

Brussels, 18 September 2002

OPINION
of the
Economic and Social Committee
on
Trends, structures and institutional mechanisms of the international capital markets
(own-initiative opinion)

On 30 May 2001 the Economic and Social Committee, acting under Rule 23(3) of its Rules of Procedure, decided to draw up an opinion on

Trends, structures and institutional mechanisms of the international capital markets.

The Section for Economic and Monetary Union and Economic and Social Cohesion, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 3 September 2002. The rapporteur was **Mr Sepi**.

At its 393rd plenary session (meeting of 18 September 2002), the Economic and Social Committee adopted the following opinion by 58 votes to none with three abstentions.

1. Introduction

1.1 The world financial market, which has been progressively consolidated over the last decade, has a key role to play in the process of economic globalisation.

1.2 Its importance stems from its position as the first economic sector where globalisation has come into real play: there are no spatial boundaries to transactions, since they can take place on all world financial markets across five continents, and neither are there time constraints since transactions can be made round the clock, day and night, from anywhere in the world.

1.2.1 The purpose of the present opinion is for the Committee to join the debate on how the international capital market works and on the European and international proposals for reform. The Committee believes that the debate has grown in importance as a result of recent events, which have not been purely economic: the bursting of the US-generated speculative bubble in the second half of 2000 and its effects on the real economy; the terrorist attacks of 11 September together with the need to cut off funding to terrorist groups and organised economic crime; and Argentina's financial crisis.

1.2.2 The Committee considers the EU's contribution to stabilisation and to world development to be crucial. Accordingly, and notwithstanding the fact that the existence of a single currency protects the eurozone against certain shocks, the Committee emphasises how important it is for the institutions of the eurozone to play an active part on the international scene in seeking to identify effective, common approaches capable of promoting more robust financial systems.

1.3 The combination of two factors has brought about the present state of affairs, marked by fresh bouts of instability: the almost total liberalisation of capital markets, accompanied by the growth of derivative financial instruments, and the development of telecommunications - which is the other substantially integrated sector at world level.

1.4 The present opinion's starting point is the belief that the acceleration brought about by these two globalised sectors is generating profound contradictions in a world where an awareness of a shared future is beginning to grow among a range of global civil society sectors.

1.4.1 Free movement of capital is politically irreversible, and has some positive aspects. In theory, a free worldwide investment market could optimise capital placements and strike a better balance in world development.

1.4.2 Liberalisation could also produce a major spin-off in terms of preventing systemic crises such as those which have occurred in the past, by broadening the range of players and resources involved.

1.4.3 The new financial resources thus generated could have a significant impact on productive growth, by extending the geographical scope of development and also channelling savings to countries unable to generate sufficient volumes themselves.

1.4.4 The Committee feels that these positive effects are not yet evident: on the contrary, over recent years in particular, globalisation – especially financial – has been the target of heavy criticism.

1.4.5 Such criticism often reflects a one-sided point of view and shallow analysis regarding the difficulties involved in more balanced development of the global economy. The glaring contradictions within political systems, which have had a hand in the development failure of the poorest countries, are frequently overlooked. These countries are often marked by corruption, mis-spending and inappropriate taxation policies.

1.4.6 These criticisms are not, however, baseless: the current crises, which directly or indirectly also affect millions of EU citizens – and threaten the whole democratic edifice of the countries concerned, as has occurred in Argentina – are only in part the result of local political shortcomings. Argentina was scheduled to repay US \$ 750 million in the course of 2001, and more than US \$ 2,000 million by the end of January 2002. The resulting capital flight triggered a liquidity crisis in the banks, with all the ensuing institutional and social repercussions. The ending of peso-dollar parity has occurred against a backdrop of violent social unrest: 14 million of the country's population of 37 million are living below the poverty line. The social crisis has in turn triggered a political and institutional crisis.

1.5 This is, perhaps, happening because the onward march of financial globalisation has not been matched by either growth of world institutions, an overall policy direction, or global administrative bodies. When nation states were formed, institutional integration came before market integration: the current process is the exact opposite.

1.6 Spurred by fierce competition, the growth of credit and rapid financial change, the international drive for a "new financial architecture" proposes reform of (i) the rules of governance, starting with the identification of best practices which can minimise instability and its spill-over effects, and (ii) the powers of the IMF and the World Bank.

