

FROM HYPERGLOBALIZATION TO THE PROLIFERATION OF REGULATORY REGIMES

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ABSTRACT

THIS ARTICLE ANALYZES THE CONFLICT BETWEEN TWO PROPOSALS AIMING AT SOLVING THE INTERNATIONAL FINANCIAL CRISIS THAT REPRESENT DIFFERENT ECONOMIC AND POLITICAL TRADITIONS, THE ANGLO-AMERICAN AND THE FRANCO-GERMAN ONES. WASHINGTON AND LONDON PROPOSE TO REPAIR THE EFFECTS OF THE INTERNATIONAL CRISIS, WHILE BERLIN AND PARIS SUGGEST A NEW ARCHITECTURE FOR THE FINANCIAL MARKET, WITH A CENTRAL AUTHORITY IN CHARGE OF REGULATING AND CONTROLLING IT, WITH CESSION OF SOVEREIGNTY. THESE TWO PROPOSALS HAVE BEEN CONFRONTED AT THE LAST G-20 MEETING THAT TOOK PLACE IN LONDON. MORE THAN SEVENTY YEARS AGO, THE LONDON ECONOMIC CONFERENCE, WHICH BEGAN ON 12 JUNE 1933, HAD AS GOAL THE ADOPTION OF MEASURES AGAINST THE GREAT DEPRESSION, BY STIMULATING THE INTERNATIONAL TRADE AND STABILIZING THE FOREIGN EXCHANGE MARKET. THE REFUSAL TO A CENTRAL AUTHORITY IN CHARGE OF REGULATING AND CONTROLLING THE FINANCIAL MARKET FAVORS THE PROLIFERATION OF NORMATIVE REGIMES.

KEYWORDS

INTERNATIONAL FINANCIAL CRISIS; FINANCIAL MARKET; HYPERGLOBALIZATION; NORMATIVE REGIMES

INTRODUCTION

Two major proposals, representing opposite economic and political traditions appear in the global scenario, presenting diverging solutions for the global financial crisis. The first is hegemonic and backed by the US and UK. Its priority is to strengthen the financial system, finding a solution to toxic assets, with a gradual resumption of economic growth. The second, non-hegemonic, is enforced in continental Europe, headed by Germany and France. The goal is not only stabilize the financial system but to reform it, regulating it with more intensity to the principle of transparency. Unlike Washington and London, Berlin and Paris would be more interested in the causes of the financial crisis than its immediate aftermath. The goal is bold: to develop discipline and change to the financial market. Compared to Paris and Berlin, Washington and London would be more interested in remedying the effects of international financial crisis, rather than analyzing,

identifying and correcting causes. The financial system must be saved before economic growth can be resumed. In Paris and Berlin's approach this strategy is not to be adopted.

Such divergent proposals are paradoxical. Two center-left leaders, Democrat Barack Obama and Labor's Gordon Brown are determined to save the financial market. Diametrically opposite are the two center-right leaders, the Christian-Democrat Angela Merkel and the conservative Nicolas Sarkozy undertake the the task of reforming it. The center-left is takes a rightist stance, whereas the center-right is supporting a leftist position. When running for President, Nicolas Sarkozy defended a liberal agenda for France. With the international financial crisis, he embraced the opposite position. Aligned with Merkel, he condemns the so-called "savage capitalism" led by the financial market and promises to regulate it, control it, and then sanitize it.

Berlin and Paris propose a new architecture for the financial market. To overcome the crisis, the solution would be to create a central international authority to regulate it and control it with the assignment of sovereignty. This proposal is not supported by Washington and London for contradicting the basic principles of Anglo-American capitalist system. Berlin and Paris retaliate by refusing a new government bailout to help the financial market. The Franco-German argument is simple. The higher public spending, the greater the risk of increasing the public deficit and inflation.

