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Ethics and Finance in a Globalizing World

Speech by Michel Camdessus

Former Managing Director of the International Monetary Fund

I am particularly honored and delighted to be with you today in Beijing, at the opening of this conference on international business ethics. These are not only courtesy words but really my deep feelings. 16 years ago, I visited China for the first time in my capacity of a new managing director of the International Monetary Fund and I remember my conversation with the Chinese authority and in particular their extraordinary ambition- extraordinary by world standards at that time- to maintain an 8% rate of growth for the next 20 years. I remember my promise to them to do my best to explain to the world the Chinese prospects and to extend to the maximum the IMF technical support for such endeavors. Today, I see with my own eyes what was meant at that time and what the courage talents and hard work of your people can effectively realize.

Yes, China is now “the economic powerhouse in Asia” and I would add the most dynamic country in the world. Even more remarkable is the fact that you see that today a “bigger challenge is whether China will become as well a main driving force in ethics”. This statement of major importance: China, as an economic powerhouse, has a major contribution to make to the XXI century civilization, at a moment globalization continues transforming in depth the world and the human being condition. Of course, other countries and continents have also a lot to contribute – India- but the contribution of China should be essential not the least, in view of its unique cultural and spiritual heritage.

Let me tell you this very simply: this essential Chinese contribution to a new human civilization can only be defined and proposed by the Chinese themselves while they are busy in trying to introduce it in their own daily business. The world needs that and is looking forward more and more for that. This means, inter alia, that I would sincerely prefer to be here as a listener rather than a speaker, as we have not been so good, so far, in the rest of the world in introducing the ethics in the world of business. As my contribution can only be modest, I could limit my introduction to share with you my personal experience during 13 years as managing director of the IMF as it has something to do with your reflection on ethics in a globalized world. This could bring me to underline a few basic values which seem to me as essential to lead our world toward sustainable economic development and to humanize globalization. I will do that having as background my personal experience which is almost exclusively one of the national and international institutions, a severe limitation indeed at a moment, as you know when the private sector becomes the driving force of globalization. I am sure my successor at this podium will reestablish the proper balance.

A few Lessons from 13 Years at the IMF

My three mandates in the IMF have coincided with the time when globalization has accelerated its pace and became the dominant feature of the time. What was taking place was – at its beginning- difficult to identify as the major phenomenon now well analyzed. The only

evidence was that something was taking place which was very different from what the founding fathers of the Bretton Woods institutions in 1944-1945 had foreseen. Things were moving so rapidly nevertheless and affecting so deeply the international community that international institutions had to move, to adapt themselves and to suggest new orientations to the membership. Globalized finance was one of the features of the change going on, but not the only one by far.

One of the first things I had to perceive was that in this new world, problems became so complex and intertwined that no institution- and even the IMF, in spite of the high technicality of the problems it had to address- could remain strictly technical, trusting the markets automatism to solve the human problems of our world and in particular the “ultimate systemic threat facing humanity (1)”, poverty. As an unacceptable level of poverty was to my judgment also the ultimate market failure, we had to obey an ethical sense of solidarity to find the way to assist the countries in need. From there, a long range of initiatives for which I am proud to have enjoyed the permanent and at times very courageous support of your country. This was, of course, the most natural thing to do as these institutions had been created to institute multilateral cooperation between countries.

A second lesson derived from the uneven success of our programs for stabilization, growth and reduction of poverty in developing countries; it became crystal clear that their effective implementation and lasting success was tightly linked to the quality of the participation of all segments of the population to their preparation, adoption and implementation. This new ethical dimension had then to be introduced in the strategies of the IMF, and indeed it was, at least each time governments accepted to go that far.

