Development Needs a New International Financial Order

SHORT AND TO THE POINT

The International Financial System Functional failures and the need for basic reforms

Information material for congregations and grassroots groups

Who? - Where? - What?

This booklet has been conceived as part of a Kairos Europa series dealing with the topic, **Development Needs a New International Financial Order.** In the series, the following works are also to appear:

▲ Short and to the point: The International Financial System

▲ Short and to the point: Economy and Finances as Questions of Faith

▲ Short and to the point: International Currency Transactions Tax (Tobin Tax)

▲ Liturgical Materials

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Preamble

„Money rules the world" – this or something similar is the reaction of more and more people worldwide to the latest bad news from the business press. Whether it is yet another "share crash", a new "currency crisis", or again an "austerity package" being reported – the "world of finance" proves increasingly to be to a mystery to the extent, that only the so-called experts understand it. This development is marked by two contradicting trends: while on the one hand the obviously mysterious world of the globalised finance markets creates a feeling of individual powerlessness, on the other hand there is a growing awareness that it is just those capital movements which have a very definite influence on social life.

Against this background this brochure aims to emphasise two things in a generally understandable way: First, that the mechanisms of the capital markets actually have increasingly farther reaching and sometimes tragic consequences and are contributing to a systematic redistribution of wealth from bottom to top, and secondly, that these mechanisms and their effects are not an unavoidable fate but more so the result of political decisions made consciously, which could be influenced by a broad engagement of civil society.

In this sense we call upon all readers: Inform yourself and get involved – for a more just international financial order!!!

The international financial system – functional failures and the need for basic reforms

DE-REGULATION OF THE CURRENCY MARKETS : CRISES AND NO END?

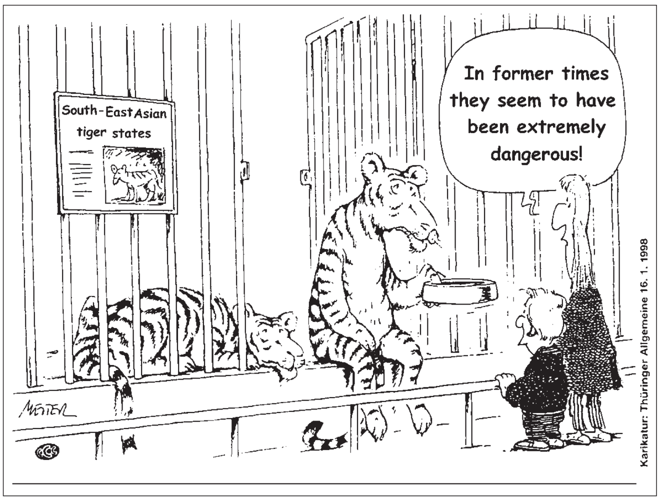
The dangers of the international finance system are showing in a special dramatic way by the frightening regularity in which crises occur on the international currency markets. A both famous and sad example is the so-called "Asian crisis" of 1997, of which the sequence of events and the impacts are described below.
Similar kinds of crises, though different in some details, have occurred since then in Russia, Ecuador, Brazil, Turkey and at the moment very dramatically in Argentina – which shows that we are dealing with a fundamental crisis of the International Financial System as such.

"O my God,I see a giant crash approaching!"

„Tiger" in distress – the example of Thailand

In January 1997 there were already indications that the "tiger country" Thailand after a phase of ten "golden years" of rapid growth could have to face a serious economic and financial crisis. By linking the domestic currency to an increasingly stronger US dollar the Thai Bath experienced a continuous revaluation. Additionally the weak growth of the most important trading partner Japan had a negative influence. For the economy of the kingdom, still heavily oriented towards exports, this development proved tragic later in the year.

While the increasingly expensive exports collapsed dramatically, more and more money for imports, which had become cheaper, went abroad. The consequence was a rapid increasing deficit in the balance of payments, which put the Bath under an immense pressure for devaluation. The Thai government tried to resist this pressure, since it feared the certain retreat of foreign capital if the exchange rate policy was changed. Instead of devaluing the Bath it took a few measures to strengthen domestic economic stability, which however were not able to alter the external economic vulnerability of the national economy.



As the players on the international currency markets became aware of the inadequacy of the announced reforms they began to speculate against the overvalued Bath deploying large sums. On the 2nd of July the gamble of the (foreign) speculators paid off - after weeks of borrowing increasing sums of Bath and exchanging them at Thai commercial banks into US dollars, the foreign currency reserves of the Thai central bank came close to being depleted. To avoid completely going under in the vortex of speculation Bangkok had to admit defeat against the attacks of the currency traders and let the exchange rate float.

Historical overview

Thus in the shortest period of time the Bath lost one third of its value against the US dollar and the speculators were able – as they had calculated – to buy Bath against a much lower exchange rate, pay off their loans and earn a considerable profit.