When US president during the 1929 crisis - Herbert Hoover - passed the Smoot-Hawley Tariff Act, of 17 June 1930, raising US import tariffs to historically high levels, did not foresee the Great Depression. The original intent was to increase the protection given to American farmers against foreign imports. The boom in the agricultural sector that occurred outside of Europe during the First World War along with the postwar recovery of European producers led to a massive agricultural production in the 20s of last century. The price of agricultural products declined during the second half of this decade. In the election campaign, then-Republican candidate Herbert Hoover pledged to help farmers with high import tariffs for agricultural products. With the inception of the process of tariff reviews, it could not be stopped. Claims for more protection came from the industrial sector, especially from lobbyists. Soon, the Smoot-Hawley Act, whose first intention was to assist uncompetitive farmers internationally, became an instrument for lifting raising import tariffs in all economic sectors. Perhaps, it may not have been the cause of the Great Depression, but it did not tackle the economic hardships. It caused a storm of foreign retaliatory measures, becoming a symbol of political beggar-thy-neighbor of the thirties. The Smoot-Hawley Act did not stimulate international cooperation over a period of deep economic crisis. It did not take long for the consolidation of a disturbing political and military scenario for international relations.

The United States and Germany do not experience the same economic situation. As a major importer, the United States is structurally a debtor country, and needs to deal with insufficient domestic savings. Germany is structurally a creditor country. Largest exporter in the world, higher than China, it has accumulated large trade surpluses. If liberalism is traditionally an influential ideology in the United States, Germany dominates the social market economy, which does not rule out state intervention to correct market failures. With different economic situations

and a different political tradition, we cannot expect that Washington will present to tackle the financial crisis in the way as Berlin. For Germany, this would be the time for the third way, the social market economy. At the G-20 in London, April 2, 2009, Berlin hoped its proposal for hyper-globalization to win. According to the proposal a central international authority would be in charge of regulating and controlling the financial market. More than seventy years ago, the London Economic Conference, which began on June 12, 1933, aimed to take measures against the Great Depression, spurring international trade and stabilizing the foreign exchange market. Without achieving the goals for which it was convened, it could not be concluded satisfactorily. In the last G-20 Summit in London, there were some winning proposals.

1 INTERNATIONAL FINANCIAL CRISIS

The international financial crisis has put the United States and Germany in front of huge challenge. Accompanied by a global downturn, the real economy was soon to suffer the consequences. For Germany, the priority is to strengthen economic growth and protect the labor market. Dependent on the export of products with high added value, the German economy must rely increasingly on skilled workers. During the G-20 Summit in London Germany and France tried to get support of European nations, in an attempt to consolidate a consensus around the proposal of creating and centralized international authority. Led by Germany the European Union draw up a strategy for resolving the banking, economic, financial and social crises that was shaking the global economy. Without being able to define its own strategy to overcome its internal dilemmas, with its integration project stalled, the EU has hesitated to rally in unison before the proposal made by Germany and France. For Berlin and Paris, it is the State's duty to tackle the crisis and restore confidence in financial markets.

If the financial crisis is global, the solution cannot be local. A profound reform of the financial system, even with a worldwide system of administration of foreign exchange rates, would end the so-called "financial casino". If the financial markets had been regulated and controlled, there would be no financial crisis. For Germany, it a "new globalization" would be required. At the G-20 in London, the German proposal should be the main basis for discussion. For the United Nations, the goal of this new globalization would include regulatory measures targeting the financial market, international trade and the monetary system. The central international authority would be responsible for ensuring the proper operation of financial markets in a crisis. The lack of regulation and blind belief in the market would be responsible for the current financial crisis. The exchange rates would no longer be left to the market whims. Currency speculation would be one of the factors that worsened the economic crisis. Governments should set their exchange rates based on reference currencies. Regional monetary agreements would be executed to stabilize them with multilateral supervision. Currencies exchange rate should only be adjusted according to inflation. A code of conduct would be adopted to prevent currency speculation. If a country suffered a speculative attack, the other Central Banks should stop it. To face the international financial crisis, it would be necessary to create

mechanisms to ensure global stability. There's no way to overcome the volatility of the markets without government intervention. The international financial system should undergo a profound change. Speculation had been primarily responsible for the international financial crisis, particularly in the US real estate market. There was a lot of money in circulation. Derivatives were traded anonymously and distributed throughout the world with the aid of information technology. The international financial crisis and the consequent slowdown in economic growth caused the economic crisis. The most important task is to restore confidence in financial markets. Without confidence in the stability of the economy, companies do not invest. Without confidence, banks will not grant credit, and consumers will reduce their consumption. Without confidence, the economy cannot resume growth. This would be the State's main task.

