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JUST INTERNATIONAL MONETARY ARRANGEMENTS

SANJAY G. REDDY

The existence of money and credit is an integral and probably unavoidable feature of complex, modern societies. How money and credit are supplied, how much, to whom, and when has significant implications for the nature, quantity, and distribution of goods and services produced and consumed. This fact has made money and credit subjects of enduring and central interest for economists. The frequent occurrence of currency crises—recently (in the late 1990s) in East Asia, Latin America, and Russia—and their dramatic social consequences have also made money and monetary institutions focal points for activists and policy-makers. Yet despite the acknowledged centrality of monetary arrangements in modern economies, they have received surprisingly little attention from philosophers concerned with distributive justice, whether in the national or the global context. I define monetary arrangements here broadly as the accustomed practices and rules governing the creation, distribution, and management of money and credit. Rather, monetary decisions can have real effects on the level and distribution of advantages. There is therefore a need to integrate considerations related to money and credit into a fully adequate and practically relevant account of international distributive justice.

The lack of attention of philosophers to monetary arrangements reflects the preference of recent philosophical discourse to focus on the normative justifications for specific distributions of advantage (resources, freedom, or well-being) rather than on the details of the institutional arrangements that produce these distributions (see, e.g., Dworkin 1981, 185–243; Sen 1992). It also reflects the need to possess a degree of specialized knowledge of economic facts and reasoning, which can appear difficult to gain.

Since monetary arrangements can play a role in the “basic structure” that determines distributions of advantage, it may be important to assess how they should be designed in identifying the form of just international institutions. Any discussion of the requirements of international distributive justice other than the most abstract must address such institutional questions. Lack of attention to the specificities of economic institutions can have severe consequences in terms of the realism and applicability of theories of distributive justice.

An adequate account of how international monetary institutions should be structured would depend on the conception of international distributive justice that governs the assessment of institutions. I will not defend a highly specific conception of international distributive justice here but instead will assume the acceptance of some form of global egalitarianism—a doctrine that, broadly put, improvement in the level of advantage of less-advantaged individuals is to be pursued as an important goal (possibly one among many), regardless of where these individuals live. The advantage of individuals may be understood in terms of resources, well-being, or freedoms. Global egalitarianism, as employed here, is a weak doctrine, as it does not require a commitment to strict equality, or even a concern for *relative* inequalities as such. Moreover, it does not demand that improving the circumstances of the less advantaged should take a specific degree of precedence over improving the circumstances of the more advantaged. The doctrine as defined here demands merely that the former goal should be held to be “important,” a criterion that is chosen to be deliberately vague. Global egalitarianism can be consistent with, but is different from, both prioritarian views (which stress the importance of improving the condition of the worst off without being committed to diminishing relative inequalities) and sufficientarian views (which stress the importance of ensuring that persons achieve an adequate minimum level of advantages). I adopt this broad position in order to show that even weak normative positions which give some weight to the interests of the globally less advantaged may plausibly require significant reforms in the international monetary system. The empirical arguments that I will examine might also be used to show that doctrines outside the global egalitarian family of views, such as those that stress the importance of purely procedural values, like avoiding injury to others, also carry strong implications for the reform of current institutional arrangements. However, my focus will not primarily be on implications of this kind.

I will explore below the kinds of reasoning that global egalitarians should undertake when assessing monetary arrangements. It may, of course, be easier to agree that existing monetary arrangements fail to satisfy fully the requirements of justice than to agree upon the institutions that should be adopted in their place. Judgments concerning how the justice of institutions may be enhanced are likely to be influenced by practical assessments of what institutions are feasible as well as by the specificities of the conception of justice adopted as a guide to moral judgment.¹ Although I will not advocate any specific reform proposal, I will attempt to show that global egalitarians should be critical of

¹ Proponents of alternative conceptions of justice may differ on the shape of fully just institutions and yet form an overlapping consensus as to specific ways in which existing institutions may be incrementally more just.

existing international monetary arrangements, and be vigorous and imaginative in their pursuit of alternatives that enhance international distributive justice.

My focus here is on the "middle range" of normative arguments regarding international distributive justice which lies between abstract considerations about the nature and extent of the claims that we may make upon one another, on the one hand, and the concrete ethical dilemmas faced by individuals in everyday life that arise when existing institutions are taken as given, on the other. This is therefore an exercise in realistically utopian reasoning. Existing monetary arrangements are extremely diverse and complex. To add to the challenge of taking adequate note of this diversity and complexity, normative reasoning must consider possible alternatives to existing institutions. Therefore such reasoning is necessarily partially speculative, in the sense that it must extend beyond empirical observations and be informed by imaginative reasoning.