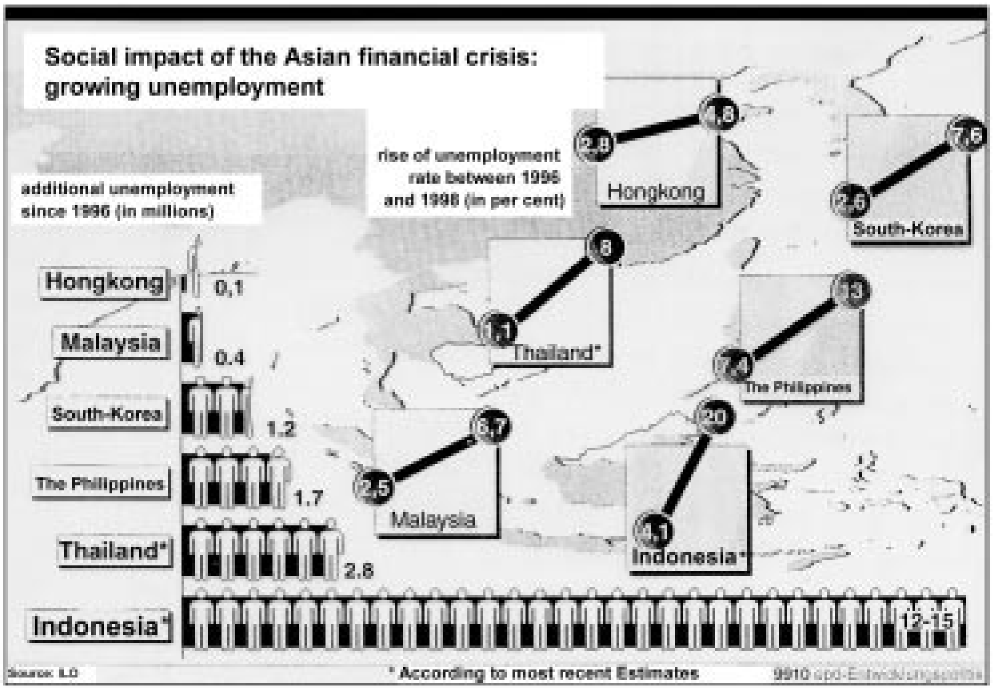
Thailand found itself very quickly in the middle of a serious economic and political crisis. The collapse of the external value of the Bath also pulled the local share market down. A large number of international investors voted with their feet so to speak: Made insecure by the abandoning of the fixed exchange rate they took their capital invested in shares and other securities out of Thailand. Within a year this flight of capital in stages brought the share values down by more than 70 %.

Not least on account of the high level of foreign debt of around 60 billion US dollar Thailand saw itself confronted with a vicious circle of further reversal of private capital flows, increasing currency deterioration, rising interest rates and a far reaching recession. The danger of Thailand defaulting could not be dismissed anymore. But that was not the end of it:

The Domino-Effect

Caused by the "Thai disease" the currencies and share prices in Malaysia, Indonesia and the Philippines also toppled like domino tiles – with the consequence that suddenly these countries too were exposed to serious "real economic" symptoms of recession.
Even at renowned financial centres like Hong Kong and Singapore the South-East Asian "typhoon" left deep tracks.

The impacts of this economic crisis in South-East Asia can only be described as devastating. The losses in growth of the countries affected were enormous, unemployment in many sectors grew considerably. Even five years after the eruption of the crisis twice as many people "live" below the poverty line.
And even in Europe, the USA and Japan the Asian crisis left its mark, since the growth rates of the leading industrial nations also showed losses in the wake of the currency turbulence in South-East Asia.



From simple means of exchange to "computer money"

To understand why the international foreign exchange markets have lately developed into a regular hot pot for crises after decades of stability it is necessary to look at the almost revolutionary developments within the currency trade. For this first a historical review is needed.

The Bretton Woods System

With the agreement of Bretton Woods in 1944 under the leadership of the USA and Great Britain the base for the international currency system for the time after World War II was created. An essential part of the agreement

was the fixing of exchange rates, meaning that the national currencies were linked to each other by fixed exchange ratios.
The US dollar, which by US-government guarantee could be swapped in principle against gold ("gold-dollar-standard"), would effectively function as a world currency. The adherence to the exchange rates was to be enforced by national currency institutions through the application of various currency and economic political measures. In the event of internal economical difficulties the International Monetary Fund (IMF), founded especially for this task, would provide adjustment loans. Through the fixed exchange rates the stability of world trade would be re-established, a stability which had been lost during the world wars.

The age of flexible exchange rates

The turning point at which faith in the Bretton Woods System started to dwindle came at the end of the 60s. To finance programmes fighting poverty at home and the Vietnam War the USA printed more banknotes. Additionally foremost European banks had started trading in US dollars on markets created by themselves just for this purpose (the so-called "Euro-Dollar-Markets"). This created a platform for additional trading with US dollars which was no longer politically regulated. All this flooded the world with US dollars. As a result, in 1971 the USA had to cancel the convertibility of the US dollar into gold.
After the resulting collapse of the system of fixed exchange rates in 1973 the age of the so-called "floating" started. This meant flexible exchange rates, fixed by supply and demand on the markets for foreign exchange, without the obligation of national currency institutions to interfere. It was expected that this would lead to market conform exchange ratios, which would be reflecting the actual conditions of competition of the national economies.

Instead currency turbulences soon occurred. These could be traced to the fact that many countries on the basis of national interests (promotion of employment, reduction of inflation, debt financing) were de- or revaluing their currencies as they saw fit. Since then strong exchange rate fluctuations and distortions between the major currencies of the world have become characteristic of the international development of currencies and financial flows – with the consequence of reducing considerably the reliability of economic decisions by the players on the world markets.

The appearance of "derivative" financial instruments

As buyers and sellers of goods and services cannot make long term plans without a sufficient degree of stability in the value of money an increasing need arose to safeguard against the risks of oscillating prices on the international foreign currency markets. This aim was achieved by derivative financial instruments. By definition their central economic function is to give their users a low risk investment of capital as in the case of exchange rate fluctuations. This happens by following a certain pattern: A German manufacturer agrees with an US-American client to deliver a tool-making machine at a price of 10,000 US dollars within six months. The basis for calculating the amount in US dollars is the exchange rate at the time of the agreement. Since the exporter cannot know the value of the US dollar at the time of payment half a year later and so cannot exclude a fall in the dollar exchange rate he enters into a so-called "future"-contract with a bank. This entitles him to convert the 10,000 US dollars at the rate at the time of the agreement, allowing him to rely on the calculated revenue in Euro even if the dollar should decline. If the price of this agreement had been fixed in Euro then the client from the USA would have "secured" himself in a similar way against a possible revaluation of the Euro.
Besides the "futures" also the so-called "options" belong to the derivatives. Both financial instruments are called "forward deals", as delivery and payment of the goods will happen at a later date but at the exchange rate on the day of the conclusion of the contract. There is no question that the "options" are the most multi-functional of the derivative financial instruments. In contrast to futures, which are based on a legally binding contract which has to be fulfilled, the option gives – against a fee to be paid for the option – only the right, but not the obligation to conduct a forward deal.