1.7 The Committee believes that the "new financial architecture" must be underpinned by new insights, broadening the paradigm that has guided the liberalisation of the capital markets hitherto.

2. Analysis of debate at EU level

2.1 On 2 February 2002, the Commission published a communication¹ in which it analysed existing documents and studies in this field. Its two main objectives, as previously put forward by the Ecofin Council, were to discuss a response to financial crises and to consider the issue of "financing (...) development as a means to reduce global inequality".

2.1.1 The communication does not make specific proposals. It simply looks at existing ideas about the new world financial architecture, thereby launching an EU and world-level debate. Through the present opinion, the Committee intends to take part in the debate launched by the Commission.

2.1.2 The Ecofin Council of 5 March 2002 adopted the communication from the Commission. Among other points, it argued that "globalisation (...) is essential for promoting growth and development", but concurred with the Commission's view that its "benefits (...) are not evenly shared".

2.1.3 The Council statement concluded by listing a series of objectives to be brought into the debate².

2.1.4 The European Parliament resolution on the international monetary system³ argues, among other points, that "necessary financial stability is a public good ... the real economy bears the cost of financial instability, and the crises it brings about ... the central role played by financial engineering and innovation ... permits risk to be broken down (but) leads at the same time to increasing complexity of financial transactions and risk-taking channels". It also "takes the view that the aim of the reforms of the international financial institutions under way must be to make them more efficient and more transparent (and) advocates globally integrated prudential supervision and oversight".

2.1.5 In an information report adopted in May 2001⁴, the Committee remarked that: "(...) total liberalisation of capital movements has fuelled international financial crises which have particularly affected the developing countries. A major contributory factor here has been the way that

1 COM(2002) 81 final.

2 Ecofin Council of 5 March 2002 (6591/02 (Presse 46) C/02/46).

3 European Parliament resolution on the international monetary system - how to make it work better and avoid future crises (2000/2017 (INI) - A5-0302/2001).

4 CES 326/2001 fin.

some developing countries have used purely speculative short-term capital flows from the industrialised countries to finance their public deficits in an unorthodox, high-risk manner."

2.1.6 The Committee felt that an own-initiative opinion could lend greater vigour to the pursuit of a new architecture for the monetary and financial market, which would reduce the impact and prevent a recurrence of the crises the market underwent in the 1990s. The Committee therefore notes with interest the publication of the communication from the Commission in February 2002, and will return to certain of its points. In any case, the Committee agrees that during the 1990s, financial variables exercised a decisive influence on the dynamics of the real economy.

3. General comments

3.1 Short-term trends

3.1.1 The current cycle is marked by a widespread slowdown in production. The slowdown set in suddenly in the USA in the second half of 2000, following a decade of uninterrupted economic expansion, in which growing financial deregulation was accompanied by ready supply of low-cost risk capital. This resulted from expectations of higher than average returns, especially in the ICT (information and communication technology) sectors. The recent revelations of fraud on the part of senior management in major corporations have also done much to undermine confidence among savers.

3.1.2 The US economic slowdown has spread to other parts of the world in which other factors were at work: these included rising oil prices between 1999 and 2000, action by the major central banks on short-term interest rates to damp down inflationary pressures, and continuing "structural" difficulties in Japan. The simultaneous effect of these factors has been to accentuate a general reduction in both production and aggregate demand.

3.2 Cyclical features and phases of third-wave globalisation

3.2.1 The Committee would emphasise that one of the more positive effects of the liberalisation of international capital movements has been the growing ability to counterbalance the huge differences in the savings capacities of the various national systems. However, especially following the vigorous deregulations of the last decade, this liberalisation has increased the risk of serious fluctuations in financial cycles, with a significant impact on the real economy. Financial variables have assumed an increasingly decisive role in shaping macroeconomic results and projecting them beyond their own area. The Committee recalls that the BIS now estimates capital flows to be forty times greater than trade flows.

3.2.2 This "contagion effect" has therefore led to synchronisation and accentuation of the financial and economic cycles. The seriousness of the final results can vary in line with the economic and financial importance of the country where the process is triggered, and with the structural and management capacity of the various parts of the world to which it spreads. The role of US variables in determining economic and financial trends in many other countries is also increasingly clear.