For Germany, the current international financial crisis is the greatest challenge for the world economy in modern times. The crisis has deepened. To overcome it, all countries should unite. Prosperity would be indivisible. The overall recovery plan should fulfill the interests of society; create jobs in both developed and developing countries. The last G-20 Summit in London would celebrate the return to the European model. According to Berlin, this crisis was triggered by an irresponsible speculation in financial markets, particularly the American. The market's invisible hand would have failed. Economics and ethics cannot be dissociated. Global imbalances have been caused by those who lived too long above their own means. At the World Economic Forum in Davos, January 28 to February 1, 2009, Germany proposed a new global order. If there is an economic system that has demonstrated its universal validity, this would be the social market economy. For the social market economy, the major goal is the well-being for all. This system has been implemented in Germany since the end of World War II. With a monetary reform that adopted the German mark as currency, the system enforces a liberal economic order with nuances. There is right to property, free enterprise, but also a wide network of social protection. The State is the chief guardian of the economic order. Press freedom may be restricted when harming the public interest. The excesses of the market are limited by the State.

As a centralized international authority responsible for regulating and controlling, with the assignment of sovereignty, the financial market, Germany has launched the proposal of the Economic Council of the United Nations, based on the model of the Security Council, an institution to fight the international financial crisis. It also proposed that the G-20, with permanent seats for Brazil, China and India, should not limit the Summit to a meeting of the ministers of Finance and Economy, but extend it to heads of State and government, finally overcoming the G-8, which would have lost its rationale for not considering the participation of key developing countries. Following its proposal of hyper-globalization, Germany urged the United States and the UK to transfer some of their own economic and financial sovereignty to supranational institutions. Defending the Stability and Growth Pact (SGP) of the European Union, adopted to prevent irresponsible fiscal policies to have harmful effects on macroeconomic growth and stability, Germany suggested that the US take the example of German fiscal discipline, by setting limits on the national debt. Even before the G-20 Summit in London, the World Economic Forum had approved the return to the European model, with the State assuming a regulating and protective role. The US and UK would

repel liberalism and pre-announce the State's return to economy. Even China would adhere to the social market economy, building a social welfare state. At the World Economic Forum, there was no return to the European model. There was no revolution with the creation of a new global financial architecture. For Germany, the G-20 Summit in London would propose the supranational supervision of financial markets, with a risk warning system for the international economy.

2 FRANCO-GERMAN PROPOSAL FOR OVERCOMING THE INTERNATIONAL FINANCIAL CRISIS AND HYPER-GLOBALIZATION

For Berlin and Paris, each country should contribute to overcome the financial crisis, but it is also important that an international agreement be executed for this purpose. To restore confidence in the financial market, it should be regulated and controlled by supranational institutions. A financial crisis can only be solved internationally. The Franco-German proposal considers the following aspects:

1) An international financial crisis of such exceptional dimensions requires exceptional measures to be resolved.

2) A series of guidelines to must be adopted against the international financial crisis. The bailout of financial institutions should be subordinated bound to a a prior process of international coordination. The current international financial crisis should not recur.

3) We must recognize that the G-8 cannot contribute satisfactorily to resolve the financial crisis. The G-20 should be structured to address more effectively the international cooperation, in which the relevant players would take joint responsibility.

4) Market forces must be viewed according to two approaches. First, there must be room for market forces to develop. They are the main drives of economic growth. So it was before the financial crisis. And it will continue to be after the crisis is overcome. But the excesses of the financial market must be controlled due to lack of awareness of social players. The social market economy would promote both aspects. Its principles are easy to understand. Competition is necessary, but it needs a sense of proportion and social responsibility. This axiom should be agreed upon internationally. Freedom is the necessary precondition for a market economy to flourish. But freedom of the individual must be limited when it jeopardizes the freedom of others. Without state control, financial markets do not respect this basic principle. The social market economy is the third way that is needed internationally, differing from the unbridled capitalism and oppressive communism.