Monetary Arrangements in the World Economy

The world is divided into multiple currency zones, frequently coextensive with nation-states. Monies are typically issued by states, which also often regulate private and public financial transactions and commitments involving the exchange of money and the creation and discharge of credit obligations. Markets for money and credit have an international as well as a national dimension: flows of money and credit take place across borders. These flows have significant implications of interest to global egalitarians.

There are at least three categories of questions concerning money and credit that can be raised in the international context. These questions, relating respectively to money supply, exchange rates, and debts, exemplify rather than exhaust the dilemmas that arise with regard to international monetary arrangements. First, who should have control over key monetary decisions, such as how much, and on what terms, money and credit are being supplied within each monetary zone? Should this control belong to the citizens of a given monetary zone or their representatives alone? How should the benefits arising from the ability to create money be distributed internationally? Second, should the stability of exchange rates be a goal and, if so, how should the responsibility for maintaining stability be apportioned? When adjustment of exchange rates is required, who should bear the burdens associated with such adjustment? Third, what arrangements should govern the accumulation and discharge of debts in the international setting? In what respects should debts contracted by states be governed by different rules than debts contracted by private agents? What forms of conditionality may be imposed by creditors, such as international institutions, governments, or private

lenders, as part of a just framework of international borrowing and repayment?

Control over Monetary Decisions

Decisions taken by the government or, often, the central bank of a state can have significant external effects that are felt by populations beyond that state's borders. These can operate through various channels, from their impact on the exchange rate between countries, and thereby on relative prices, affecting the pattern of trade and capital flows, to their effect on the cost of borrowing in the world at large.

The substantial external effects of monetary decisions can generate obligations to take into account the concerns of non-citizens or justify claims on the part of non-citizens that they be consulted about, or included in the making of, the decisions. These obligations and claims are likely to be especially strong when the globally disadvantaged are adversely affected by these monetary decisions.

A significant case of the international externalities associated with national monetary policy is that of the developing country debt crisis that emerged dramatically in the early 1980s and that has continued for a number of countries in chronic form to this day. It is widely agreed that one of the main reasons for the emergence of the debt crisis was the sharp rise in world real interest rates that occurred in that period primarily as a result of the simultaneous tightening of U.S. monetary policy, itself a response to the domestic inflationary circumstances of the late 1970s, and expansion in U.S. government expenditures as a response to the domestic recession of the early 1980s (see, e.g., James 1996). Since the major world markets for loanable funds are closely linked, the rise in U.S. real interest rates influenced the cost of borrowing in the world as a whole. This rise in world real interest rates made it difficult for many countries with large debt stocks to maintain solvency. The social and economic costs that arose from the decrease in public and private investment and social expenditure that resulted from monetary contraction, fiscal retrenchment, and policy reorientation in these countries are by now well known (see, famously, Cornia, Jolly, and Stewart 1987). It is difficult to establish that the rise in world real interest rates was the decisive factor in the debt crisis. It is possible that in the absence of the crisis many of the countries concerned would have eventually faced problems of insolvency. However, it is clear at the very least that the timing and scale of the debt crisis were linked to the rise in world real interest rates. The developing country debt crisis was an unintended consequence of U.S. monetary policy. When it was confronted at a late stage as an independently important policy issue, it was primarily because of the threat that the debt crisis posed to the stability of the world economic system as a whole (James 1996).

