friendly” changes in international arrangements. For this group the key phrases are improved “monitoring and surveillance” of international capital flows, more “transparency” in the operations of major institutional players (such as mutual funds and hedge funds), and “strengthening” financial regulatory regimes of the borrowing countries. Within the US there are also sharp divisions on the role of the IMF in a redesigned system: some seem to favour the IMF becoming an international lender of last resort, others are opposed to this and suggest that the US Treasury could play such a role. In either case suggestions of international regulation of capital movements are generally opposed and support for capital controls in borrowing countries tends to be regarded as heresy. The latter thinking finds more ready acceptance in Europe, Japan and the developing world. The principal stumbling block to consensus on international monetary reform is the US itself (or rather its financial interests) which is the major beneficiary of the present set of arrangements.

Similar issues arise in attempting to formulate a position on international regulation from the perspective of the South. The goal of stabilising international financial markets, for instance, is unlikely to arouse much passion among countries which never received much

capital anyway: countries with INSERT of the population which received only INSERT of financial flows over INSERT. it will also be cold comfort for the millions in those countries that received the bulk of the financial flows in the past but who have been pushed below the poverty line by the abrupt turnaround of 1997-1998 and who now face the prospect of years of misery. In this respect declarations by Western financial leaders in the Spring of 1999 that the “crisis is over” are reminiscent of earlier announcements of the end of the Third World debt crisis. The crisis may well be over for Western finance capital: for the people of the borrowing countries, it has only just begun.

In this matter the voice of the South has been strangely muted. The G24 (Developing Countries Finance Ministers Group within the IMF) has issued itself vague statements about INSERT. UNCTAD, formally a militant voice on behalf of Southern interests, has spoken of the need for a “financial safeguard mechanism” and acceptance of temporary capital controls for countries whose currency is under attack. A clearly defined position on system reform has not been articulated. One can however, imagine how such a system might be configured in support of a just order for the world’s population as a whole. Given the apparent absence of a strong political constituency in support of radical reform (except, perhaps, within the NGO movement) such imagination may well be regarded as Utopian. Yet Utopias are useful devices for the measurement of progress towards an ideal, as well as for mobilisation of opinion and political support.

Let us suppose that an ideal system should be supportive of equitable and sustainable human development globally and specifically of poverty eradication, and should respect the political, economic and cultural diversity of the world community and the desire of people to exercise some degree of control over their lives. Let us also recognise that increasing global economic interdependence is a fact of life, driven by technology as well as by the logic of capital. To that extent, cherished notions of “national sovereignty” of necessity have to be re-evaluated in both North and South alike. The issue is the *manner* in which national sovereignty is to be modified and the nature of supranational authority. Finally, let us suppose that global capitalism, like its earlier national versions, has to be subject to some degree of social management “for the common good”.

Let us now imagine what a reformed international monetary system would look like under such a dispensation. First, there would be a newly constituted international monetary authority (IMA) that is not subject to the control of any one state or group of states, as is the case with the present IMF. Without necessarily adopting the principle of “one state, one vote” (which would not in any case be realistic given the vast differences in population among states) some compromise would be found between the principle of control according to financial power and that of control by the international state system. Second, the IMA would have an ultimate monopoly over the expansion of global liquidity. Specifically, the role of national currencies as international reserve assets—the US dollar, sterling, the Euro and the yen—would be phased out over time. The privileged position of these currencies, especially the US dollar, is one of the chief sources of power in the international monetary system and enables the US in particular to sustain high growth rates with low savings rates by sucking capital from the rest of the world. The IMA would issue a global currency which would in time become the only reserve asset in

use for international transactions. Expansion of international liquidity would be in accordance with agreed rules and emergency financing to counter the effects market instability would be provided.