

NORMS FOR EVALUATING ECONOMIC GLOBALIZATION

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The globalization of economic affairs evokes both hopes and fears. Some insist that it will divide humankind even further between rich and poor. Others claim that it will assist the spread of economic development. This article examines recent experience with global financial integration in order to identify the norms by which economic globalization is to be evaluated. Public protests by large and at times violent masses of demonstrators at the 1999 meetings of the World Trade Organization in Seattle and at the 2001 meetings of the G8 in Genoa, along with other meetings on globalization, serve to underscore the explosive nature of economic globalization and the urgent need to find the principles for evaluating globalization properly.

Within economics, there are two perspectives regarding globalization. The one grounds the discourse in terms of the mainstream economics way of thinking which is widely embraced by Western academic economists. The other perspective, which most definitely is a minority view within economics, addresses globalization in terms of the personalist economics way of thinking.

The first perspective regards itself as entirely value-free even though its own hard-core premises originate in the philosophies of individualism and utilitarianism. The second perspective which originates in the philosophy of personalism finds no fault with being value-laden because in the final analysis there is no other way to proceed in evaluating the economic globalization which is by definition a value-laden task. In other words, the mainstream perspective brings to bear on this question only a few principles from positive economics. The personalist economics perspective brings to bear a larger set of principles from normative economics.

The authors hold fast to the personalist economics perspective as more relevant than the conventional perspective and therefore more instructive to a proper evaluation of economic globalization. We rest our argument on principles not just from personalist economics but from two other major sources. The first source is the 1948 Universal Declaration of Human Rights. The other source is John Paul II's many public statements over the years on economic development and globalization specifically and on economic affairs more generally. The mainstream view is couched in such language as the individual, efficiency, equilibrium, and costs and benefits. Our view is presented in words such as person, sufficiency, agreement, and rights and duties.

Our comments in the following section center on financial aspects, which are situated in the wider context of economic globalization, and are organized around two themes: (1) economic globalization and financial integration; and (2) the financial system and economic development. Then our attention focuses on other aspects of international finance including financial crises and relevant rules and institutions, the nature of the system and its evolution through the 1990s, and the need for a new architecture especially to address economic development.

Finally, we present the principles from personalist economics which are instructive as to how globalization is to be evaluated. Our purpose is not to apply our norms in order to evaluate economic globalization. Rather it is to contribute to the public discourse on globalization using recent experience regarding financial integration to refine the norms which properly apply in a careful evaluation of economic globalization. Several general remarks regarding the norms which we are recommending bring our discussion to a close.

Economic Globalization and Financial Integration

Globalization is a word which is used widely today but has different meanings for the different persons who use it.¹ The problem is to understand the relative importance in the world economy of the economic areas enclosed within national boundaries, the international relationships between these and the global areas where economic agents and markets take on world-wide dimensions. This problem is not new. Yet in the second half of the 20th century we have witnessed the beginning of a new phase of globalization, which already has been consolidated under the influence of factors such as international politics, science and technology, and economics and finance. For example, the practice of buying and selling over the Internet, the emergence of a common currency in the European Union, and the adoption of the dollar as the national currency of Ecuador in 2000 [Embassy, p. 1] and its adoption in effect in Hong Kong and Argentina [Tobin, p. 4], along with serious discussions regarding dollarization through the Americas [see IMF, pp.1-25 and Berg and Borensztein, pp. 1-7] are developments which no one could have been predicted with certainty as recently as 30 years ago.

By economic globalization we mean the practice of economic agents (business enterprises, banks, and finance companies) working in different countries and serving the world market without a prevailing national base. These agents change their location between national territories on the basis of opportunities for growth and profit, and they grow not because they are supported or protected by the nation-state but through their own efforts. They carry out their economic affairs as if the boundaries which define the nation-state do not exist.²

Internationalization, on the other hand, is characterized by business enterprises and markets which have a prevailing national basis and which have relationships with each other in the context of international trade. The distinction between globalization and internationalization does not depend on the size of the companies, since some national agents are larger and more powerful than some global agents. The difference is that under internationalization economic agents act with some considerable regard for the boundaries which define the nation-state where they are originated and the other nation-states where they carry on their business.