The causal mechanism underlying the debt crisis was a special case of a more general one, which is that the supply of the main global currencies significantly determines the global supply of loanable funds, or liquidity, and thereby the cost of borrowing in the world market, which has an impact on individual countries in more than one way. First, as countries typically possess a stock of debt that is continuously rolled over, increases in the cost of borrowing influence the cost of repayment, and thereby the resources remaining to countries after their debt service obligations have been met, as well as countries' capacity for debt repayment. Second, the cost of borrowing influences the level of domestic income. For instance, an increase in the cost of borrowing in the global market can discourage investment and consumption, which can lower domestic income and diminish growth. This can happen because the cost of borrowing in domestic capital markets is linked to the cost of borrowing in global capital markets, as foreign borrowing and domestic borrowing act as partial substitutes from the point of view of the government or private agents permitted to borrow abroad, or because the cost of borrowing in global capital markets influences the level of economic activity outside a country, and thereby the demand for goods from as well as the supply of investment funds to it. Of course, these linkages may be of diverse kinds. It is certainly possible that investment inflows to a country may increase as a result of the slowing of economic activity elsewhere. However, insofar as the foreign investors' animal spirits—Keynes's famous description of the psychological dispositions that influence investment—to any given country are determined primarily by the global level of economic activity, that is unlikely to be true. The cost of borrowing may also have an impact on the level of economic activity through the indirect influence that it exerts on the balance of payments of a country and thereby its exchange rate, which in turn has effects on the level and distribution of incomes within a country.

These forms of dependence on the world credit market, and thereby on other countries' monetary policy decisions, are faced to some extent by all countries. However, developing countries experience them in the most acute way, due to their often heavy indebtedness, their dependence on imported capital to finance investment, their vulnerability to fluctuations in export earnings and import costs, which is related to their dependence on primary commodity exports and weak manufacturing capabilities, and their insignificant role in determining world real interest rates because of the small size of their economies.

Capital-scarce developing countries can suffer great costs to their development programs as a result of high costs of capital. For this reason a recurrent feature of North-South debates over the last three decades has been the call by developing countries for fresh infusions of loanable funds to the global system, and for increases in the quantity of loanable funds to which developing countries have access. In particular, develop-

ing countries have regularly called for increases in the quantity of funds available to be borrowed at lower rates through the International Development Agency—the concessionary lending facility of the World Bank—and other official lenders as well as for new issues of Special Drawing Rights, the hard currency line of credit available to member countries of the International Monetary Fund (see, e.g., James 1996; Ezekiel 1998; Soros 2002). Developing countries typically have a bias toward liquidity in the world system as a result of their developmental needs for capital and the structural constraints which make it difficult to meet these needs for capital purely from internal sources. In contrast, developed countries may have a bias against liquidity which derives from the desire to combat inflation.

Decisions that affect world real interest rates and credit availability are unlikely to be those that are in the best interests of developing countries, or even that are efficient from a global point of view, simply because they are not made with those goals in mind. As one author has noted:

That a monetary system in which a substantial part of world liquidity is met by the accumulation of the short-term obligations of one or a few reserve-currency countries cannot be considered efficient has been pointed out by Robert Triffin in several of his writings. Such a monetary system is . . . highly dependent on the decisions of a few individual countries. Unfortunately, excessive concern with the liquidity requirements of the world monetary system has led many economists to ignore . . . 'the highly erratic and unpredictable factor' arising from the dependence on a few individual countries for the creation and acceptance of world liquidity. (Gulati 1980, 15)

There is a strong case to be made from the standpoint of global distributive justice that southern interests should be considered when monetary policy decisions that significantly influence global costs of capital and global levels of economic activity are made. Global egalitarians will agree that this is so to the extent that the external effects of key monetary policy decisions can worsen the life chances of disadvantaged individuals in the world. Even those who do not focus on the consequentialist considerations of interest to global egalitarians but subscribe to other moral principles, such as that of refraining from causing significant harms, may also see the merit of this view.

One way to ensure that southern interests are adequately considered is to provide for some form of joint consultation, or even joint decision-making. There are currently a number of groupings of countries, such as the G-20, and, within the Bretton Woods structure, the Development Committee and the International Monetary and Financial Committee, drawn jointly from the North and South, that take the role of monitoring global economic developments and making policy recommendations. However, their influence over the world economy is minor in comparison with that of groupings such as the G-8 that represent the rich countries

alone. The calls for a Global Economic Security Council that would have a more substantive role reflect a somewhat more significant step in this direction (see, e.g., Commission on Global Governance 1995). Nevertheless, as long as monetary authorities in the rich countries act with substantial independence even of their own governments and are mandated to further the economic self-interest of their own citizens alone, these measures are unlikely to have any discernible impact.

Another important monetary externality with which developing countries are faced occurs because the main reserve currencies in the world belong to rich countries. All countries must attempt to accumulate and maintain some amount of internationally accepted means of payment in order to facilitate external trade and payments and to defend the value of their own currency. In addition to gold, the main internationally accepted means of payment are the currencies of a select number of countries, which, due to their economic prosperity and political stability, are trusted to maintain their value and viability as means of payment. In the postwar era, the currency that has had unquestioned predominance as a reserve unit has been the U.S. dollar.