Thales of Milet – the "George Soros" of the ancient Greeks

The first option in the history of finance was thought of by the Greek philosopher Thales in ancient times. By observing the stars and the weather he foresaw a record harvest for olives in the coming year. Even before the first fruit appeared he made his rounds of owners of olive presses and offered them an advance payment for the right (meaning an option) to rent their equipment during the harvest season. He even negotiated the price to be paid. The coming year the olive harvest broke all records. Thales paid the owners of the presses the agreed advance payment and could dictate any price he liked for the rental as all the presses were in his control.

Since Thales had agreed to rent the olive presses a long time ahead of the harvest and nobody else had envisaged the huge demand during the harvest season, he could negotiate a low rental price for the presses. But he did not pay the rental immediately, instead he paid a single fee for the right to lease the mills during the harvest season. If the harvest against expectations had been poor, he would not have been obliged to actually rent the mills and would only have lost the single fee – the fee for the option.

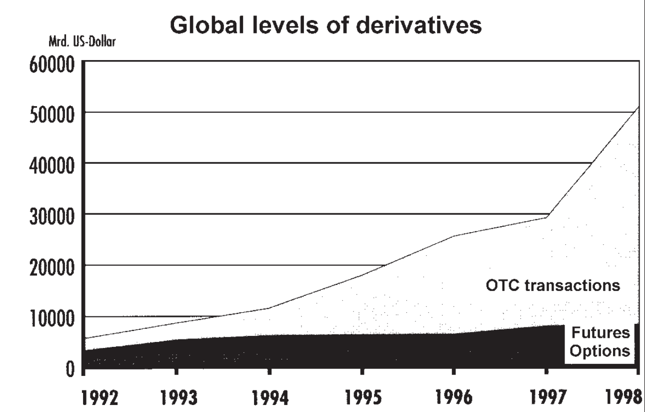
The boom in derivatives

Especially since the end of the 80s the markets for derivative instruments have seen truly explosive growth. The number of derivatives traded at share markets, has according to conservative estimates, grown between 1992 and 1998 by more than 300 %.

It is also estimated that the number of derivatives traded outside of share exchanges (the so-called Over The Counter Trading), which in contrast to securities traded on share exchanges are entirely outside the control of any finance supervisory entity and therefore much more prone to risks, grew within the same period by around

Faced with the many risks accompanying present day business habits on world markets, derivatives find their uses in almost all areas. Besides foreign exchange transactions they can be used as a basis for share, loan and interest contracts (all of them financial derivatives), but there are also derivatives for raw materials such as coffee or crude oil.

1,000 %. In both categories the trade in options grew beyond proportions. This is the main reason why the international financial markets have gained a volume, which is much larger and growing faster than international trade and the total world production.



Source: BIS 1998

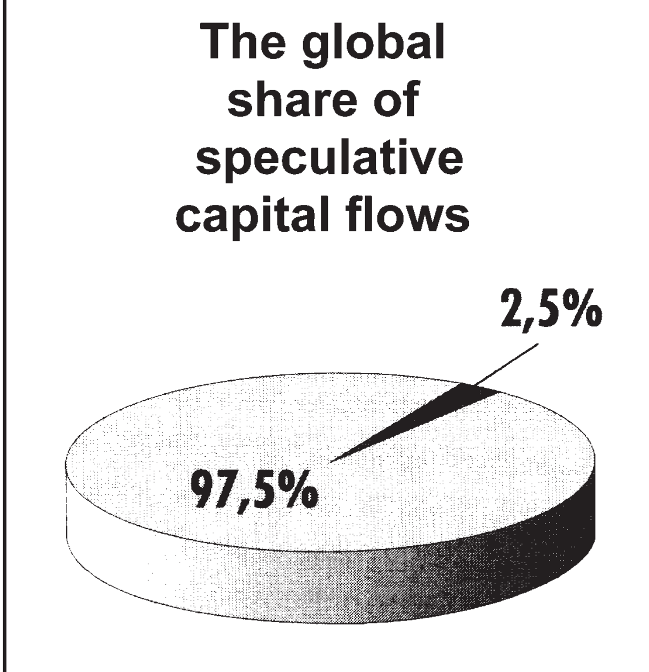
Achieving these almost unimaginable dimensions was made possible by the fundamental changes in the technical and legal conditions in the international financial markets. Firstly as a result of the introduction of modern computer controlled communication and trading technology, the financial markets merged into a complete network able to interact at any time. Within the framework of this infrastructure any kind of capital can be transferred between centres such as New York, London, Tokyo and Frankfurt within seconds around the clock. Secondly, far reaching deregulation and liberalisation measures (such as lifting of capital transfer controls, freedom of location for banks, allowing the establishment of financial centres which are virtually uncontrolled) by the politicians changed the framework and control to such an extent that the scope for the players in the global market is almost unlimited. Nowhere has globalisation progressed as far as on the financial markets.

The "De-Materialisation" of the Economy

The boom in the international trade with derivatives can only be partly explained as a reaction to the increasing market risks. By now most of the derivative instruments are used for purely speculative purposes. Risks are consciously accepted to gain the highest profit possible. The function of instruments of financial security, useful as such, has turned into the opposite – thereby increasing further the inherent potential of risks on financial markets.

In a certain sense a dual abstraction is happening: Almost completely detached from real transactions, the financial business is feeding speculation, at a level which exceeds the value of the underlying security transactions and the worldwide money supply. The primary function of money to further the physical economic production process and the business related to it, moves more and more backstage with regard to the financial circuits which become increasingly independent.

This is most evident in the international foreign exchange markets. Only 2.5 % of the total annual turnover of, at the moment, 300 trillion US dollars are serving to finance all imports, exports and foreign investments. The remaining 97.5 % is speculative money. Therefore the speculative capital flows on the foreign exchanges markets alone are 40 times the total world trade – the financial world has detached itself from the world of goods and services.