In 1997 the 100 largest non-financial transnational companies in the world had foreign assets of \$1.793 trillion, or 42.6 percent of their total assets, and foreign sales of \$2.133 trillion, or 53.5 percent of their total sales. Their combined foreign employment was 5.981 million, or 51.5 percent of their total employment. In terms of foreign asset holdings, General Electric was ranked number one with \$97.4 billion. The other top ten companies were: Ford, Royal Dutch/Shell, General Motors, Exxon, Toyota, IBM, Volkswagen, Nestlé, and Daimler-Benz. Of these companies, five are in the automobile sector (Ford, General Motors, Volkswagen, Toyota, Daimler-Benz), two are in energy (Shell and Exxon), and one each in electronics (General Electric), computers (IBM), and food (Nestlé). As to country of origin, five are American, four are European, and one is Japanese [World Investment Report, pp. 1-5].³

From these estimates we can begin to understand the enormity of the challenge of globalization to nation-states. This challenge becomes even clearer when we begin to analyze the

three great forces of innovation today -- information and communication technologies (ICT), finance, and production processes -- which are changing the very concept of national sovereignty. The old idea of the sovereign state as wielding greater power and knowledge than its agents and citizens has been challenged by the spread of technological innovation. This development has led to the consolidation and reinforcement of financial integration and economic globalization through: (1) the emergence of countless startup enterprises bringing to the marketplace products and services originating in scientific and technological research; (2) the successful transfer of this research to established enterprises contributing to important innovations in the process of production and the materials used in the production process, in the form new products and services and new market penetration, and in the new ways in which business enterprises are organized and managed; and (3) the introduction and acceptance of systems for accessing information and controlling operations which are complex and powerful and at the same time user-friendly.

The impact of ICT on both the financial and real sectors of the economy is unprecedented in economic history. By enabling companies to organize production in distant locations efficiently both in terms of production costs and markets, the ICT revolution has added an entirely new dimension to the five fundamental economic processes of production, distribution, exchange, consumption, and capital investment.

Technological innovation has been a powerful influence in overcoming barriers of space and time and the institutional and cultural barriers which separate national markets. It has spread throughout countries with important effects on product, resource, and financial markets. These changes, sometimes referred to as the New Economy, require increasing levels of training and skills which transform the very nature of human work such that knowledge itself is even more critical than at any time in the past. The differences in training and infrastructure from one country to another even from one developed country to another, are vast and substantial. In the early 1990s, for instance, the United States government launched a program to develop the so-called "information superhighway." More recently the countries of Europe launched the same initiative to connect persons, families, private enterprises and organizations, and public agencies to the Internet in order to overcome the information-technology gap which separates the European economy from the United States economy.

At the March 2000 summit meeting in Lisbon, the heads of government and ministers of the 15 European countries passed a series of measures aimed at connecting all European schools to the Internet by 2001. But this was not all. One of the European Union's objectives for 2000 was to define a flexible program of regulations for electronic commerce and the liberalization of telecommunications over the so-called "last mile" in order to drastically reduce the costs of Internet connection [European Commission, p. 2].

IMF Director of Research Michael Mussa has identified improvements in the technology of transportation and communication as one of the two factors -- the other is the reduction in artificial barriers to international commerce -- driving global economic integration since World War II. In the last half of the 20th century world trade in goods and services has expanded at nearly twice the rate of world real GDP, and has lifted the volume of world trade⁴ from one-tenth to roughly one-third of

world GDP. At the same time, the cost of voice, text, and data communication has dropped significantly due to innovations in ICT which already has had powerful implications for international trade, notably trade in services [Mussa, pp. 1,12].

The market valuation of the 1000 largest corporations in the world in 2001 was \$21.0 trillion [Business Week Online, p. 1] as compared with the \$9.9 trillion GDP of the United States in 2000 [OECD, p. 1]. For some, this is a potential cause of great systemic instability, especially given speculative excesses. There are risks, yet we should note that the crises of the last ten years in Mexico, South East Asia, Brazil, and Russia, however big they may have been, still have been fairly limited with ample involvement of institutions of international cooperation and the self-regulatory mechanisms of the markets which are becoming increasingly efficient with a growing number of participants.