An important issue of international distributive justice that arises in relation to the role of the U.S. dollar and other currencies of rich countries as reserves is that the benefits arising from their creation accrue largely to the countries that produce them. These benefits are of diverse kinds. Reserve-issuing countries gain seignorage, or the revenue that emerges from the creation of money. In addition, they face less stringent balance-of-payments constraints than countries that rely on others to issue reserves. When running a balance-of-payments deficit, reserve-issuing countries can rely on foreign demand to absorb the net injections of their currencies abroad. The elastic foreign demand for reserve currencies permits the countries that produce them—at present most notably the United States—to generate balance-of-payments deficits representing a net transfer of resources from other countries without facing disciplines in the form of depreciating currency and rising costs of borrowing comparable to those faced by others.

An important distributional consequence of the world demand for a reserve currency is that it leads to the ability of the reserve-producing country to command current goods and services from abroad or assets that represent claims on future goods and services, in return for the issuance of the reserve currency. This leads to a regressive transfer of resources from the developing countries to the developed ones, insofar as the former are forced to hold the currencies of the latter as internationally acceptable reserves: "By allowing the national currencies of one or two countries to perform the reserve-currency role, the world monetary system is clearly allowing the reserve-currency countries to become net recipients of current resources or to gain command over future resources from the rest of the world" (Gulati 1980, 15). The amounts involved are

sizable. At the end of 2001, \$1.25 trillion worth of official foreign exchange reserves alone were held by major nonindustrial countries. Moreover, on average more than 75 percent of official foreign exchange reserves were held in the form of U.S. dollars.² In addition, specific reserve currencies are used outside the reserve-issuing country, as the U.S. dollar is in relation to a range of international markets such as the oil market, and within countries that have undertaken dollarization, such as Ecuador and El Salvador. This expands the zone within which the reserve currency is required to facilitate transactions and the ability of the reserve-producing country to issue new currency, gain seignorage, perhaps at the expense of other countries, and issue debt without incurring exchange rate depreciation or increases in the cost of borrowing comparable to those that would be otherwise experienced.

A possible response to the regressive transfer implicit in the uneven possession of the reserve-creating privilege is to provide compensatory transfers of resources that implicitly or explicitly share the advantages resulting from this privilege. A more imaginative alternative may be, as advocated by Gulati, to create new reserve assets backed by goods such as primary commodities that are in the possession of developing countries.

The Stability of Exchange Rates

The stability and, at least, the orderly adjustment of exchange rates have long been considered important goals for the international monetary system. A major reason for upholding these goals has been the belief that a stable monetary system is likely to lead to greater predictability of the business environment and, consequently, a more rapid expansion of trade and investment with a resulting increase in national and world income growth. Stability of exchange rates is also associated with stability of prices at the national level, which is perceived to have analogous benefits.

Under the postwar Bretton Woods system, which lasted through the early 1970s, the stability of exchange rates was maintained through countries' commitment to maintain agreed par values, or fixed exchange rates with respect to the U.S. dollar, except in special circumstances, as determined by the International Monetary Fund (IMF). The maintenance of par values was pursued as a goal partially in response to the perception that in the interwar period competitive devaluations had been a major destabilizing factor that had led to the collapse of open trade and contributed to the Great Depression. The Bretton Woods system in contrast sought to create the stable institutional conditions within which trade could expand without this threat.

² For these figures, see Bank for International Settlements 2002, 82. Gulati 1980 shows that the amounts involved in the 1970s were very substantial.

However, the Bretton Woods system gave the entire responsibility for adjustment of payments imbalances to countries running deficits. This meant that a country experiencing persistent deficits as a result of an overvalued exchange rate would be required to reduce them through devaluation, restrictions on capital outflows and imports, and other, possibly painful, changes to its policy regime. Surplus countries, in particular the United States, bore no responsibility for modifying their policies. This detail was of special concern to the United Kingdom, which foresaw during the negotiations that led to the Bretton Woods system that it would run persistent balance-of-payments deficits as a result of its weak industrial position, its substantial foreign liabilities, and the demands of reconstruction in the aftermath of the war. It fought hard to have included in the Articles of Agreement of the IMF a clause requiring surplus countries to bear some of the burden of adjustment. This clause has never been invoked in practice, however. Under the more flexible exchange rate system—more accurately described as a “non-system” since each country is free to manage exchange rates in its own way—that has followed the collapse of the Bretton Woods fixed exchange rate regime in the early 1970s, the governing principle has been that deficit countries must bear the burden of adjustment. Only a few cases are exceptions, such as the bilateral relationship between Japan and the United States, in which the former has taken substantial de facto responsibility for reducing its surplus.

