Alternatives to the dictatorship of international finance

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The disruptive and destructive role of the present system of international finance in many countries of the South - and in some countries of the North as well – is obvious and needs no specific demonstration or proof. They often appear as the result of the insuperable economic and political power of large institutional investors from the financial centres in New York, London and Tokio and the governments behind them. This impression is at best half true. The other side of the coin is the fact that the rise of international finance is itself a reflection of internal difficulties if not crises of the developed world. Their weak growth and income redistribution from the bottom to the top generates profits which are not re-investable in the North and must therefore look for investment opportunities in the South. Financial markets are on the one hand a marvellous instrument to organise profits in a situation of economic blockade. On the other hand the success of this strategy depends on the degree to which it can control the political environment and conditions in the countries where the investment goes. To ensure this control in the interests of the Northern creditors has been the role of the IMF. But this role has been much discredited and weakened during the last few years. This is the point of departure for the development of alternatives on five levels.

1. Then starting point is the fact that foreign creditors and investors are vulnerable, because they want their money back, and want profits for their investment. Progressive policies can benefit from this dependency by making debt service conditional on the useful role of foreign capital for the economic and social development in the countries where it is invested. Priority must be given to development, not to debt service. As long as development does not advance, outstanding interest and amortization will not be paid. A ***stand-still in debt-service*** is therefore a reasonable first step to counter the destabilising effects of unregulated foreign investment. That this step is practically viable has been demonstrated by Argentina during the last few years. The termination of debt service at the end of 2001 has not been the beginning of the final ruin of the economy in Argentina but the beginning of a recovery. And the current unilateral reduction of the repayment to 30% of the nominal amount by the Argentine government demonstrates, that the possibilities for retaliation and pressure from the North upon the South are limited. Contributing to the relative weakness of the North is also the fact, that developing countries have during the last years accumulated large amounts of foreign reserves, which they can use to protect their countries against speculative attacks. The problems for such a strategy which puts development over debt service are not so much foreign pressure – which is of course there but limited in its reach – but internal structures which make ruling classes and governments often unwilling to do what could effectively be done. But this, then, is a matter of political and social movement to exert pressure from below and create a climate which forces governments to change its course towards development.

2. In a second step we have to realize that of course the countries of the South need reliable and stable financial systems suited to the needs of development. Such systems must be built from bottom-up and it should consist of five layers

- An extensive network of ***cooperative savings banks and credit institution*** for local (micro)credit and support for the solidary economy. In many developing countries the experiences with these decentralised structures are positive – as long as they do not degenerate into big and bureaucratic apparatuses.

- An extensive network ***of private or public commercial banks***, which accept deposits, give commercial loans to firms and are the basis of the national payment system. I n this framework foreign banks can also play a role and contributing to the development and dispersion of modern financial structures and techniques of credit control, settlement, ATMs etc. Foreign banks which do not comply to the rules of the national financial systems would either lose their bank license or be (re-)nationalised.

- A network of large ***public development banks*** with the mission to implement the main development priorities of a country which should be determined in an open democratic process.

- A ***democratically accountable central bank*** which issues and controls the supply of the domestic money so, as to provide the country with sufficient credit for development, keep the payment system working and at the same time maintain price stability. The Central bank could also support structural development priorities via a differentiated minimum reserve policy. Although steadiness and reliability are necessary requirements for monetary policy this does not justify the exemption of central banks from the regular democratic process, in which priorities are defined and if necessary modified.

- As long as international monetary cooperation is absent such systems need ***protection against disruptions***, including capital flight, excessive capital inflows and speculative attacks. There are instruments to provide such protection: The most prominent amongst these are currency transaction (Tobin) taxes, cash deposits and the reintroduction of capital controls.

3.A third step in the establishment of stable and efficient financial structures in the South is the organisation of ***monetary and economic cooperation between neighbouring*** countries. Regional monetary agreements exist in South-East Asia and discussions in this direction are underway in the Mercosur. Similar arrangements are conceivable in Southern Africa. Also the CFA-zone in Western Africa could – with help of the Eurozone - be further developed into a regional monetary assistance zone. One problem which must be avoided in such a strategy is the degeneration of a zone of monetary cooperation into a zone of monetary domination through one country, like it happened in des European Monetary System which became a DM-zone with harmful effects for the rest of the EU.

4. Under such rule of democratic development priorities ***foreign capital can and will –*** *on a fourth level* ***- be welcome and important in many countries*** to facilitate and accelerate the necessary restructuring of the industrial and economic structures in general. But is must always be clear that it has to work under control of the democratically elected government and private profit are dependent on the fulfilment of development priorities. Where under such priorities foreign investors prefer not to come to such democratically controlled countries, this has to be accepted. It could in the words case lead to slower economic and social development, which however would be more solid and reliable. In such cases regional solidarity and cooperation are particularly important.

5. ***Finance for development***. In addition to the integration of private foreign capital into a democratic development strategy additional financial resources should be mobilised: Developed countries should increase official development aid (ODA) at least to the level of 0,7% of their GDP, which was already promised in the 1970s. A currency transaction tax would help to curb short-term financial speculation and at the same time generate a large amount of revenue, which should be used for development.

6. ***International financial institutions – in the first place IMF and World Bank - must be reformed*** so as to give the South a stronger say in the control of financial flows an d the management of the international financial architecture. Whether this is feasible is an open question. On the one hand the IMF has remained a fortress of the North against the South and many of its recent reforms are just phoney lip-services with regard to the mounting criticism even from inside. On the other hand some of the holy dogmas of the IMF have gone like the absolute priority for the unlimited liberalisation of capital flows.

Nothing of this is impossible. But it is also true that nothing of this is easy and certainly nothing will ever become true without strong social movements and political pressures. In the course of such movements this proposal can be modified or replaced altogether by a different conception. But conceptions are necessary to bring our movements forward beyond protest and resistance. We express our resistance against the transformation of the world into commodities in our slogan: “This world is not for sale”. Let us also discuss what we mean, when we add “Another world is possible”.

Alternatives to the Dictatorship of International Finance

1. Stand-still in debt-service

Model: Argentina

2. A strong and democratic financial system at home

Five pillars

- Cooperative local savings banks and credit institutions
- Public and private commercial banks
- Public development banks
- A democratically accountable Central Bank
- Protection against disruption: taxes, cash deposits, capital controls

3. Regional cooperation agreements

Model: European Monetary System

4. Embedding foreign capital in domestic development priorities

5. Finance for Development

- Currency Transaction Tax (0,5%)
- Official Development Aid (1% of GDP-North)

6. Democratisation of IMF and World Bank

Balance between North and South