3.2.3 The Committee agrees that the reasons for these cycles running concurrently include those set out by the Commission in its most recent short-term analyses. The extension and proliferation of channels conveying external shocks are key elements. This refers not only to the contraction in trade flows, which is prejudicial to all areas which tie their own potential for growth to exports: other channels have grown in importance, including the company one (by means of fluctuations in multinational profits) and have increased diversification in portfolio management. Neither, lastly, should the confluence (between the USA and Europe, for example) of consumer and business expectations be overlooked.

3.2.4 Argentina represents an eloquent instance of vulnerability to a volatile financial system. Negative expectations were fuelled by the unreliability of its macroeconomic benchmarks (increasing public debt, external balance, etc.) and by the progressive loss of control over the currency system. This triggered a cycle which reversed the previous link between cause and effect, and a combination of factors intensified the pressures on Argentina's interest and exchange rates: the world economic slowdown, the increasing reluctance among private operators everywhere to assume risks (compounded by the events of 11 September) and the way this has modified their preferences and decisions (with some evidence of "herd behaviour"), the resetting of international interest rates, etc.

3.2.5 In less immediate terms, it can be argued that globalisation has not only broadened the channels for exogenous shock but has also complicated relations, inside the different systems, between private operators and public bodies, and between micro and macro factors. This complexity is driven by the multiple interests and interactions which revolve around private operators (each of them with their own aims, rationales and interests).

3.3 The new conceptual architecture

3.3.1 As the Commission states, reform designed to create a new financial and monetary architecture is needed both (i) to foresee and manage financial crises more effectively from the outset, and (ii) to enable the financial market to cope with the glaring developmental inequalities around the world. This is a need which, even before appealing to a sense of solidarity, engages the direct interests of all countries – developed, developing or almost wholly marginalised. In practice, the contagion and simultaneity aspects mentioned above entail "aggregate risks" for the credit and money market: they indicate that even industrialised countries should not concentrate exclusively on their own domestic problems.

3.3.2 The Committee nevertheless believes that governing the financial market requires the application of "extended rationality", given the broader objectives which better functioning of the market is intended to pursue. This entails fleshing out the model for economic analysis against which the "new financial architecture" is to be viewed. The purpose of this new architecture should be to achieve a disciplined financial market in which competition mechanisms are backed up by regulatory and supervisory instruments. In order, however, for reform to be both effective and fair, it must be built into a wider and more comprehensive "conceptual architecture" which reflects not only factors

inherent to the financial market, but also the links between this market and other areas of the real economy.

3.3.3 For the general economic framework, "extended rationality" means focusing on both demand- and supply-side factors. Macro issues concerning the public authorities can thus be correlated with micro issues, and the simplistic barrier between economic decisions and mechanisms and the social rules governing the community on which they impact can be broken down.

3.3.4 At macroeconomic level, the rate of GDP growth is not by itself a sufficient indicator with which to assess the system's development. Domestic demand, in all its various aspects, plays a key part in the stability of growth and the way it is distributed. When it is at the right level, it makes for an easier trade-off between export competitiveness and the need to stabilise exchange rates. In this connection, there needs to be a thorough re-think of the prevailing fiscal policy model, which has preferred to use fragmented tax relief moves for specific categories of operator and tax bases. As well as being inequitable, this undermines economic growth and social development when public expenditure commitments are not met.

3.3.5 Macroeconomic recovery schemes must be responsive to the demands for a gradual approach emerging from the wider economic and social system. The quickening pace, invariably explained in emerging countries by their desire to speed up their participation in the financial capital markets, has triggered negative chain reactions on these markets. This has highlighted how the volatility of the financial system can manifest itself during the opening-up of a market - i.e. in the short term - rather than when it has been open for some time. All other conditions being equal, the process of opening up the capital market can itself push up prices where the national financial authorities do not have the necessary control capacity.

3.3.6 The choice of foreign exchange system is closely tied in with the gradual approach. Argentina opted for a fixed parity arrangement because it considered this the most appropriate foreign exchange regime. It should be clear that in so doing, it rendered national monetary policy endogenous, with the aim of activating "automatic deflation".