Source: World Bank /BIS

Consequences for Thailand

This true "virtualisation" of international finances with the dynamics inherent in speculative money business can cause a lot of problems for developing countries, especially those whose economies are "enjoying" a strong influx of foreign capital. This is also true for Thailand, an example already discussed in relation to the Asian crisis: The problems of the national government and the impossibility of solving them were a consequence of the uncontrolled activities of the international finance markets.

Following a recommendation by the IMF the Thai government had pegged their currency to the US dollar 13 years ago, to increase the attractiveness of the country as an international finance centre. The inflow of foreign capital starting thereafter, consisting mainly of short-term (so-called portfolio) investments caused speculative bubbles at the Bangkok stock exchange, but was taken as proof of the success of the deregulation policy of the financial markets and their functionality, since it allowed the Thai economy to boom to an unexpected extent. In the wake of the continuous revaluation of the lead currency the Thai government got into a dilemma that could not be solved: A marked and obvious contradiction arose between the demands of the financial markets (high interests, stable exchange rates) on the one hand and the development needs of the country (low interests, revival of exports by devaluation, infrastructure investments) on the other hand. If the government had devalued the currency, lowered interest rates and accepted a budget deficit to strengthen the domestic economy, then capital imports would have been jeopardised, financing the deficit would have been more difficult and the attractiveness as finance centre would have been generally endangered. Therefore the government "sacrificed" the real economy to the financial markets – hoping that by doing so an outflow of foreign capital and through this a larger crisis could be avoided. But the government had not taken the speculators into account: the latter

The Systemic Risk

exploited the difference between the still flourishing finance sector at the stock exchange and the, in comparison, meagre real-indicators. Through their general attack on the Bath they brought on the crisis – with all the destructive consequences for the life of the inhabitants of the whole region.

THE "SYSTEMIC" RISK

But not "only" such currency distortions at financial centres in developing countries are able to bring the world economy as a whole to the edge of the abyss. Rather the financial markets together, but especially their most important pivotal points in the industrial nations, are based on certain inherent functional mechanisms that entail massive impacts on the real economy, which are at times unavoidable (and therefore systemic).

Irrational patterns of behaviour

An important example for this is the paradoxical behaviour of the players on the international financial markets. As speculative business no longer, in the first instance, serves to minimise involved risks but has become an end in itself, the interest of financial jugglers is not dedicated to the analysis of economic "base line data" such as for example the state of the business cycle of an economy. Instead expectations and thereby psychological skills are playing a leading role.

The market players do not rely on long-term economic indicators, but on expectations, which are rather short-term by their nature, as they react immediately to the latest news and thereby have a rapid effect. This form of market-related behaviour has a very destabilising impact on the financial markets. Such as in the early 80s, when the absolutely economically irrelevant news that US President Reagan had cancer of the nose caused a serious fall of the New York "Dow Jones"-index.

Another example for contradicting patterns of the behaviour of speculators is the so-called mass or herd instinct. The fear of being worse off than other market participants can lead to following completely irrational market movements and even to enhancing them by their own actions. This effect of jumping on the band wagon is additionally strengthened by the fact that all market participants are using similar computer programmes for calculating their profits. This allows the conviction that if only sufficient capital is put on the same "horse", the rate will be moving in the desired direction.

Such a case occurred in 1987 when many thousands of share traders worldwide all speculated on increasing share exchange rates. When this fantasy rate did not materialise and the share rates – only marginally at first – declined, the speculators panicked and started selling, to save what was still there to be saved. This wave of selling put increasing pressure on the prices for shares and pulled more and more finance activists into the vortex. At the end the financial world saw itself confronted with the most serious stock exchange crash since "Black Friday" in 1929.

Poverty and per capita income of the countries involved in the Asian crisis

	Poverty (in per cent of population)		GDP per capita (in US dollars)	
	1995	1998	1995	1998
Indonesia	11,3	22,5	3.800	680
South-Korea	15,3	27,8	9.700	7.970
Thailand	15,1	26,7	2.740	2.200

Source: World Bank

Disaster without warning

But the so-called "Barings case" shows that one does not have to run with the trend to lose billions and put the international financial markets into a state of shock, since derivatives allow speculators to engage in risks, which cannot be predicted. And since derivatives are nothing else then

bets on future events they attract gamblers. The more frequently gamblers make large profits for low stakes, the more reckless they become.
Such an infamous chapter was written by the currency trader Nick Leeson in 1995: Within a few weeks the 28 year old Briton managed to ruin his employer, the 233 years old renowned London based private bank "Barings". Leeson, who had been in the business for several years, through his good "instinct" for market trends, had become the most important speculator of the Barings branch in Singapore and received an annual salary of around a quarter million Euro. His downfall and that of "his" bank was caused by future trading against the leading Tokyo share index "Nikkei 225". Expecting it to increase Leeson had already bought over 20,000 futures in 1994, to sell them on before the expiring date of March 15 with a profit.
What Leeson didn't foresee was the earthquake in Kobe, which caused the share index go down. Sensing the danger of a possible loss Leeson made more and more high risk deals hoping for a reversal of the trend. This did not happen and the disaster became unavoidable. By the end of February Leeson decided to disappear quickly – two weeks before his miscalculation became public. The loss left behind of initially half a billion Euro increased by the day, since the Nikkei suffered another decline after the Barings-crisis became public knowledge. As the total loss of close to a billion Euro exceeded by far its net worth Barings had to declare bankruptcy and was at the end "swallowed" by a Dutch competitor for the symbolic price of 1 UK pound Sterling.