5) We need a stable financial system, internationally interconnected, subject to supranational institutions that take responsibility for the stability of the financial market. The national

States should find a middle term, relinquish, and assign some sovereignty to an international organization to act globally against the international financial crisis. The current international financial structure does not work properly. As a Member State of the European Union, Germany assigned some prerogatives to the EU authority. Germany can receive warnings from the European Commission or be sued in the (European) Court of Justice. Large and small countries have to go through this learning process in a supranational context.

6) To overcome the international financial crisis, the world economy should be open and market forces should not be distorted, which cannot be achieved without international cooperation.

All these items should be considered in the Charter of Sustainable Economy¹ and be binding. The Economic World Council should be created following the steps of the UN Security Council.² World War II with all the devastations and massacres led by Fascism and Nazism encouraged the adoption of the Universal Declaration of Human Rights and the creation of the UN Security Council. As Germany sees it, the international financial crisis will have institutional consequences. Despite the weaknesses and the slowness of the United Nations, it would be the forum with greater legitimacy to coordinate the effort of overcoming the financial crisis. The above aspects of the Franco-German proposal should be debated further by the "five international organizations" - World Bank, International Monetary Fund (IMF), Organisation for Economic Cooperation and Development (OECD), the International Labour Organisation (ILO) and the World Trade Organization (WTO). The standards developed by these international organizations should be brought together in a Codex, a common economic charter.³ These standards would comprise the Regulatory Code regulator, mandatory for the financial market and the world economy, and its implementation overseen by the World Economic Council.

For Germany, the current international financial crisis required a coordinated and determined effort of the major global economic and political players. Industrialized and emerging countries and international organizations should develop a new financial structure. Without international cooperation, no international integration will be possible. The World Bank, IMF, OECD, ILO and WTO could head this cooperation and integration towards a stronger, cleaner and fairer global economy. According to Berlin and Paris, in this process of cooperation and integration, the following axioms must be taken into account:

1) Only the social market economy can ensure a sustainable global growth. Therefore, States and international organizations must adopt rules that can limit the excesses, being ready to confront any future crises in the financial market. The OECD standards related to confronting corruption in corporation board and top management and improving fiscal cooperation can contribute to the drafting of a charter of sustainable economy with universal validity and binding character. ILO's Decent Work Agenda offers significant elements with regard to working conditions. A charter for sustainable economy should also take into consideration the standards of other international organizations, and it may be approved by the G-20.

2) *The G-20 Summit in London should put into practice the Plan of Action adopted at the G-20 Summit in Washington, November 15, 2008, adopting concrete measures to strengthen the international financial architecture. The Action Plan provides for strengthening the IMF and the Financial Stability Forum (FSF) and other international organizations that set the standards.*⁴

3) *Despite the global economic slowdown, all countries are required to reject protectionist measures, and act on behalf of a wider opening of international trade. Freer trade and a more favorable environment for international investments are the best conditions for the resumption of world economic growth.*

4) *The Climate Conference of the United Nations scheduled for this year in Copenhagen must establish the basic principles for the global effort to combat climate change. An array of common knowledge is required to achieve global climate goals based on international responsibility of States. Nature protection should be given greater focus in the international agenda. In this context, there is also an effective integration between the States and international organizations.*

5) *The international financial crisis and global economic slowdown have long-term effects in developing countries. Therefore, it is more important than ever that the international community remain loyal to its objective of combating poverty, and promoting the economic development in poor countries by putting into practice of the Millennium Development Goals (MDGs). The World Bank must contribute with its own resources to finance infrastructural projects for bank capitalization and financing for small and medium companies in developing countries. Only if all regions of the world participate in an atmosphere of economic welfare, with an intensified dialogue worthy of trust between developed and developing countries, there will be international peace.*

The new financial markets architecture needs to be regulated and controlled. At the G-20 Summit in Washington, November 15, 2008, Member States pledged to take concrete measures against the financial crisis. For Germany, these measures should be put into practice immediately and completely under the supervision of the International Monetary Fund (IMF) and the Financial Stability Forum (FSF). Without transparency and accountability on the part of all financial market participants, the world economy stability cannot be restored. All participants, without exception and regardless of their domicile, should be subjected to adequate regulation and control. This applies specifically to private investment companies, including hedge funds, which can trigger a systemic risk. Not only those sectors, but also individual agencies for risk assessment should be subject to mandatory regulation and control.