Then came the Mexican and Asian crisis- the true first crisis of the XXI century- as they were so different from the crisis of the first 40 years of existence of the IMF which were mainly external payment crisis, often exacerbated by unsustainable debt. The Mexican crisis and much more evidently the Asian crisis were unlike any seen before. Crises of this new type explode on the open capital markets, arise from complex dysfunctions, particularly in the financial markets, and are much less exclusively macroeconomic in nature. They quickly take on systemic proportions, and can be checked only through the immediate mobilization of massive financing. Take the three major Asian crises, for example: Thailand, Indonesia and Korea. Dealing with them mean dealing with a three-dimensional problem: a dimension, obviously, of macroeconomic imbalances, along with massive outflows of short-term capital; an acute crisis in the financial sector, reflecting institutional and banking practice weaknesses; and a much more fundamental crisis in the prevailing economic management model.

I am thinking here of unhealthy- I would even say incestuous- relations among corporations, banks, and government. This third dimension of corruption, collusion, and nepotism was making obvious that un-ethical behaviors in such a great scale could have dramatic systemic consequences and implied that fundamental reforms were immediately required. The financial universe could no more think, at least from that very moment, that there is such a thing as sound economics and finance, without solid ethical behaviors of the main actors in the public and private sectors.

But there is more. We had soon to acknowledge that – important as they maybe- there is not such a thing as financial ethics in isolation. At the moment we were discovering the importance of ethics for finance, we were de facto invited to turn our attention to global ethics for the sustainability of a world where finances were leading the globalization. Taken together these four lessons have contributed to the progressive emergence of a new paradigm of development. Let me emphasize two of its key features. First, a progressive humanization of basic economic concepts. It is now recognized that the market can have major failures, that growth alone is not enough and can even be destructive of the natural environment or precious social goods and cultural values. Only the pursuit of high-quality growth is worth the effort. What is such growth?

- Growth that can be sustained over time without causing domestic and external financial imbalance;
- Growth that has the human person at its center, that is accompanied by adequate investment, particularly in education and health, to take full advantage of the tremendous leverage of human capital for future growth;
- Growth that, to be sustainable, is based on a continuous effort for more equity, poverty and inequalities reduction, and empowerment of poor people; and
- Growth that promotes protection of the environment, and respect for national cultural values.

Second, at a deeper level, we observe in recent approaches a striking and promising recognition of a convergence between a respect for fundamental ethical values and the search for efficiency required by market competition. Yes, you can see now a far wider recognition:

- That participatory democracy- that major conquest of the 20th century- can maximize the effectiveness of sound economies;
- That transparency, openness, and accountability are basic requirements for economic success;
- That combating collusion, corruption, and nepotism must be a major concern for the international financial institutions;
- That systematically dismantling the state is not the way to respond to the problems of modern economies; rather we must aim for a slimmer yet more effective state, able to provide the private sector with a solid framework in which the rule of law could prevail, on a level playing field; and
- That there is a mutually reinforcing relationship between macroeconomic stability and structural reform on one hand, and growth and the reduction of poverty and inequality on the other.

Sustainability and strong institutions are clearly essential for growth, and hence for poverty alleviation. But the converse is also true; popular support for stabilization and reform cannot be counted upon, unless the whole population, including the poorest- and by the poorest I mean those that not only are out of the loop, but even more are unable to contribute their experience- is able to participate in the formulation of the policies and, of course, in the benefits from those policies. In short, a new economic paradigm is emerging. The new opportunities for growth created by the revolution in information technology and the opening

of markets, combined with more resolute efforts to promote opportunities for all to share in the benefits of growth, will amplify the positive effects of macroeconomic and monetary stability. All of this together can transform globalization in a great opportunity for humanity provided that the emerging new paradigm is firmly rooted in fundamental human values and ethics, and here is where the contribution of china will be essential.

What are these basic ethical values for a world of financial globalization?

Which values must we promote if we are determined to make sense of our history? Which values to guide us as the new century unfolds? This question has been with me all along these thirteen years in the IMF and I raised it with many interlocutors. When trying to draw the conclusions of so many conversations. I end up with three values: a sense of global responsibility, solidarity and of worldwide citizenship:

- A sense of global responsibility for each counties and for all including us as enterprises or us as simple citizens, to contribute to the human success of globalization;
- Solidarity to alleviate and ultimately eradicate poverty; and
- A new sense of citizenship to back new global governance.