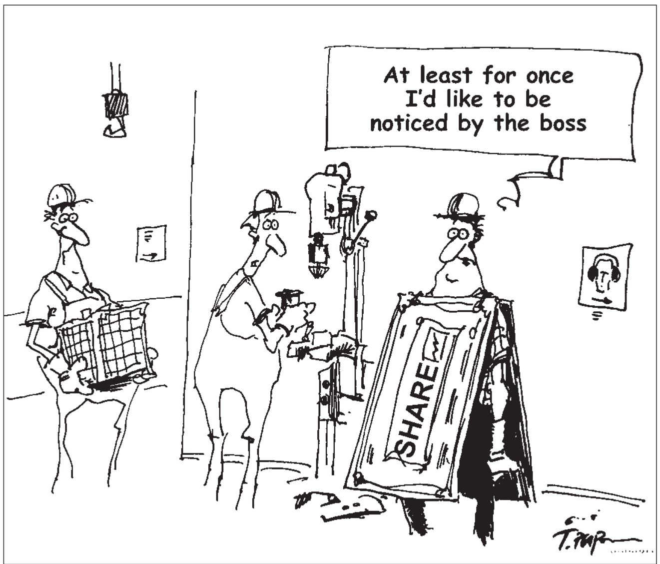
Collapse of the World Economy cannot be excluded

In the light of the above examples we can draw the following conclusion: False assessments of one's own risk exposure, a herd-like following of the latest trends and shock-like shifts in market prices can all lead to the loss of a large number of financial players or to the burst of speculative bubbles. Such crises caused on single markets can through domino or contagion effects spread to initially non-affected markets, market participants or regions; and once they reach global dimensions they threaten the entire system. Regarding the many stock exchange, bank and currency crises in the most recent past such a super crash of the international financial system cannot be categorically excluded. The consequences such a collapse would have for the world economy as a whole can only be guessed; in any case they contain a risk of catastrophic dimensions.

„Shareholder value“ - the hidden force to reduce employment

Besides the – lately accumulating – headline making crises with their partly devastating socio-economic distortions the mechanisms inherent to the international financial markets have additional, negative consequences which are still largely unnoticed. A telling example for this is the advent of a new "culture" on the international share markets, in whose wake not only the emission of shares (as a means of financing an enterprise), but also – and to a very much stronger extent – the trading in shares grew especially strongly worldwide. From 1980 to 1999 the market capitalisation of shares (number of shares traded in share markets, multiplied with the prevailing rate) grew by the factor of 12, the trade of shares by the factor of 131 – meaning the speed of turnover increased elevenfold.
The main responsibility for this boom in shares is the triumph of the so-called shareholder value. This means – in a marked difference to the traditional stakeholder value - a management principle, which puts the benefits for the shareholders (and not any longer for other stakeholders, like the employees affected by the company's policies) in the first place and lets shareholders benefit at the same time from high dividends and increasing share values.

The trend, which is more and more followed by joint-stock companies worldwide, to gear company policy mainly to support the share prices, can be traced to the increased influence of shareholders. Since for a company the emission of shares is as a rule a more favourable financing instrument than e.g. taking a loan from banks or the emission of bonds and therefore gains an increasing importance for financing an enterprise, the company's policy focuses increasingly on the interests of shareholders.
And as a consequence of the changes in the culture of shares those interests have shifted: In the pursuit of the highest possible yield shares no longer have the status of a long term investment, through which, based on the actual economic success of an enterprise, a (most often modest) dividend can be collected year after year. Much more prominent nowadays – especially in boom periods marked by exaggerated shares prices – is the un-proportionally larger profit to be realised through opportunistic buying and selling of shares. In other words: the shareholder value represents the short-term speculative capital investment in shares, whereby no longer the expectations concerning the quality and yield of an enterprise, but the short-term development of its share value are of paramount importance.



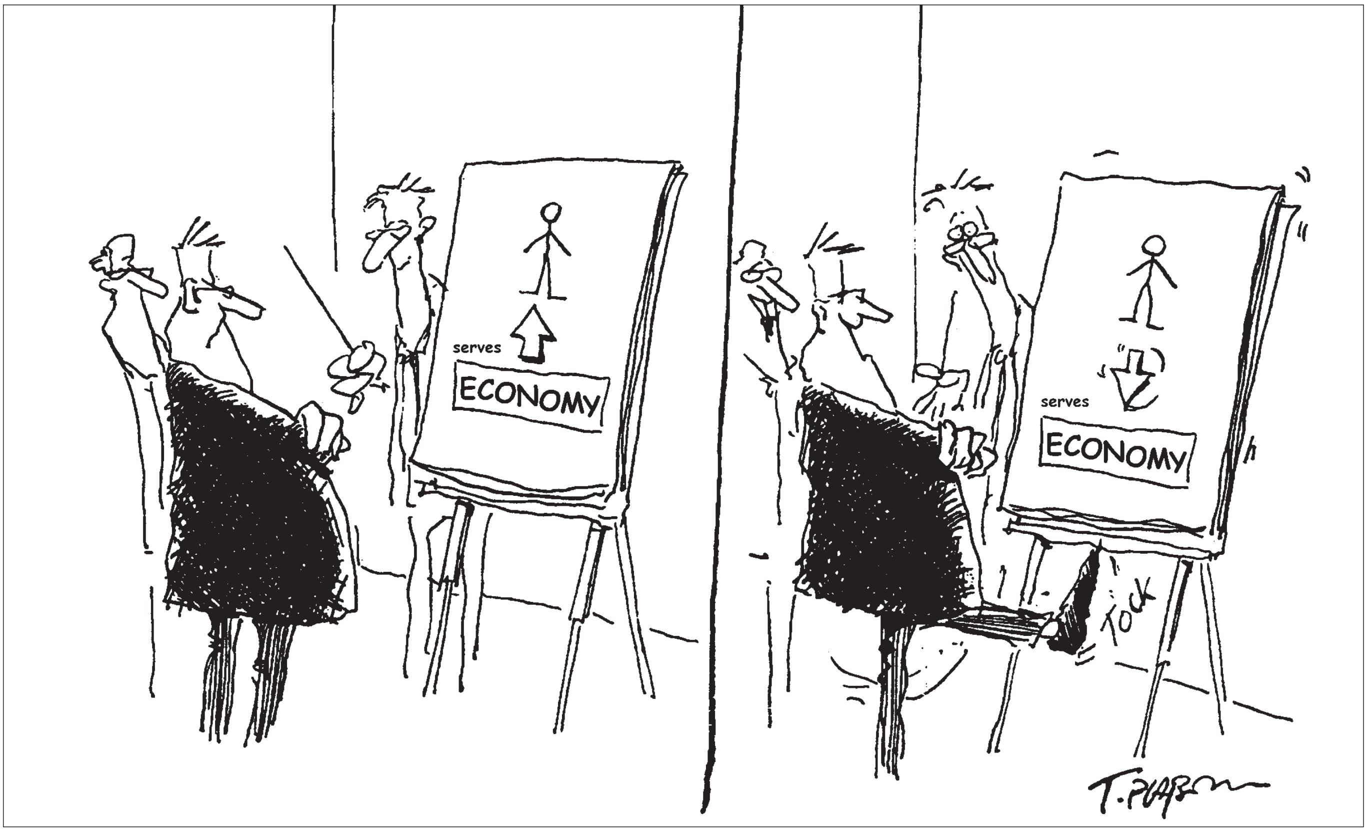
The most important guardians for adhering to the targets of shareholder values by the companies are the so-called institutional investors, who are investment funds, insurance companies or banks in a certain function as "capital collection points" and who represent the interests of their clients (read: share holders, who deposited their shares with the institutional investors and who would like to see them most profitably "administered") over against the joint-stock companies. Because of the concentration of shares at institutional investors these often hold large proportions of the total shares of companies. By threatening to "dump" these share packages on the markets and thereby lowering considerably the stock exchange value of the company, should the company not focus totally on short-term profit maximisation by keeping the share price up and putting other aspects and interests in the background, the institutional investors as a rule have sufficient leverage to make the increased influence of the shareholders felt. Often this occurs to the extent that the company has to achieve a certain minimum yield ("bench-marking") of its own capital to satisfy the profit demands of the shareholders.
Against this background the share market was able to advance to become a kind of regulating entity for company management. The permanent "staring" at the share prices by company management, strengthened by an remuneration at CEO-levels depending on share prices, makes company policies unstable to a very great extent: Expensive, but in the long run sensible investment and expansion are not undertaken and instead investment for rationalising occurs, which is beneficial for short-term profits. In this way, the rational behind micro and macro economics are drifting further and further apart. What's good for Daimler-Chrysler is not necessarily good for Germany or the USA.