Foreseeing the future organization of international finance market at the G-20 Summit in London, Germany stated that it would also be necessary to:

1) *Urgently, take effective measures against tax havens and non-cooperative jurisdictions. A sanctioning mechanism should be created as soon as possible, in line with objective criteria, and consonant with the ongoing activities of international organizations. The sanctions should cover any uncooperative procedure relating to the refusal to exchange information on tax evasion.*

2) *Improve cooperation among countries, strengthening international organizations. International organizations should play an important role in the current international financial crisis. Developing countries must assume a stronger role on the international scene, strengthening the global demand, protecting the poor who live in their territory. International organizations should be provided with sufficient resources to help these countries confront this challenge. Developed countries should provide resources for the benefit of developing countries.*

3) *Adopt principles regarding payments executives, avoiding bonuses that induce excessive risk. Financial institutions need to adopt transparent incentive systems that encourage long-term sustainable results. The Financial Stability Forum (FSF) must coordinate the drafting of such principles.*

4) *Control the international financial crisis without causing distortions in competition. Several governments and banking institutions have adopted measures to stabilize the financial market. However, the situation remains critical, and financial market confidence was not restored. Only financial institutions with systemic relevance should be assisted. Thus, the risks that affect the financial market are restricted. Common standards are required within the EU to discipline high risk assets.*

5) *Develop an international financial crises warning system in close cooperation with the International Monetary Fund (IMF) and the Financial Stability Forum (FSF) to prevent future financial crises; for that purpose, the adoption of a financial market-specific regulatory regime is required.*

6) *Enter into agreement to execute a charter of principles to regulate finances⁵ towards developing a sustainable economy charter, recognizing the need to strengthen the international financial market.*

7) *Encourage financial market stability, mitigating the consequences of its instability in the real economy. To do so, we must adopt reforms that encourage banks to create funds to be allocated to amortize assets in times of crisis. The Financial Stability Forum (FSF) and the Committee on Banking Supervision should submit recommendations in this regard as soon as possible.*

8) *Ensure a sustainable economic policy, with strong state finances. National states and international organizations must join efforts to facilitate the development of a stable economic and social environment internationally, limiting the market economy excesses, with a global regulatory framework in consonance with the Charter of Sustainable Economy.*

9) *Establish supervisory groups⁶ in all countries to ensure the correct functioning of financial institutions, increasing international cooperation in this sector as soon as possible.*

The European Union would be aware of their mission. For Germany, European economic growth could not occur without the integration of the continent. This is the foundation for the welfare and growth in Europe. Each Member State of the EU markets more with the other Member States than all other countries that are not part of the EU. Overcoming the international financial crisis requires regulation and control of the financial market, the establishment of a supranational structure headed by the World Economic Council, and the development of charter of sustainable economy. The development of a sustainable economy requires the adoption of coherent principles to prevent the international community from living beyond their means, making use of resources that cannot be regenerated. Only when the international community takes sustainable economy as a fundamental principle, new international financial crises can be avoided. As a protector of the order, States must cooperate mutually, accepting that the World Economic Council will regulate and control the financial market. Nowhere in the world, should financial market players and products be unregulated and uncontrolled by the World Economic Council. Nowhere in the world, should the bonuses paid to executives be used for short-term gains, but for the long-term success of their companies.