4. Specific proposals and considerations

4.1 The Committee stresses the importance of the procedures which the international community plans to put in place in order to create a new financial economy. The objective is two-fold: to make foreign investors more familiar with conditions on the markets they intend to enter; and to strengthen these markets through legislative, economic and institutional reforms, together with new financial infrastructures.

4.2 This calls for a number of steps, including codes to ensure transparency in macroeconomic policy, principles and guidelines to protect creditors, international accounting and auditing standards, banking controls, market integrity safeguards, and rules which emerging and/or developing countries should also comply with, in close coordination with the appropriate international financial institutions, first and foremost the International Monetary Fund (IMF) and the World Bank

(covering 183 countries). These two bodies intend to step up their joint reporting and surveillance work under the new world Financial Sector Assessment Program.

4.3 The Committee stresses that maximum transparency and information must also be ensured where the international institutions are concerned, so that comparison and discussion are possible. The rules of democratic governance should apply within globalisation structures too. The bodies operating within these structures are specialised in terms of their powers and at the same time independent – even though they manage public funds – once their establishment has been decreed by international decision.

4.3.1 The Committee emphasises that the rules mentioned above must enable the countries concerned to achieve balanced internal development. The reform process is a lengthy one: this means that further variables, conventionally left out of the models and procedures applied hitherto in relations between debtor nations and credit providers, must be included so as to ensure that financial vulnerability really is reduced. This entails breaking down the separation between the "needs of the market" and the aspirations of civil society within each national community.

4.4 To achieve this aim, the Committee does not believe it is sufficient to state that the standards proposed by the international community should be adopted by individual countries on a voluntary basis, or that it is up to them to decide on the content of action programmes and deadlines for their implementation. Loan conditions - starting, for example, with the "Contingent Credit Line" devised by the IMF - must take account of how far they can in practice be borne in terms of the real economy, social conditions and international robustness. This may reassure private creditors, and prevent liquidity crises turning into full-blown solvency crises. In other words, it may safeguard a project's viability and effectiveness.

4.5 In addition, the Committee would point out that the state of play between the three international currencies - the dollar, the euro and the yen - also plays a significant role. Less fluctuation in their rates of exchange would reduce the risks and uncertainty which influence international finance. Greater coordination between these monetary zones could bring exchange rates and basic aspects of the real economy into closer line with each other, imparting more continuity to general economic growth.

4.6 The financial economy must reflect the logic not only of the financial system, but also of the monetary economy. The traditional tension between them, which has been exacerbated by the rapid liberalisation and increasing deregulation of the capital market, must be set against a broader framework for governance than the mono-dimensional one prevalent so far. Only in this broader framework can proposals be put forward on whether or not to boost the role of the IMF, on extending its remit to the balance of payments capital account, on the scope for systematic involvement of the private sector in dealing with financial crises, etc.

4.7 Proposals under discussion include the introduction of a "Tobin tax", which would be levied on cross-currency transactions in such a way as to deter currency speculation and protect capital flows destined for productive investment. Alternative solutions, such as non-yield time

deposits, have also been proposed. In the Committee's view, the question of whether or not the Tobin tax is desirable or practicable comes under the broader issue of how to ensure international fiscal coordination which can prevent "unfair" competition, confront the problem of tax havens and off-shore markets (both of which combine tax evasion and complete anonymity), and facilitate measures to combat both laundering of the proceeds of organised economic crime and funding for international terrorism. The Committee should devote further attention to the issue of international capital taxation.

4.7.1 Money laundering and the funding of terrorism are two areas of great concern, and involve large amounts of money (the UN calculates the proceeds of crime at some 500 billion dollars annually). Both are beyond the reach of individual states. They originate from a range of sources (only in the case of organised crime are the initial funds always illegal) and take full advantage of transnational opportunities, globalisation and technological progress.

5. EU proposals

5.1 The European Union has a clear picture of its role and the contribution it can make in all the areas mentioned. The Committee would draw attention to the value of the following initiatives and trusts that the working deadlines will be met.

5.1.1 The EU called for new forms of democratic governance at the Laeken European Council. These require a collective view of the rapid changes affecting the world, identification of priorities, matching of human and financial resources, and acknowledgement of the crucial role of civil society in orderly financial liberalisation. The Commission's proposal on governance⁵ must lead to legislation and to robust, coordinated political action by the entire European Union.