The principle that deficit countries should bear the burden of adjustment is of substantial interest from the standpoint of distributive justice. In one view, persistent deficits result from irresponsible overspending of resources by countries, and as a result primary responsibility for remedying deficits must rest with them. There is also a contrary view, however. The principle that deficit countries ought to bear the burden of adjustment may be questioned on the grounds that some deficits are the consequence of factors that are in the control of countries only to a limited extent. Many poorer countries may be at greater risk of recurrent and unsustainable balance-of-payments deficits than richer countries regardless of how responsibly they manage their macroeconomic policies. This is partly because they are more likely to be dependent on a small range of commodity exports, the values of which are fluctuating, making a bad run that causes depletion of foreign exchange reserves more likely. Moreover, structural deficits can be generated by the progress of development itself, which can require net importation and borrowing. For instance, imports of capital goods are required in order to invest in facilities and initiate production. As a result of their already weak balance-of-payments position, many developing countries are exceptionally vulnerable to increases in their import bill, as evidenced by the experience of the oil-importing developing countries during various oil price shocks. Finally, the fiscal discipline required to maintain a balance-

of-payments equilibrium may be much more costly in human terms at low levels of income than at high levels. One can think here, for example, of the large bills for importation of staple foods of some poor countries that have specialized in nonstaple food crops or that have weak or variable agricultural capabilities. In these cases, fiscal “indiscipline” might arise from the necessity to fulfill human needs. This is not an argument for overlooking irresponsibility, but rather for taking note that balance-of-payments deficits often do not result from it.

Poorer countries disproportionately suffer from balance-of-payments deficits caused by factors beyond their control. Moreover, the human costs of balance-of-payments adjustment in poor countries can be severe. Egalitarians ought therefore to favor principles by which some of the burden of adjustment is taken up by surplus countries, at least under some circumstances. The Oil Facility created at the IMF in the 1970s to enable poor countries to meet the rapidly rising cost of oil imports is an instance of the acceptance of a shared responsibility for balance-of-payments adjustment, which emerged from the recognition that oil-importing poor countries’ balance-of-payments deficits in this period were caused by factors beyond their control. A more general example is the IMF’s Compensatory and Contingency Financing Facility, which exists to provide emergency finance to help countries cope with certain unanticipated external shocks, such as changes in export prices or increases in the cost of cereal imports. However, although these facilities provide a partial cushion for the effect of exogenous shocks by allowing the distribution of their burden over time through permitting countries to borrow, they do little to share this burden across countries. Global egalitarians should favor both an approach to the management of the international economy that diminishes the adverse external shocks to which poor countries are subject and a fuller sharing of the burden.

In the post-Bretton Woods regime, as often volatile private capital flows have become increasingly sizable and have begun to dwarf public resources, a new issue has arisen of how to manage exchange rates in the presence of these flows (Bordo, Eichengreen, and Irwin 1999). Significant issues of distributive justice arise in this regard that have been discussed relatively little. In particular, exchange rates may vary substantially over time as a result of changes in private agents’ expectations and sentiments even when the underlying features of the real economy do not change. In such circumstances it may be difficult to maintain exchange rates within a given range, even if there is an extensive commitment of governmental resources to intervene in the market. There is the possibility that there is a fundamental indeterminacy in market-determined exchange rates—that is, under the same circumstances, there are different possible exchange rate values that depend only on investors’ sentiments (Furman and Stiglitz 1999; Stiglitz 1998). Exchange rates have substantial implications for rates of return to business activities, the allocation of resources across

sectors of an economy, and the cost of essential commodities. Fluctuations in exchange rates that correspond to changes in investors' sentiments rather than changes in underlying market fundamentals raise issues of distributive justice because the prime beneficiaries of the ability to undertake large and speculative international capital flows may be different from those who bear most of the cost of market volatility and adverse outcomes, notably including the global poor.