No country should confront the international financial crisis individually. The world economy should be subject to a supranational institution with the power to regulate and control the financial market. Between capitalism and communism, the third way would definitely be the social market economy. The whole world should adopt a social market economy. Without a global economic council, without mandatory rules, the current financial and economic crisis will not be effectively overcome. A stable international financial system that operates with transparency is needed, but there is not any functional economic or international financial architecture. Without a functional international financial and economic architecture, there is no freedom or social justice within a context of sustainable growth. The standards of various international organizations should be standardized, making it mandatory for all States with the adoption of a charter of sustainable economy also addressing ethical principles geared to the financial market. It would be run by the World Economic Council, the international supervisory board of this market. States should give up their sovereignty in regulating and controlling financial markets. The institutional model would be the one of the European Union. The crisis cannot serve as an obstacle to globalization, encouraging the adoption of nationwide solutions. The national State did not manage to prevent the emergence of the international financial crisis. Its role in regulating and controlling the financial market needs to be redefined. A key factor in the international financial

crisis were the major imbalances in the current account balance among the major economies. We would have to adopt a mandatory political mechanism to eliminate these imbalances so that they do not continue indefinitely. Financial markets should operate according to a common ethos, with values shared by all stakeholders, where failure to abide by it would necessarily be subject to sanction by the entire international community. The core principle underpinning this ethos would be Kant's categorical imperative.

The Bretton Woods Agreements established the core principles of a world economic order based on the market economy for the postwar period, promoting an atmosphere of trust and welfare in industrialized countries. Assisting the flow of foreign capital into Germany, they stimulated the reconstruction of one of the world's most successful export economies. The dimensions of the current international financial crisis would require a new Bretton Woods, the Bretton Woods Agreements II. The G-20, with the participation of Brazil, China and India, would be the ideal locus for the adoption of the Bretton Woods Agreements II. For Berlin and Paris, those responsible for the international financial crisis are in capitals and financial centers of developed countries. Risk rating agencies, analysts, supervisors, advisors, governments, financial institutions. Market and State representatives. For the market economy to continue to be seen as a value in itself, all those responsible for the crisis should take responsibility. For Germany, it would not be possible to purely providing a quick fix to the current situation to return to the old status quo. One would have to seek innovations with the renewal of the international financial architecture.

3 STATEMENT OF THE G-20 SUMMIT IN LONDON AND PROLIFERATION OF REGULATORY REGIMES

In the G-20 Summit in Washington, on November 15, 2008, Member States of the G-20 pledged to adopt a new world financial order to prevent a repeat of the current international financial crisis. At the last G-20 Summit in London, concrete measures were expected to stabilize the financial market, promoting sustained economic growth. There was consensus on the renewal of the international financial architecture. The U.S. and the UK, traditionally refractory to the transfer of sovereignty, did not join the Franco-German proposal. The G-20 has not established a world regulatory and controlling agency, a global watchdog for the financial market. The World Economic Council was not positively welcome. On the contrary, rather than embarking on the path of hyperglobalization, on the third way, on the social market economy, the proliferation of regulatory regimes, the market economy, was the preferred way. Not a binding charter of sustainable economy, cogently unifying the standards of international organizations, but recommendations from relevant international organizations such as the International Monetary Fund (IMF) and the Financial Stability Forum (FSF). These standards will not be adopted by any supranational institution. These will be adopted and implemented by nation States.

In the G-20 Summit in London, the transcendent importance of the current international financial crisis was not underestimated. "We face the biggest challenge to the world economy of