The real (versus financial) global economy is the other great pillar of globalization. Direct investments abroad and multinational or global companies, which establish a more lasting form of globalization than do finance companies, are at the heart of real globalization. World foreign direct investment flows increased in 1999 to \$865 billion representing a 16 percent increase over the 1998. As a percent of global gross domestic capital formation, foreign direct investment climbed to 14 percent in 1999 compared to 2 percent in 1979 [Beams, p. 1].⁵ Gross foreign direct investment as a percent of global GDP⁶ rose from 1.1 percent in 1986 to 2.2 percent in 1996 [World Development Indicators, Table 6.1].

Financial System and Economic Development

The other great theme of globalization concerns the relationship between finance and development. The complex events which link the evolution of financial systems to processes of development have undergone a striking process of acceleration in recent years. While large-scale industrialization in the second half of the 19th century led to the development of many different national financial systems, the processes of globalization in the second half of the 20th century have led to a stratification of different levels of finance in different economic and financial systems. We identify three levels specifically: global finance, national finance, and the system of local (formal and informal) credit. High finance has a substantially global dimension both with regard to the economic agents who work in it and to the financial products which are exchanged in it, neither one having a permanent link with the nation-states in which the financial activity is carried out.

There still are significant traces of the Old Economy linkage between economic development and the financial system within the nation-state. In Germany, there is the close connection between universal banks and the industrial system. In the United States, the stock market remains a great productive apparatus fueling economic development, and banking activities which traditionally were concentrated in New York City are more widely dispersed across the country. In Japan, though it has been hard-hit by economic and financial problems for many years, banks still supply long-term credit through conglomerates. In Great Britain, short-term operations continue to be the prevailing orientation of banking activities. Yet there have been some important transformations in national systems as a consequence of not only financial crises as in the case of small savings and loan

associations in the United States at the end of the 1980s and the entire system of large Japanese banks in the 1990s but also institutional innovation. The most significant example relating to innovation is the financial harmonization and monetary union among the 15 member states of the European Union.

The nature of business credit itself, especially when it supports investment in production and economic development, presupposes fiduciary links which require those who supply the credit and those who employ it to know each other. The two parties usually know each other because of multiple interactions for which communication or physical contact is indispensable. This is the domain of local formal and informal finance which necessarily survives the globalization of high finance and the progressive convergence of national financial systems, even though it is subject to their influence. The acceleration of the processes of international financial integration and the globalization of financial markets have important consequences for the role of finance in sustaining the development of businesses, institutions, and countries, and for their different forms of investment.

Financial Crisis, Rules and Institutions

In pre-industrial economies, financial crises were linked to wars, natural disasters, and the adulteration of money by those in charge of minting it. With the development of local and national systems of finance, financial crises typically became linked to the instability of banking institutions and the systemic consequences of this instability. The fear that a financial institution may run into difficulty produces a general race to convert bank money into a more secure payment form (gold or cash) with the consequence that these real difficulties spread to other financial institutions in a chain reaction. With the development of international and global finance, a financial crisis often takes the form of a macroeconomic crisis which has effects on the currency and financial markets of a country or region, involving many aspects of the entire economic system, in particular the competitiveness of productive sectors and the internal distribution of revenue.

As a result of such crises, rules and institutions have been developed to prevent future financial crises and to deal with their effects. This is the case of national institutions -- normally central banks -- which supply fall-back credit. These rules and institutions usually have been established in different countries to dampen early on the systemic effects of a crisis which has arisen in one or just a few financial institutions. The fall-back lender has the difficult task of supplying support to the financial system, including intervention with the money necessary to block the spread of a financial crisis, at the same time avoiding the risk of encouraging imprudent behavior by the financial institutions hoping to profit from the immediate crisis.

In the global system, rules and institutions have developed for the same purpose. As there is no international government with the power to apply coercive measures, both the establishment and application of rules as well as the effectiveness of financial institutions are based on agreement between the countries involved, particularly the large countries. Some countries have adhered formally to a system of rules for the exchange rate system, the reserve system, and the adjustment

system, but countries often have reneged on their commitments regarding exchange rates because they conflicted with other internal and politically more important objectives.

In general, the rules and institutions created to defend a particular financial system can become ineffective or even counterproductive as innovations occur in the products or participants in the financial system. Thus, the system must change continually if it is to be effective. For that reason we need to focus on two fundamental questions. The first addresses the issue as to how to prevent and remedy crises. The second involves which rules and institutional forms are most likely to ensure that the financial system plays a positive role in real development under circumstances of greater globalization. We turn next to those two issues.