Instructive examples in this regard are provided by the East Asian financial crises of the late 1990s. In a number of these crises, exchange rates proved unsustainable as private market agents sought to liquidate the domestic assets they held. These crises may have had an element of self-fulfilling expectations (see, e.g., Stiglitz 2002). Prior to these crises, high levels of domestic and foreign investor and creditor confidence led to a robust inflow of funds that supported the value of domestic assets. Highly priced domestic assets were often used as collateral to back debts, which were sometimes denominated in foreign currencies. The asset values were high enough to offer creditors the confidence to hold the debt. Conversely, diminished asset values led to diminished investor and creditor confidence that brought about a diminished flow of funds to asset markets and reinforced the lower values for the assets. Because many of these assets had been used as collateral, their collapse led in turn to a weakened banking system and diminished credit availability that harmed the productive, as well as the speculative, economy. Although this process, typical of scenarios in which asset bubbles arise, may not have been entirely driven by the expectations of foreign capital holders, its rapidity and size were undoubtedly accentuated by them because of the impact of their large inflows and withdrawals of capital on exchange rates and asset values.

The movement from high to low levels of creditor and investor confidence had a significant social as well as economic cost. In particular, the sharp deterioration of asset values, depreciation of exchange rates, and diminished availability of credit in the countries affected by financial crises caused bankruptcies of domestic firms and sharply higher prices for a variety of essential commodities such as imported foodstuffs and pharmaceuticals, which had significant consequent effects on consumers. Dramatic scenes of massive reverse migration from cities to rural areas in countries such as Indonesia testified to the depth of the crisis. The possibility that an arbitrary shift in international private agents' sentiments led to massive adverse social consequences in poor countries offers cause for concern.³ If it is also true that free capital mobility offered its benefits primarily to private agents in rich and poor countries who were

³ For instance, Das and Mohapatra 2002 report evidence that stock market liberalization in developing countries typically resulted in income share growth for the top quintile of the income distribution and income share reduction for the middle three quintiles.

well insulated from the human costs of the crises, then the system's distribution of risks and rewards may appear to global egalitarians to be unjust.

There are substantial demands upon empirical inference involved here. If something like this empirical account is the right one, then in a regime of free capital mobility, egalitarians may wish to argue for some international resource transfers that would reduce the social costs of these fluctuations. Egalitarians may also wish to argue for modifications to the rules that govern global capital flows, such as the Tobin Tax on cross-border transactions, which is meant to reduce primarily speculative movements of capital by throwing sand in the wheels of global finance. In the absence of such modifications to the system of rules of global capital movements, global egalitarians may wish to argue at least for the right of countries to pursue national policies that better protect them from the vicissitudes of the system. In particular, global egalitarians might wish to be skeptical of the call for full convertibility on the capital account—the free flow of capital regardless of purpose—to become a goal that international institutions encourage countries to pursue in all circumstances. Recently, the demand made in the mid-1990s to make full capital mobility a formal objective of the IMF has subsided, perhaps due to the embarrassment associated with the financial crises that occurred subsequently (see, e.g., Wade and Veneroso 1998; Bhagwati 1998).

The Accumulation and Discharge of Debt

The international monetary system is not a war of all against all but a system of social cooperation, embodied in the rules of its formal institutions, and reflected in the norms of mutual support that exist between its members.

These rules and norms have often been controversial. For instance, historically, the IMF has established "conditionalities" that require that specific policies be adopted in return for the provision of emergency finance to countries availing of its assistance as a result of their balance-of-payments difficulties. IMF conditionalities have, however, been widely criticized, primarily for reflecting a narrow doctrine concerning what is required to restore a balance-of-payments equilibrium and for applying this doctrine in a manner that has been inattentive to social concerns (Cornia, Jolly, and Stewart 1987).