5.1.2 With regard to the tax issue, the Helsinki and Santa Maria da Feira European Councils (December 1999 and June 2000 respectively) launched a package of initiatives, in compliance with the principle of subsidiarity and of a barrier-free European market, to be implemented on a voluntary basis by the Member States (code of conduct on company taxation), together with a coordination drive guided by European directives on taxation of savings income. The first results should be available in the course of 2002. Progress towards tax harmonisation has only just begun.

5.1.3 The EU is engaged in integrating its own financial market, in accordance with the decisions of the Lisbon European Council (March 2000) setting 2005 as the deadline for implementation of the Financial Services Action Plan, and with the decisions of the Stockholm European Council (March 2001), which brings integration of the securities market forward to 2003, in keeping with the views of the Committee of Wise Men chaired by **Mr Lamfalussy**. The Committee has already welcomed this approach and the stages into which it is divided, and will not return to it in the present opinion. It does however wish to emphasise that the financial market can act as an engine

⁵ COM(2001) 428 final.

for growth and a force for stability only if the optimum balance between efficiency and security can be achieved.

5.1.4 More specifically, with regard to the state of progress of the action plan, the Committee would stress the importance of relaunching the takeover bids directive and the need to make progress on the supplementary pension funds directive.

5.1.5 With regard to the current world economic slowdown, the Committee urges the EU to boost its own internal growth and intra-Community trade. This could in part be achieved by launching European infrastructure projects, with the project funding drawn from the market and the banking system in combination with new public investment.

5.1.6 By boosting the contribution of internal demand to European GDP growth, these types of action would provide necessary structural reforms. They should not be included among the Stability Pact accounting mechanisms. If implemented as part of a system of efficient cooperative development between Member States, these steps would enable each country to take account of the decisions of its partners and therefore to limit the volume of the financial resources needed, while obtaining the same economic results as with initiatives taken in isolation.

6. The international financial institutions

6.1 The European Central Bank

6.1.1 The ECB has restated its – primarily methodological – objection to adopting short-term discretionary monetary policies, considering that these would inject even greater volatility into cycles. In the ECB's view, a medium-term policy – if based on clear objectives (price stability) and information – broadly matches the expectations of private operators, who will then make the necessary adjustments.

6.1.2 For this reason, the ECB views the euro exchange rate as an indicator, not an objective. In comparison with the Bretton Woods agreements, the ECB points out that the liberalisation of capital and application of market criteria have, over the last two decades, ironed out the disadvantages in the allocation of financial resources and savings. It does however acknowledge that this can make it more difficult to maintain stable exchange rate regimes. At all events, the ECB feels that the best way of letting the fundamental principles of market discipline govern the system is to comply with them.

6.1.3 Cooperation agreements between the major monetary areas can only be an option under entirely exceptional circumstances, such as the 11 September attacks – as in fact occurred immediately after those events. In general terms, agreements are viewed by the ECB as potential triggers for crises, in view of the difficulty of comprehensively covering all the different variables when drawing up their internal rules.

6.1.4 The Committee is fully aware of the difficulty that an exchange rate agreement with the leading currencies would pose, but nevertheless emphasises the positive effects it would have in making the markets less volatile and more predictable. The ECB must also have a recognised role as the representative of its monetary area at the international institutions.

6.2 The Financial Action Task Force (FATF)

6.2.1 For the FATF, the common element in all the various aims of economic crime is the need to be funded through efficient financial structures. Their individual characteristics, however, influence the channels through which the money passes. Economic crime involves procedures for laundering funds generated by illegal activities (dirty to clean), drawing lawful funds into unlawful activities (as can happen in funding for terrorism), i.e. clean to dirty, or channelling unlawful funds (from contraband, drugs, etc.) to other criminal activities (terrorism), i.e. from dirty to even more dirty.