1. Sense of Responsibility

In our globalized financial world, whether a country is large or small, any crisis can now become systemic through contagion on the globalized markets. Domestic economic policy therefore must, now more than ever, take into account its potential worldwide impact; a duty of universal responsibility is incumbent upon all. Every country, large or small, is responsible for the stability and quality of world growth. When I say large, I must add that the responsibility is in some way in proportion with the size.

This adds a new dimension to the duty of excellence that is required of every government in the management of its economy. I use the word “excellence”; I could also say “absolute rectitude”. Globalization is a prodigious factor in accelerating and spreading the international repercussions of domestic policies – for better or worse. No country can escape, and all should be fully aware of the central importance of:

- Rigor and transparency in overall economic management;
- Growth that is centered on human development, social justice and respect of the environment; and
- Government reform, seeking public sector efficiency, appropriate regulations, emphasis on the rule of law, independence of the judiciary, anticorruption measures, etc.

All of that is tantamount to recognize that economic progress is strongly dependant on the basic value of responsibility; the sense that each is responsible for the advancement of all, and on the harmony of social relations at national level and peace internationally. This should, in the end, allow each country to play a greater positive role for the prosperity of the global economy and to accept also the responsibility to contribute to the correction of what goes wrong in the working of the international financial system, and to start with, the inadequacy of financial information, and the failure to respect the rules of transparency so central for policy credibility and market stability.

In the face of a proliferation of increasingly sophisticated forms of financial intermediation, the delays in imposing the required discipline on international markets, which have been kept at the anarchic stage that the domestic markets of the industrial countries were at a century ago, has been particularly detrimental. Reforms of course have been adopted, but here we are in a field where, beyond the initiatives of governments and regulators, the ethical sense of individual actors and private companies can and must make a major difference. They must understand that in a medium to long term perspective, there is not any better way to care for their business than to care also for society and the common good. Yes this role of other actors – frequently from the private sector: enterprises, financial institutions and all components of civil society: labor unions, NGOs, religious organizations, etc. can be decisive. All of them, by their responsible behavior, can play an important role for the success of the newly emerging paradigm in humanizing globalization.

Here I would like to mention the growing conviction in the business community – exemplified by the “global compact” of the UN – that business has the ability to contribute more and more to building a better world. A new generation of globally responsible leaders is emerging (2) whose decisions rely both on their awareness of principles and regulations and on their determination to follow guiding principles such as fairness, freedom, honesty, humanity, tolerance, transparency and of course, embracing all the previous ones: responsibility and sustainability.

These people as good businessmen are result oriented and so attach the highest importance to key action areas through which corporate global responsibility can be nurtured and developed. They include:

- Tuning into societal and environmental business context.
- Overcoming key organizational, regulatory and societal barriers to change.
- Developing stakeholder engagement skills such as careful listening and the ability to engage in dialogue.
- Transforming the culture of the firm by changing attitudes and behaviours.
- Understanding the purpose of change.
- Designing change management processes, and
- Rewarding globally responsible behavior through improved performance measures and systems.

Under such an inspiration, they see as of the highest importance every effort to initiate to business ethics of the students of business schools around the world.