A possible defense of such conditionalities might lie in an appeal to the "role morality" of international institutions, that is the obligations or permissions that direct or allow them to act in ways they would not be obliged or permitted to follow were it not for the specific role assigned to them within a just scheme of social cooperation. The Articles of Agreement of both the IMF and the World Bank require that they restrict their

activities to those that help to promote stated economic objectives. Over time, these objectives have expanded to focus to a greater extent on social criteria, such as poverty reduction, but have never been confined to these goals. Can the pursuit of a mandate that shows limited direct concern with explicit obligations of justice (such as furthering the interests of the globally less advantaged) be defended on grounds that an institution can best further the interests of justice by acting single-mindedly in its assigned role? A justification for international institutions to focus narrowly upon economic goals, such as restoring the balance-of-payments equilibrium, rather than upon broader considerations of justice depends on the truth of empirical postulates, such as, for instance, that in order to obtain the cooperation of sovereign governments, international institutions must restrict themselves to this narrow role, or that the longer-term interests of the poor are best served by the single-minded pursuit of macroeconomic stability. If these propositions are untrue, the case for a role morality of international institutions that requires them to adhere to rules that show little direct attention to principles of justice is diminished. Moreover, the justifiability of a specific role morality for any individual actor will depend on the nature of the overall institutional scheme in which it is placed, and on whether it can be demonstrated that the pursuit of the role that is assigned to a specific institution is that which will best serve desired and justified ends. For instance, the narrow-minded pursuit of macroeconomic goals by some institutions may be easier to justify if there existed complementary institutions that effectively furthered the social goals that other institutions failed to further or even undermined.

A second issue that arises concerns the limits of a voluntarist justification for policy conditionalities. The voluntarist justification holds that conditionalities contained in a voluntary agreement between states or between a state and an international organization are consequently legitimate and cannot be criticized from the standpoint of justice. A reason that this principle may not be fulfilled in the context of international monetary affairs is that difficult background conditions over which agents have no control may cause individual parties to have no acceptable alternative to acquiring funds from international organizations or other governments that are offered in return for the acceptance of policy conditionalities. The issues involved in assessing the degree to which such contracts create binding obligations and confer legitimacy upon the resulting outcomes are similar to those involved in assessing such choices in the case of individuals.⁴ Balance-of-payments crises are by their nature circumstances in which few alternatives to seeking external assistance remain. Often, assistance can be gained only at the cost of drastic internal

⁴ On the distinction between being free to choose and choosing freely, see Cohen 1988.

reorganization and retrenchment that entails significant social costs and is accepted because the failure to acquire external assistance entails even more severe social costs. In this case the circumstances certainly involve difficult background conditions, and it may be argued that the choice being made is fundamentally unfree, although the country is certainly free to have chosen not to enter into the agreement (Cohen 1988).

In such cases, the nature of the conditionalities involved is worthy of careful scrutiny. Conditionalities that are designed to offer advantages to certain parties as a result of the weak bargaining position of others may be deemed exploitative. Justice therefore requires that international actors do not take undue advantage of adverse background conditions to enforce choices that are predominantly in their own interest. The suspicion that the conditionalities imposed by the Bretton Woods institutions are in fact of this type—for instance, because these institutions demand changes in policies that permit access to national economies by foreign capital on more favorable terms—shadows them. The view that the conditionalities put forward are in the ultimate interest of poor nations does not command universal agreement. The existing international financial institutions are the sole providers of emergency finance with a worldwide reach and, moreover, are often the only providers of any kind, and therefore are to a degree monopolistic. They are also viewed as proponents of the interests of private capital rather than those of distributive justice.⁵ These considerations compound the widespread perception that currently observed conditionalities have a coercive character. Institutional transformation that diminishes the degree of monopoly of such institutions and that shifts the focus of their objectives should therefore likely be favored by global egalitarians, on both procedural and consequentialist grounds.⁶

A third issue of interest concerns the distribution of risks and rewards between debtors and creditors in the international credit market. Until recently, an unquestioned international norm had been that sovereign borrowers' debts should be repaid in full, irrespective of circumstances. Although ad hoc adjustments in the debt repayment schedules of particular countries were frequently made, to permit an uninterrupted stream of repayments, especially in the case of larger countries, the adjustments made were just that—ad hoc. Creditors fiercely resisted the idea that protection from repayment obligations under specific circumstances should be accepted as a regular principle of international commercial law. Recently, the debate on this issue has opened more widely. Reformers have called for debtor protection concepts derived from domestic bankruptcy law to be recognized in the domain of

⁵ On the relationship between the IMF and creditors' interests, see Stiglitz 2002, ch. 8.