6.2.2 The particular gravity of the terrorist attacks of September 2001 has prompted the FATF to draw up fresh recommendations which, in conjunction with those on money laundering, provide a basis for detecting, preventing and suppressing terrorist funding and acts. The Committee fully supports the content of the recommendations, and stresses the need for all states to ratify the UN's 1999 Convention for the Suppression of the Financing of Terrorism, and to implement the related resolutions, in particular Security Council Resolution 1373 (financing terrorism, terrorist acts and forming terrorist groups are considered to be crimes; all countries are to make the necessary changes to their own laws and regulations in order to freeze and confiscate without delay funds or other resources, and submit reports to the appropriate authorities where there is a suspicion that funds are linked with terrorism).

6.2.3 The Committee notes that the globalisation of financial markets, the ever-increasing diversification of new payment instruments and financial derivatives, and the introduction of the euro make it increasingly difficult to control this phenomenon. This state of affairs requires not only bilateral and multilateral agreements between the various national systems, but the effective acceptance of an international framework for governance, based on uniform criteria and procedures.

6.2.4 The Committee's concern also derives from the difficulty of applying these rules effectively in widely varying institutional and legal settings.

6.3 The International Monetary Fund (IMF)

6.3.1 The Committee agrees with the IMF regarding the implementation and strengthening of the Code of Good Practices on Transparency in Monetary and Financial Policies, initiated in 1998. Voluntary acceptance (and application) of the code can be regarded as a necessary stage in crisis prevention. Under the code, two criteria are to be applied when framing national monetary and public finance policies:

- a) private operators and the public should be informed of the macroeconomic goals of policies and the instruments for achieving them;
- b) the monetary authorities and financial institutions operating with a high degree of autonomy should undertake to respect the commitments and rules adopted, thereby confirming their reliability.

6.3.2 The Committee would therefore strongly advocate strengthening the IMF's new International Capital Markets Department, and bringing greater transparency to the IMF's operational choices, as well as to the economic policy debates and decision-making procedures preceding and accompanying such choices.

6.3.3 However, the Committee believes that improvements to the method of analysis, and the preparation of new indicators by the IMF itself, should form part of a broader approach. Under this approach, steps for readjusting variables, and the timetables for implementing them, should take account of the development needs of the real economy and of their social acceptability. The Committee is convinced that this is the only way for the necessary stability policies – which every country should feel duty bound to pursue – to be strengthened and made more credible in terms of feasibility and structural consolidation. In the Committee's view, this also implies direct and broad involvement of all the different political strands and of civil society in the preparation of national debt repayment or recovery plans.

6.3.4 In 2001, the IMF called for the establishment of a new external debt restructuring mechanism using procedures similar to those adopted at national level for bankruptcies. The IMF also considered the issue of how to define its own role in this new framework of collective action clauses.

6.3.5 The alternatives currently under discussion concern:

- a) a statutory approach giving the IMF further powers in defining debt restructuring mechanisms;
- b) a statutory approach based on decisions by a majority of creditors;
- c) a contractual approach based on market rules, under which collective action clauses could be incorporated voluntarily.

The IMF has not yet specified which of these options is considered the most suitable for adoption.

6.3.6 The Committee notes this uncertainty and the expectation of a three-year wait before the new mechanism is introduced. It takes a serious view of the present situation of certain countries with severe difficulties (e.g. Argentina), which are unable to refer to new rules or, in agreements currently being concluded, to count on clauses similar to those to be contained in the solution eventually adopted. Regarding the current debate, the Committee believes that the approach whereby decisions are taken by a majority of creditors allows the macroeconomic financial institutions and

private operators to be involved in a carefully considered way and, at the same time, to offset any aggressiveness on the part of the strongest creditors.

6.3.7 In the Committee's view, preventing and resolving crises also means looking again at the Enhanced Heavily Indebted Poor Countries Initiative. In the first months of 2002, of the 21 countries (from a total of 42) which had started using debt reduction payments, eight were subsequently excluded by the IMF because the agreed macroeconomic and reform-related commitments were not met. The Committee would emphasise that assessments of non-compliance must take account not only of traditional structural difficulties, but also of overall economic growth which is lower than that (always) assumed by agreed debt repayment programmes, and of the fall in certain commodity prices.

6.4 The World Bank

6.4.1 The first point for consideration with the World Bank was the feasibility of the UN programme, confirmed by the Monterrey Consensus which, as well as setting out the action to be taken, aims to halve the number of people living in poverty by 2015 (from 29 to 14.5% of the world's population).