2. Solidarity to Fight Poverty

When considering all the positive dynamics at work in our world, the slowness of progress in reducing poverty appears all the more unacceptable. I need not describe in graphic terms the extent of present human deprivation- you know them at least as well as I (3). The widening gaps between regions and rich and poor within nations, and the gulf between the most affluent and most impoverished nations, are morally outrageous, economically wasteful, and potentially socially explosive. Now we know that it is not enough to increase the size of the cake; the way it is shared is deeply relevant to the dynamism of development. If the poor are left

hopeless, poverty will undermine the fabric of our societies through confrontation, violence and civil disorder. If we are committed to the promotion of human dignity and peace, we cannot afford to ignore poverty and the risks it entails for peace. We all must work together to relieve all this human suffering. This is what solidarity means as an obvious central value for a unifying world. But the fight for peace in the world and solidarity must go hand in hand as peace is an inescapable precondition for durable economic progress. When considering the tragic situation of an impressive part of Africa, where so many countries are directly or indirectly involved in military or civil or ethnic tribes conflicts, how could we entertain any illusion that progress in human conditions is achievable if these conflicts are not brought to an end? At least there must be a major effort – well beyond what we see today – to reduce tensions and to prevent new wars from being started. If through a diversity of initiatives better prospects for peace can emerge, then good windows of opportunity for development could appear. But many other conditions will have to be put in place for its process to become effective.

Here, the poor countries themselves are on the front line, and we have learned that their success on the fight against poverty depends crucially on their own sense of responsibility in promoting good governance and sound policies, in making poverty alleviation the centerpiece of economic policy, together with a renewed emphasis on rapid growth led by the private sector. (but for them, also, success lies in national “ownership” of the policies, through a participator approach that engages civil society in a constructive dialogue.) if this is the case, the rest of the world should then be ready to move promptly when these countries indicate that they need support. But then, how can development partners support the efforts of the poorest countries? Let me point to four areas.

First, on the trade front, by assigning the highest priority to providing unrestricted market access for all exports from the poorest countries, including the heavily indebted poor countries, these countries can begin to benefit more deeply from integration into the global trading system. Second, by supporting policies which encourage the inflows of private capital, especially foreign direct investment with its twin benefits of new finance and technology transfers. Third, by contributing financially. Here we are dealing with an issue which goes beyond – important as it may be – the simple provision of badly needed financing. It is an issue closely related to the basic fabric of a unifying world community: the mutual trust among its members which implies that giving one’s word means just that. Over the past decade, we have witnessed two rather paradoxical phenomena. On the one hand, while the industrial countries have happily been collecting their peace dividends, they have steadily reduced their official development assistance, falling further and further short of the target of 0.70 percent of GDP which all – with the exception of the United States – had pledged to achieve for the year 2000. At the same time, at one world conference after another, they committed themselves, along with developing and transition countries, to promote measurable and achievable human development objectives now encapsulated in the MDG.

Fourth, by being faithful to our pledge, in the occasion of the Monterrey (Mexico) Finance for Development Conference in 2002 to establish, from now on, our cooperation for development on the basis of partnership. But what does such a substitution should entail: words or

substance? A major change indeed. Partnership is dialogue among equals. It implies that your partner in that dialogue makes himself his own choices and defines his own priorities. It implies also total frankness on both sides and full acceptance of the critical judgment of your counterpart on your own policies; and equally a deep respect for the ethical demands, the culture and the traditions of the other, including in the organization of the public life. It requires that no one beg his neighbour and fulfill his full share of responsibilities. It means full acceptance of a joint walk on the new trails of globalization, each taking care of adapting his steps to the walk of the other... Partnership as understood in Monterrey doesn't limit itself to government's policies. It is a multidimensional concept associating on both sides, enterprises, financial institutions and civil societies, all being invited to enter into this new kind of relations beyond their national borders.

Imagine for a moment that these pledges were actually fulfilled: what a giant step this could be toward a better world, what a giant step it would be toward improving the lot of the most disadvantaged among the poor – women and children! But many of the world's top leaders have been losing sight of these pledges. Let's use all our influence including as private citizens to make sure that, particularly after the New York Summit of last September, the OMD are given the highest priorities by our governments. This worldwide mobilization of public opinion will be only a small step, but it is important in view of the fragility of our collective commitments. We must make the first decade of the new century one of fulfillment of past pledges. If we allow cynicism to prevail in this area, we may as well give up the dream of progressing to a more fraternal global society. This is a matter of great urgency. Yes, we need a jolt of responsibility and solidarity.