modern times; a crisis that has deepened since we last met, which affects the lives of men, women and children in any country, and which all countries should join together to resolve. A global crisis requires a global solution”.⁷ The market economy, not the social market economy, is the fundamental principle that must not be reformed. It would neither be an impediment to control and regulate the financial market, nor to strengthen the international financial architecture. “[...] We believe that the only safe foundation for a sustainable globalization and a rising prosperity for all is an open world economy based on market principles, effectively regulated, with strong global institutions”.⁸ Only with a “stronger supervision and regulation model” is able to solve the international financial crisis. “Significant imperfections in the financial sector and in the financial supervision and regulation were the root causes of the crisis. The trust will not be restored until we regain security within our financial system. We will take actions to build a stronger model of supervision and regulation, one which is more globally consistent for the financial sector of the future, which will support the global sustainable growth and meet the needs of commerce and citizens”.⁹ There is no doubt that the financial market needs “internationally agreed standards,” but they will not become the codex of the Economic World envisioned by Germany. “Each of us agrees to ensure that our domestic regulatory systems are strong. But we also agree to establish a more consistent and systematic cooperation between countries, and the structure of high standards internationally agreed that a global financial system requires. Strengthened regulation and supervision should promote prosperity, integrity and transparency; protect against the risk in the financial system; limit rather than expand the financial and economic cycle; reduce reliance on inappropriately risky funding sources; and discourage excessive risk taking. Regulators and supervisors should protect consumers and investors, support market discipline, avoid adverse impacts on other countries, reduce the scope of regulatory arbitrage, support competition and dynamism, and keep up-to-date with innovations at the workplace”.¹⁰

The last G-20 Summit in London produced a proliferation of regulatory regimes. Washington’s Action Plan was adopted, as agreed in the previous G-20 Summit, but not as desired by Germany and France. For the G-20, the main measures to tackle the financial crisis are:

- 1) Establish the Financial Stability Board (FSB) as successor to the Financial Stability Forum (FSF).
- 2) The FSB should cooperate with the International Monetary Fund (IMF) to build an early warning system for macroeconomic and financial crises.
- 3) Redo the regulatory systems in order to identify and take action against macro-prudential risks.
- 4) Increase the regulation and supervision of all major financial institutions, including hedge funds.

- 5) *Improve the banking system, avoiding excessive leverage.*
- 6) *Take measures against non-cooperative jurisdictions, including tax havens.*
- 7) *Establish global accounting standards of high quality.*
- 8) *Extend regulatory oversight to risk rating agencies.*¹¹

The Franco-German proposal of hyperglobalization was not approved. These measures may encourage a more stable international financial architecture, with the proliferation of regulatory regimes. At least, there was an international consensus about the need for greater transparency in financial markets. But this consensus does not necessarily result in a more cooperative and less competitive world order. The principle that property rights are the fundamental prerequisite for economic and social development was victorious. For the social market economy, there are other axioms that must be taken into account. There should be cooperation between State and private enterprise, the balance between freedom and responsibility, between competition and social compensation. For the social market economy, property rights must be protected as much as the social welfare.

CONCLUSION

For Berlin and Paris, the financial market reform should be geared to the pursuit of universal solidarity, based on an alliance of cultures underpinned by common values. Paradoxically, this may put into question the supposedly universal principles of each culture. Universalism is always challenged by particularism. The difficulties in the process of westernization of the world show that universalism often lies in the relationship between cultures, in the differences between cultures rather than in the similarities between them. An alliance between cultures must learn to process these differences. The important thing is to focus on discussing issues that could produce a common universal framework to the whole humankind, a consensual and rational alliance of conscious cultures.

One of the goals within the European Union is to provide it with an early warning system for financial crises. The current model of supervision should be reviewed. The new system should work from 2012 to prevent a new international financial crisis from affecting the economic growth of the respective Member States. Three new European authorities responsible for supervision of banks, insurers and stock exchanges should be created. National supervisory authorities will remain responsible for the financial market as a whole, but there will be supervising boards to monitor specifically the major international financial institutions. It also proposes creating a new body, the European Systemic Risk Council, headed by the President of the European Central Bank, responsible for ensuring financial stability in Europe. This council will issue mandatory alerts when the European financial stability is threatened. The current paradigm in which the

national supervisory authorities have exclusive jurisdiction in their respective territories will be replaced by one in which these will be coordinated supranationally. European councils overseeing banks, insurers and stock exchanges will have influence over their national counterparts. The latter will be subject to the former. It will be necessary to develop a harmonized European law of financial market regulation and control. The leaders of the European supervisory boards, whose decisions must be cogent, may also mediate conflicts among national counterparts, will be independent in performing their duties, such as the president of the European Central Bank for a term of eight years. These councils will receive support from the European Commission, European Council and Parliament to meet their goals.