⁶ See in this regard the important proposal to eliminate this monopoly in Unger 1996.

sovereign debt. The IMF has tentatively advocated an international Chapter 11 and others have called for an international Chapter 9, which refer to the parts of the U.S. bankruptcy code that offer temporary protection from creditors to, respectively, firms and municipalities. The goal is to permit orderly workouts of unmanageable debt obligations, necessary for the maintenance of fundamentally viable economic assets of the debtor and the fulfillment of the debtor country population's basic human requirements. The principle common to these proposals is that the debtor is offered temporary protection from creditors during the course of the reorganization of assets and the restoration of creditworthiness. There are efficiency arguments for reforms of this kind, which center on the need to protect creditors from themselves by diminishing the collective action problems that exist among them. For instance, creditors may be more likely to be repaid if the debtor is permitted to suspend payments temporarily and reorganize assets so as to increase income. However, each creditor may find such a scheme attractive only if they can be assured that other creditors will also agree to it. There are also often overlooked arguments for such reforms from the standpoint of distributive justice, however. Global egalitarians should favor arrangements that distribute risks more evenly between creditors and borrowers and that seek to ensure adequate minimum conditions of life for the populations of highly indebted poor countries, irrespective of their historically incurred debt obligations. These normative considerations should of course be pursued in a manner that takes note of the existence of moral hazard and other incentive problems.

A fourth and overlapping issue of interest is that debtor countries are quite unlike individual debtors in that they represent large collectivities with shifting memberships. Typically, the decision to contract debts is made by a small group of persons who may or may not act as legitimate representatives of a larger group. Even when they do, they may not especially represent the interests of the least advantaged within a society. Moreover, debt obligations can continue over long periods of time and can ultimately be attached to individuals who were not even alive at the time that the debts were contracted. The enormous difficulties that are encountered in attempting to justify the interpersonal and intergenerational transmission of debt obligations, especially for countries where institutions are weak or unrepresentative, place the traditionally accepted theory of sovereign debt in crisis. Global egalitarians must be critical of norms regarding debt repayment that seem to place large burdens upon the young and the poor, who may have benefited little or not at all from historically incurred debt obligations. There appear to be alternative rules for international debt creation and discharge that ensure that orderly and well-functioning credit markets can exist alongside better protection of the interests of the less advantaged. Global egalitarians ought to favor them.

A Realistic Utopia

The international monetary system offers an example of an arena in which "middle-range normative reasoning"—which lies between normative reasoning that seeks to identify the obligations of actors in abstraction from an empirical context and normative reasoning that seeks to identify the obligations of actors in the existing context—and realistic utopianism—normative reasoning that is attentive to constraints of feasibility but seeks to be imaginative in identifying what is feasible—are both essential. An adequate account of the demands and prospects of justice in the international arena requires such reasoning. Reasoning of this kind shows that international monetary arrangements that more fully cohere with the interests of justice are both possible and different from those that currently exist.

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THE OWNERSHIP MODEL OF BUSINESS ETHICS

DAVID RODIN

Private corporations are today among the most economically powerful institutional actors in the world. In any discussion of institutions and international justice it is therefore natural to consider the role and moral obligations of corporations, their managers, shareholders, and employees. A significant consensus has developed in recent decades among many academics, NGOs, government agencies, and business leaders that private corporations have moral obligations to a set of "stakeholders" beyond their legal owners. These may include employees, customers, suppliers, the community, and even the environment and future generations. Numerous NGOs and some corporate leaders claim that corporations require a moral "license to operate" from the community, which entails being a good "corporate citizen." A whole academic and advisory industry devoted to "corporate social responsibility" has been established, as well as high-profile international initiatives, such as Kofi Annan's Global Compact.

This emerging consensus, however, is fundamentally challenged by an argument expressed in its most pungent form by the Nobel Prize-winning economist Milton Friedman (Friedman 1999). According to Friedman the moral obligation of managers to stakeholder groups other than shareholders is extremely limited. He believes that it is generally not permissible for managers to forgo legally acquired profits for moral reasons. His argument is simple: managers are employed as agents of the owners of the corporation. Their legal and moral obligation is to manage the assets of the shareholders so as to maximize shareholder returns. If they manage assets so as to fulfill "social responsibilities" and thereby fail to maximize returns, they are wrongfully appropriating resources that do not belong to them. As Friedman says, managers "can do good—but only at their own expense" (1999, 252).¹

¹ Elaine Sternberg puts the point even more strongly, claiming that managing for social responsibility is tantamount to theft: "Managers who employ business funds for anything other than the legitimate business objective are simply embezzling: in using other people's money for their own purposes, they are depriving owners of their property as surely as if they had dipped their hands into the till" (2000, 41).