Having touched upon the key aspects of a poverty reduction strategy, let me underline that what I am referring to here is not our obligation of generosity toward a world much poorer than ours, but our contribution to strengthening the very fabric of a world which is now one; a fabric the solidity of which is crucially dependent on the elimination of war, the respect for pledges and the active support for those who want to stand on their own feet.

3. Participatory Democracy and Subsidiarity in World Governance

This being said and beyond the poverty problem, we know only too well that in today's world, many people suffer from a lack of control over their own destiny and fear that there is no legitimate authority to deal with problems that are increasingly taking on worldwide dimensions, such as threats to the environment, increases in the use of drugs, widespread corruption, crime, money laundering, etc. For all these issues as for poverty, I fail to see any satisfactory solution without introducing in all places where human issues are addressed more democratic participatory governance. In the context of globalization, the whole issue of governance must be revisited not with the view of setting up some sort of world economic government; but with two more limited ambitions:

- In the one hand, to offer to all human beings a say on their own destiny, and
- On the other, to find a global response to inescapable problems of worldly dimension.

The task is, nevertheless, formidable. We are the first generation in history to be confronted

with the need to organize and to manage the world, not from a position of power such as Alexander's, or Caesar's, or the Allies' at the end of World War II, but through a recognition of the universal responsibilities of all peoples and citizens and of a universal duty of solidarity and cooperation through partnership.

The challenge is, of course, primarily to introduce more and more citizens participation at all levels of national governance. It is also to find mechanisms for managing the international economy, which would at the same time (1) preserve the sovereignty of national governments; (2) help smooth the effective working of markets; (3) ensure international financial stability; and (4) offer solutions to problems which transcend the boundaries of the nation-state, and to which we are responding unsatisfactorily now by over-stretching existing institutions. A tall order indeed! To understand this, we need merely compare our world to the world in 1945. Each country has now achieved a sovereignty, each wants to shoulder its full responsibility in the face of global problems, and we know that the effective participation of each country in managing the "global village" is key to the future of the village. Furthermore, while globalization has until now operated at the whim of more or less autonomous financial and technological forces, it is high time that we put in place the appropriate mechanism so that progress towards world unity can be made consistently and in the service of humankind. What is required are institutions which can facilitate joint reflection at the highest levels, whenever needed, and which are capable of ensuring that globalized strategies are adopted and implemented when it appears that those problems can be dealt with effectively at the global level. The problems are serious and many. I would like to point out just three of them: (1) lack of appropriate institutions in new fields of major global concern; (2) respect for the old principle of subsidiarity; (3) fair representation in international economic decision-making.

The founding fathers of the United Nations system made a good job in 1944-1945 to solve the problems they were foreseeing. But of course, sixty years later, we must confront issues at that time unexpected, such as environment and migrations. This calls for the creation of institutions properly equipped to help governments to face them in a proper multilateral spirit. Whatever our reluctance to add to the bureaucratic apparatus of the UN, it is crystal clear that the world will have – the sooner the better- to face this unjustifiable lacuna, a lacuna on which public voices remain generally silent and which is only brought to our minds, but so far to no avail, when a major environmental catastrophe takes place.

Together with the environment, anti-trust and migrant-worker issues would also justify the creation of freestanding bodies at a global level. Needless to say that the cost of establishing such institutions could be offset at least partly by further streamlining the system in other fields. This being said, multilateral institutions must be exemplary in their respect of the subsidiarity principle, formulated centuries ago we are now rediscovering. It means that the worldwide institutions must tackle and solve problems of an economic, social, political or cultural character, which are posed by the universal common good. But without intending to limit the sphere of action of the public authority of the individual state, much less to take its place. On the contrary, its purpose is to create, on a world basis, an environment in which the public authorities of each state, its citizens and intermediate associations, can carry out their tasks, fulfill their duties and exercise their rights with greater security. This suggests that the

more we see the need to consolidate or to grant new responsibilities in world bodies, the more it is also necessary to let them know that their contribution can only be subsidiary. Everyone must understand that nothing can be accomplished at the global level unless it has been taken up at the grass roots level and supported by initiatives of the entire institutional chain from the local to the global level. Responsible citizenship at all levels must be one of the key values of the 21st century.