The European model of social market economy can promote a more beneficial globalization to the world. But one should not overlook that the EU experiences a period of crisis, hesitating over the possibility of deepening its own integration process. Elections to the European Parliament have historically been marked by a high and growing level of abstention.

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NOTES

- 1 *Charta des nachhaltigen Wirtschaftens.*
- 2 *Weltwirtschaftsrat.*
- 3 *Charta des gemeinsamen Wirtschaftens.*
- 4 *Washington's Action Plan, the Action Plan to Implement the Principles for Reform, sets out five principles for the financial market reform. They are: strengthen the responsibility and accountability, improve solid regulation, promote the integrity of financial markets, strengthen international cooperation and reform the international financial institutions.*
- 5 *Charta von Grundsätzen für die Finanzregulierung.*
- 6 *Aufsichtskollegien.*
- 7 *Declaration of the Leaders in the London Summit, April 2, 2009, item 2: "We face the greatest challenge to the world economy in modern times; a crisis which has deepened since we last met, which affects the lives of women, men, and children in every country, and which all countries must join together to resolve. A global crisis requires a global solution".*
- 8 *Declaration of the Leaders in the London Summit, April 2, 2009, item 3: "[...] We believe that the only sure foundation for sustainable globalisation and rising prosperity for all is an open world economy based on market principles, effective regulation, and strong global institutions".*
- 9 *Declaration of the Leaders in the London Summit, April 2, 2009, item 13: "Major failures in the financial sector and in financial regulation and supervision were fundamental causes of the crisis. Confidence will not be restored until we rebuild trust in our*

financial system. We will take action to build a stronger, more globally consistent, supervisory and regulatory framework for the future financial sector, which will support sustainable global growth and serve the needs of business and citizens”.

10 Declaration of the Leaders in the London Summit, April 2, 2009, item 14: “We each agree to ensure our domestic regulatory systems are strong. But we also agree to establish the much greater consistency and systematic cooperation between countries, and the framework of internationally agreed high standards, that a global financial system requires. Strengthened regulation and supervision must promote propriety, integrity and transparency; guard against risk across the financial system; dampen rather than amplify the financial and economic cycle; reduce reliance on inappropriately risky sources of financing; and discourage excessive risk-taking. Regulators and supervisors must protect consumers and investors, support market discipline, avoid adverse impacts on other countries, reduce the scope for regulatory arbitrage, support competition and dynamism, and keep pace with innovation in the marketplace”.

11 Declaration of the Leaders in the London Summit, April 2, 2009, item 15: “To this end we are implementing the Action Plan agreed at our last meeting, as set out in the attached progress report. We have today also issued a Declaration, Strengthening the Financial System. In particular we agree: - to establish a new Financial Stability Board (FSB) with a strengthened mandate, as a successor to the Financial Stability Forum (FSF), including all G20 countries, FSF members, Spain, and the European Commission; - that the FSB should collaborate with the IMF to provide early warning of macroeconomic and financial risks and the actions needed to address them; - to reshape our regulatory systems so that our authorities are able to identify and take account of macro-prudential risks; - to extend regulation and oversight to all systemically important financial institutions, instruments and markets. This will include, for the first time, systemically important hedge funds; - to endorse and implement the FSF’s tough new principles on pay and compensation and to support sustainable compensation schemes and the corporate social responsibility of all firms; - to take action, once recovery is assured, to improve the quality, quantity, and international consistency of capital in the banking system. In future, regulation must prevent excessive leverage and require buffers of resources to be built up in good times; - to take action against non-cooperative jurisdictions, including tax havens. We stand ready to deploy sanctions to protect our public finances and financial systems. The era of banking secrecy is over. We note that the OECD has today published a list of countries assessed by the Global Forum against the international standard for exchange of tax information; - to call on the accounting standard setters to work urgently with supervisors and regulators to improve standards on valuation and provisioning and achieve a single set of high-quality global accounting standards; and - to extend regulatory oversight and registration to Credit Rating Agencies to ensure they meet the international code of good practice, particularly to prevent unacceptable conflicts of interest”.

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