The de-linking of the happenings on stock exchanges from the foundations of the real economy became evident in the 90s at many stock exchange locations of the world: While unemployment statistics of many national economies month after month showed new record levels, for the time since WW II, the respective national share indices at the same time showed continuously new historic record levels.
Common sense treats this coincidence of mass unemployment on the one side and fireworks of share prices on the other side as a paradox – but following the patterns of our current economic system however this does not contain a contradiction. While the ratio of unemployment is an expression of the overall situation on the

market for labour, the share price index as a measurement instrument of the business cycle informs about the internal prospects of the enterprises registered at the stock exchange. And the value of a company increases from a stock traders point of view especially (or also) if and when staff are dismissed, which lowers the costs for the company, but increases the costs for society as a whole. And as long as companies first and foremost are (or are going to be) obliged to put the profit interests of shareholders first, and not at all the general benefit to society, share markets are under their own "logic" outside the "real" economy and outside the social sphere. In some countries this development could be a violation of the constitutional law. To quote the German constitutional law ("Grundgesetz") in its article 14 paragraph 2: "Property obliges. Its use has to serve the common good as well."

Another example for the disconnection of the share prices from the economic base-line data came recently from the global so-called "New Markets", in which mainly shares were traded of new enterprises, which in regard to their future potential in fields such as bio-technology, direct banking, security technology etc were considered to be good prospects. Since the mid-90s these had achieved share price increases, which were considered as almost impossible considering the "humble" macro-economic situation and were regarded as the most important bringers of hope to solve the problem of unemployment. But exactly at that moment when the general cycle moved upwards again and the unemployment figures in many countries started showing a – certain, if only meagre – decline, the New Markets experienced a fiasco. As it became increasingly evident that the actual economic performance of these enterprises could not keep up with the expectations linked to them, which were often exaggerated, the boom on the New Markets proved to be mainly a speculative bubble. The unavoidable consequences were hitherto unknown share price reductions of the grossly overvalued company titles, causing in not just a few cases bankruptcies.

FINANCE MARKETS AS A „FIFTH POWER" – OR: THE GUTTING OF DEMOCRACY



FINANCIAL MARKETS AS A "FIFTH POWER" – OR: THE GUTTING OF DEMOCRACY

The forces, which the international finance markets apply in the interest of their financially strong players, are not only used against joint-stock companies. To an increasing extent nations and therefore politics as a whole are coming under the influence of the financial markets. As governments of virtually all industrial and developing countries have an urgent interest to get capital into the country, investment which will hopefully create jobs, they are competing intensely against each other for the "favours" especially of the large and largest internationally active trusts, who are able to play the countries off against each other to a certain extent and thereby secure for themselves the most favourable settlement and investment conditions.

Thus financial markets are having a "disciplinary" effect on politics: Since the favourable opinion of investors can only be maintained by the politicians through economic and financial policies, which are acceptable to the international investors. Any violation of the commandments of unconditional liberalised capital markets, low rates of inflation, stable exchange rates and low taxes on capital gains can be punished immediately and without mercy by currency devaluations, higher interest rates or capital flight. The theoretical possibility of just threatening to withdraw capital and the accompanying fear of politically responsible persons that the "trust" of the finance markets in the national policy could be shaken and could trigger a real exodus of mobile capital is often sufficient – especially in smaller countries – to make governments do all that they can in a sense of "anticipatory obedience" to stick to the rules of a game forced upon them by the capital owners. This explains for example why in spite of the worldwide poor state of public finances and in disregard of, in some cases a gigantic, national debt, the taxes especially on capital gains and capital assets are steadily lowered or completely abolished and systematic tax avoidance as well as tax evasion on the side of the rich is not sufficiently hindered – which drives budget deficits and therefore public debt upwards by yet another notch. These "losses" are compensated in other fields – such as through the reduction of social welfare support or through higher taxation of the productive labour.