The more we recognize we must give more leverage to global and regional institutions to tackle worldwide problems, the more we must promote fair representation in their decision-making bodies. The situation, at this stage, is unsatisfactory. Talking about the financial institutions, I would insist on the following.

The legitimacy of the Bretton Woods Institutions is increasingly questioned. The mounting universal demands for more participatory governance at all levels of governance in society, apply of course also to them and particularly to the way in which they must accommodate the growing role of new players, particularly from Asia. A lot is at stake for the international climate of the next decades, depending on whether they will be invited soon to share global responsibilities or they will have to fight for them. Progress so far has been slow, to say the least. Knowing pretty well the hesitations, I suggest four measures that could distinctly strengthen world governance in a participatory direction.

1. Make more explicit who does bear the real political responsibilities in these institutions

2. Reopen the debate on the size and composition of their executive boards

This reform would simultaneously respond to the situation newly created by the progress of the European Union toward its integration, the growing importance in world economic terms of the emerging markets and the difficult issue of “voice” for Africa which still awaits a convincing response.

3. Reform the Procedures for the Selection of Management

The rules and practices for the appointment of the managing director of the IMF and the president of the world bank should also be changed and the new system enacted on the next relevant occasion. Both Europe and the United states should renounce their present “privileges” in 2004.

4. Contribute to a more participatory world governance

To gain increased relevance, the G8 must continue opening itself up. Drawing the lessons of the experiences of recent years, we could propose, in this regard, that each G8 summit be coupled with an “extended meeting” to which all heads of State and Governments from the countries represented in the new council should be invited. This would be a way to put in place a “global governance group”, whose orientations would carry much more credibility, legitimacy and influence than the G8 and G-20 today. These few remarks on participatory governance, including at world level, are in my view another illustration of the mutually reinforcing character of the initiatives for making ethical principles to prevail and of the efforts to make national and international institutions more efficient, while promoting a needed climate of partnership.

Ethics in a globalizing world where international finances are gaining so much importance:

what is needed is to identify the values that men and women today can use to make sense of their history. Our history has not yet been fully written- it is still in our hands- and notwithstanding its risks, globalization is an opportunity to move toward world economy that is more worthy of the human race. This implies that we take action on the three values to which I have been referring and that many around the world can recognize: responsibility, solidarity and at all levels, participatory citizenship. Thanks to them we could go a long way:

- From disorderly and instable markets to better regulated ones,
- From a world dominated by self-interest to one where gratuitousness would be recognized,
- From a world exclusively nations-centered to a multilaterally-oriented one,
- From a world where governments see themselves as exclusively in charge of the common good to one where a dense network of partnerships would associate enterprises and civil society to the common objective of the humanization of the world.

The efforts, initiatives and success of the Beijing Center for International Business Ethics will certainly contribute to make it possible.

Notes

(1) These words are from Angel Gurría, former Minister of Finance of Mexico.

(2) The following developments follow close the principles for action of a group of them, the “globally responsible leaders-net” created recently in the framework of the European Foundation for Management Development.

(3) I like to quote these words of my former colleague J. Wolfensohn: “Something is wrong when the richest 20 percent of the global population receive more than 80 percent of the global income. Something is wrong when 10 percent of a population receive half of the national income – as happens in far too many countries today – something is wrong when the average income for the richest 20 countries is 37 times the average for the poorest 20, a gap that has more than doubled in the past 40 years. Something is wrong when 1.2 billion people still live under less than one dollar a day and 2.8 billion still live on less than 2 dollars a day”.