6.4.2 The Committee points out that:

- a) the feasibility of many of the objectives set (including the economic policies which the countries involved must follow) depends on abstract initial assumptions, such as a basic GDP growth rate, at international level, of 3.6% a year to 2015;
- b) in its own reports, the World Bank emphasises that economic downturns and widening inequalities in many parts of the world are impeding the structural reforms that countries are supposed to carry out;
- c) all these factors mean that the World Bank must, in the light of the experience acquired, fine-tune its own analytical model and the associated economic and social statistical indicators.

6.4.3 Thought was also given to the practical ways in which future commitments are to be implemented. The Monterrey Consensus envisages a new partnership for sustainable development between the developed and developing nations, on the basis of shared accountability and obligations. It sets out to ensure good governance and application of macroeconomic stabilisation policies (surveillance of the financial sector, public finances and the exchange rate system) on the part of the developing countries, matched by greater and more efficient assistance from the developed countries, who must also comply with the trade liberalisation decisions reached at Doha. Against this backdrop, the role of the World Bank is to help the developing nations to overcome existing obstacles of a strategic, institutional or infrastructural nature.

6.4.4 The Committee considers that a dynamic private sector, liberalisation of the financial markets and an integrated trade system are essential for the economic growth of the developing

countries. However, the Committee is convinced that the experience of the last 30 years clearly shows that if such steps are introduced without proper regard to the wide variety of specific local economic and social conditions, they upset the balance of power between economic operators and, when compounded by structural imbalances, frustrate rather than facilitate movement towards development, reform and social progress.

6.4.5 In the light of the points confirmed at the Seville European Council of 21 and 22 June 2002, the Committee calls upon the European Union to propose the adoption of new criteria in the appropriate international forums geared to:

- delivering greater impetus to the development of the real economy;
- providing safeguards for the essential goods and services necessary for such development;
- supporting local economic activity.

6.4.6 There is at present a damaging degree of ambiguity between the declarations of principle made by major figures at the World Bank on the need to review the criteria thus far adopted (e.g. in backing privatisation uncritically), and the continued adherence to these criteria in programmes.

7. Conclusions

7.1 The Committee notes the growing importance of the international capital market, which is no longer bound by limits of time or space.

7.1.1 Activity on this market has a huge influence on developments in the real economy, affecting production, employment, and private and public supply and demand. Its impact in transmitting financial crises to the real economy is bound up with its capacity to synchronise and extend financial crises across geographical regions, triggering and amplifying not only economic, but also social and institutional instability.

7.1.2 For this reason, a broad debate is developing on the new architecture of world finance, as one possible means of bringing good governance to a field where the rules are either outdated or are of too limited territorial scope to tackle the situation.

7.1.3 The Committee is convinced that a new financial architecture capable of anticipating or managing crises has to be based on new concepts, on a new conceptual framework reflecting not only financial, but also economic and social aspects, and the institutional and democratic solidity of the countries affected.

7.1.4 The Committee calls for governance along the lines set out in the Commission's white paper⁶, under which the involvement of civil society and the reduction of global economic disparities are set objectives.

7.1.5 The European Union must therefore adopt a higher profile in the debate, bringing this new vision to institutional forums and presenting a united front.

7.2 The international institutions must be thoroughly overhauled. The Committee notes that while the World Bank is progressively broadening its methods of analysis and introducing new elements in line with European governance, the IMF remains firmly anchored to its traditional criteria. It is in any case difficult to see these bodies implementing substantial changes purely on their own initiative.

7.2.1 But reform is only possible if the balance of power between the international institutions is altered: this however presupposes an understanding between the European countries to break the present mould and speak with a single voice, resolving the myriad political problems which this entails.

7.2.2 Lastly, the Committee calls on all the international organisations (IMF, World Bank, FATF, Global Forum on Fighting Corruption, etc.) to enter into close and effective cooperation with each other and with national systems. The political will to strengthen control of off-shore markets and of links between off-shore and on-shore markets is crucial in this regard.

Brussels, 18 September 2002.

The President
of the
Economic and Social Committee

The Secretary-General
of the
Economic and Social Committee

Göke Frerichs

Patrick Venturini

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COM(2001) 428 final).