From this development, frequently confirmed since some time by competent voices (see box next to this), stems a considerable influence on democracy by the financial markets. If influential interests of financially strong investors can diminish or undermine the (economic)-political sovereignty of national governments, then the parliamentary system and finally the democratic rights of all citizens are threatened to be run over roughshod. Not democracy, based on the will of the people, but the "logic" of the (financial) markets – meaning private capital accumulation – rules our daily lives to an increasing degree.

But "politics" is not just the "victim" of this development, which has "cost" it part of its capacity to counterbalance the international financial markets. Actually at least since the mid 70s politics itself contributed to a large extent to the fact that the financial markets were able to advance to become a kind of "second government", if not in some areas the real government.

„IT IS 5 MINUTES TO MIDNIGHT – NO TIME TO LOSE FOR POLITICS TO CHANGE ITS MIND!

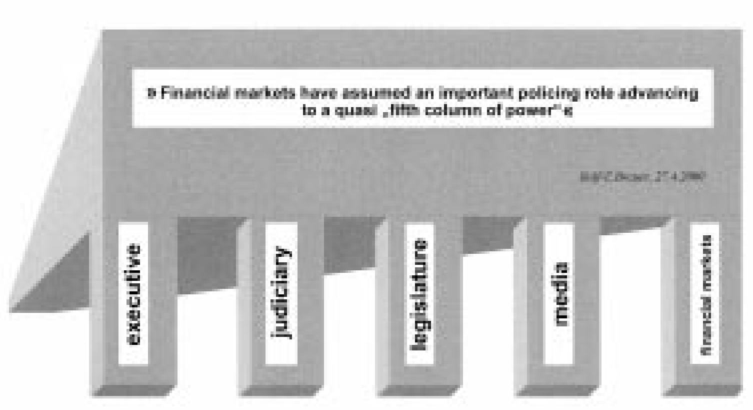
Reflecting on the recent past of international finance, there are many indications that the globalised and deregulated financial order as it currently exists has slipped completely out of political control.

The failure of international crisis management

Since the mid 70s there have been many major, sometimes worldwide crises. To every single one of these crises governments and central banks of the industrialised nations as well as the multilateral finance institutions reacted with different measures, which were meant to maintain or to re-create the stability of the financial system. The following box lists only a few exemplary cases:

These international emergency interventions were required to deal with the varied crisis situations to which the world financial system has been exposed during the past 25 years. But it is obvious in any case that the actions taken have not been sufficient – as is shown by the frequent occurrence of new crises and the continuous development and "up-grading" of the strategies to handle them. The main reason for this shortcoming may be

The failure of international crisis management



Sand in the wheels of the financial markets

To sum up, we can draw the following conclusions: globalisation, deregulation and liberalisation of the whole international financial system has lead to many, sometimes devastating crises, to far reaching disempowerment of politics and to a redistribution from the bottom to the top. Great dangers flow from the inability to regulate the international financial markets, most importantly for the "developing countries", which rely on foreign capital (which means all of them), but to an increasing degree also for industrialised countries. Therefore a political offensive is required, which opposes these distortions – on the basis of a new mandate for democratic policies – with new regulatory instruments. Even though the necessity of stabilising the financial markets and of better controlling them within the framework of a new "financial architecture" is now generally recognised, there is still a wide gap between the basic understanding and the scope of necessary measures to be taken. The policy of the main industrial nations (G7) – and with it also the powerful multilateral financial institutions such as the IMF, World Bank and the Bank for International Settlements – are limiting themselves mostly to purely cosmetic corrections in spite of the recognised lack of control mechanisms in their reform proposals.

found in the fact that the preventive measures taken were not true interventions in the (themselves crisis prone) laws and mechanisms of the financial markets, but pursued the approach of "re-insurance". In other words: there was no attempt to combat potential dangers through targeted intervention, rather the interventions have occurred after the crises became apparent and were at best able to limit the damage. And while the private investors in all these crises regularly came out of them with little damage only, due to the financial resources provided by the multilateral financial institutions to overcome the crises ("bailing-out"), it is the "ordinary people" who are too often victimised twice: Firstly they are most likely to lose their jobs or their savings, and secondly because they are the ones, who suffer most under the imposed "austerity"-programmes following every crisis.

„The market rules, the government just administers" (Alain Juppé, former French Prime-Minister/1996)

„The international financial markets took over the supervision of national policy" (Hans Tietmeyer, former President of the German Central Bank (Deutsche Bundesbank)/1996)

„The financial markets have become the "fifth power" within the nation" (Rolf-E. Breuer, former chairperson of the management board of the Deutsche Bank AG/2000)

„Now politics has become the hostage of financial markets" (Yilmaz Akyuz, former chief economist of the United Nations Conference for Trade And Development – UNCTAD/2000)

„I find it ridiculous, how politicians are calling for market, market and ever more market, and don't notice, that by doing so they cut their own life-line and turn off the tap to their money and power. Has anyone ever encountered such a thoughtless, merry and blind staging of a public suicide?"
Ulrich Beck, sociologist, University of Munich

Critical experts consider these initiatives to be completely insufficient. To control the international financial markets in the spirit of an economic and politically responsible sense basic institutional and also procedural reforms seem to be unavoidable. Respective alternative concepts have been developed already. The efforts for such a basic change of direction will not bear fruit without a public debate across the world. And for this a broad and critical analysis of the financial world and the uncovering of its hidden structures are required in the first place. Only this way can sufficient political pressure be generated from below. Ergo: it is imperative to get involved…

More detailed information on concrete perspectives and options for a (more) just international financial order as well as biblical-theological reasons for action by churches in this field are contained in the following booklets that form part of this series of Kairos Europa publications:
Short and to the Point: International Currency Transactions Tax (Tobin Tax)
Short and to the Point: The economy and finances as a question of faith

- ▲ **1975:** after the collapse of two major banks (Herstatt in Germany and Franklin in the USA) as a result of currency speculation the Basle-Agreement 1975 clarifies the position and responsibility of the central banks in the event of international bank crises;
- ▲ **1982:** following the Mexican crisis of payment the IMF is re-organised with the aim of a better management of debt crises in developing countries;
- ▲ **1985/7:** as a result of the economically damaging exchange rate fluctuations (until then unknown) between the most important currencies, the Group of Seven agreed in the Plaza-Agreement (1985) and Louvre-Accords (1987) on a framework for co-ordinating economic policies and common intervention to stabilise exchange rates;
- ▲ **1987:** as a reaction to the world stock market crash of 19. October bilateral and multilateral liquidity injections were agreed upon to protect the international stock market from further turbulences;
- ▲ **1995:** to deal with the Tequila-Crisis in Mexico the ability of the IMF to intervene was increased. In addition an early warning system was put in place so that first indications of currency instability could be detected and suitable measures taken;
- ▲ **1996:** following renewed bankruptcies in the banking sector caused by speculation the Basle Committee for Banking Control tightened the conditions for the capital cover for market risks;
- ▲ **1997:** against the background of the exchange rate and stock market turbulences in SE Asia the IMF through raising the quotas extended the "General Credit Agreement“, and created a "New Credit Agreement“ which gave more strength to its crisis management tools;
- ▲ **2001/2:** despite implementing far reaching „market economy" reforms at the behest of the IMF, the serious socio-economic crisis in Argentina - a result of asymmetric international currency and financial policies the consequences of which are not yet foreseeable - represents the latest example of failed crisis management on the part of the multilateral financial institutions.

Kairos Europa

The Greek word, ΚΑΙΡΟΣ *(Kairos)* means: the time is ripe for a necessary decision.

KAIROS indicates, in the event of crisis, the right moment for a change of direction and a new beginning. The KAIROS thus experienced opens up new avenues for solidarity and struggle.

Kairos Europa is a European network of ecumenical initiatives and groups, working for a Europe for justice. The point of departure of the Kairos movement was resistance in South Africa against apartheid, as expressed in the famous "KAIROS DOCUMENT" of September 1985.

The European network was founded in 1990 and today has more than 500 members throughout numerous European countries, e. g., Belgium, Germany, Great Britain, the Netherlands, Italy, Poland, Spain and Hungary.

Kairos Europa works in several Kairos Centers and "program lines" dealing with various subjects:

- ▲ A just world financial system
- ▲ Local alternatives to globalization
- ▲ Living together in plural societies
- ▲ The identity of ethnic minorities
- ▲ The exchange of exiled young persons in Europe
- ▲ Spirituality and solidarity

The individual "program lines" work autonomously and independently, although they do develop joint activities like, for example, the Strasbourg 'People´s Parliament' (1992), the Action Days in Brussels (1994, 1999), etc.

There is a close exchange with social movements in the South, particularly in southern Africa. The representatives of the various Kairos Centers and 'program lines' comprise the membership of the executive committee that is responsible for the coordination and administration of the movement.

Towards a just financial System-Jubilee demands for a New Millennium

Millions of Christians and many churches throughout the world took part in the campaign 'Jubilee 2000,' with the aim of achieving a far-reaching cancellation of debts for the poorest countries at the turn of the new millennium. This awakening in our churches and congregations must not lose momentum after the year 2000.
The opposite should be the case - a genuine and comprehensive jubilee year entails further demands, as they have, in particular, been expressed by social movements from the South:

- ▲ The cancellation of illegitimate debts that should be cancelled out right.
- ▲ The ending of unfair terms of trade and protectionist practices of the North against products from the South.
- ▲ Direct access of the poor to the sources of wealth, land, and capital.
- ▲ The Encing of Structural-Adjustment Programs and their conditionalities imposed on countries in the South by the IMF and World Bank in the interests of the North.
- ▲ Fair trade instead of Free trade according to the rules of compatibility with the WTO at the disadvantage of uncompetitive markets.
- ▲ Stopping Ecological destruction caused by economic growth driven by profit maximization.

In these matters, one of the main underlying problems is the role of deregulated trans-national financial markets and their dominance of the economies and societies in the South and the North.

In view of the increasing gap between rich and poor, North and South, in a rapidly globalizing world, Christians and the churches are called upon to turn to the message of Jesus of Nazareth and the word of God in the whole Bible.

We are challenged not to give up now but to increase and deepen our efforts beyond technical questions relating to debt relief and debt sustainability - to spread the 'good news' of the Gospel to the poor and to re-establish just relations among peoples and with our planet earth.
Taking up and dealing with this challenge is exactly what the churches and the initiatives involved in the Jubilee campaign demand from us. This is also precisely what the World Council of Churches (WCC) and the World Alliance of Reformed Churches (WARC) decided in their general assemblies in 1997 and 1998.

They called upon their member churches to work on alternatives to neo-liberal globalization, in order to overcome violence inherent in the very structures of the present world economy and, in particular, the trans-national financial markets. They appealed to us to oin the "processus confessionis" on economic injustice and destruction of life on earth, a process of recognition, education, confession and action in the context of globalization. Regional conciliar meetings should give further contour and focus to the 'confession' and activities of the churches in all continents, so that the next general assemblies of the WARC (2004) and the WCC can arrive at clearly formulated and mutual decisions. In a letter of May 2001, the WCC, WARC, and the Conference of European Churches (CEC) appealed to the churches of western Europe to give concentrated attention to questions concerning the financial markets and the financial system.

In June 2002, there is to be a meeting of Western European Churches in Holland aimed at helping the churches to come to mutual standpoints, possible modes of activity, and political demands.

In October 2002, Kairos Europa is planning a hearing in Brussels, where these and other political demands will be presented to and given a hearing by the European Commission and the European Parliament in Brussels.

This will only be a success, though, when congregations, synods, and ecumenical groups accompany the movement 'from below' and press ahead. For this reason, Kairos Europa is producing a series of educational materials concerning this process for congregations and interested groups.