Nature of the International Financial System

By international financial system we mean the institutions and ways of operating through which surplus funds flow toward countries or other subjects in deficit, the rules concerning the system of exchange rates, and the operational procedures which create and distribute international liquidity. This system has evolved in response to transformations in saving and borrowing countries, to changes in the objectives and obligations of financial institutions, and to technological innovation. The system's microeconomic importance depends on its ability to facilitate the flow of funds toward the most promising investments, independently of the country in which the savings are generated. Its macroeconomic importance consists in giving countries more choices in adjusting to changing macroeconomic circumstances. For example, international finance may allow a country in a mild recession to have access to loans which enable it to avoid large cutbacks in consumption and investment spending.

Among potential borrowers, particular attention should be paid to developing countries. Foreign loans have two potential benefits for developing countries: promotion of growth through investment, and support for processes of adjustment to possible internal and external shocks. External finance offers countries the possibility of exchanging present for future buying power. The borrower acquires goods and services for use today in exchange for a promise of restitution in the future. This inter-temporal trade constitutes an opportunity for participants to improve their situation as in any voluntary market exchange.

Inter-temporal exchange introduces the risk of default requiring reciprocal trust between the persons involved. This trust may be based on real reciprocal acquaintance as happens in local finance, on reputation with the resulting possible distortion of incentives on each side, or on some surrogate of trust such as contractual clauses which reinforce the borrower's incentive to honor his/her debt. In international financial contracts in particular, clauses often are introduced to make the problem of reciprocal uncertainty less difficult, but these contractual expedients often have undesired consequences. For instance, linking interest rates to the trustworthiness of the borrower or resorting in general to short-term loans may result in blocking loans for those projects where the expected return is not high enough or is too far in the future. Yet this is a very dangerous choice which could eventuate in selecting only high-risk projects or those in difficulty. International loans may be badly used, may induce governments to put off painful but necessary economic reforms, or

may be available only for high-risk, high-return projects. In any case, the accumulation of foreign debt makes borrowing countries more vulnerable to changes originating in the global financial system.

Evolution of International Finance: End of World War II to 1989

The evolution of financial systems in developing countries has mirrored profound transformations in the global economy. In the post-war period, there have been three phases. The first lasted from the end of the World War II to the beginning of the 1970s. In this period, the main form of access to foreign funds by developing countries was the flow of official capital, direct foreign investment, and the financing of international trade [Akyüz and Cornford, p. 8]. The financing of the trade deficit in current items (that is the excess of payments abroad for goods, services and interest on loans over revenue) took place mainly by means of agreements between governments and international institutions. Financial intermediaries for the most part were interested in their national clients whose international trade they financed. The international operations of financial institutions were strictly limited by rigid national controls, particularly on foreign exchange operations.

The second phase, from the beginning of the 1970s to 1982, was earmarked by fluctuations in the exchange rates of the principal currencies, with related volatility of interest rates. At the same time, there was an increase in the size of the deficit in the balance of current items in many countries due to the oil price shocks in 1973 and 1979. Consequently, the institutional organization of the international financial system was forced to change. In particular, banking and financial institutions active on the fund market were very innovative in their products and procedures, and were able to capture business opportunities linked to the direct financing of foreign deficits. In this regard, they were helped by the progressive relaxation of controls on the international movement of capital. Their main clients were the governments of emerging countries, above all oil-producing developing countries and the large countries in Latin America.

The internal composition of this flow of capital changed as the amount of direct investments fell, and the indebtedness of developing countries rose significantly both toward commercial banks and to official lenders who offered loans strictly in terms of market conditions without regard for extenuating circumstances. This change and the increased volume of capital movements made developing countries more vulnerable to changes in the international finance system. In 1982 Mexico's declaration that it no longer could support the burden of its foreign debt triggered a chain reaction which is typical of financial markets in panic. The entire banking system reduced its exposure to developing countries, drawing many other countries into the crisis, including countries whose debt was held by official institutions and whose only crime was financial weakness [Akyüz and Cornford, p. 8].

The third period extends from the Mexican crisis to the end of the 1980s. The significant feature of this phase was that international movements of capital took on the form of transactions between industrial countries. The majority of international loans flowed away from developing countries toward developed countries with particularly high rates of investment, higher rates of

return, or lower savings rates. Compared to 1975-1982 when bank loans accounted for 50 percent of net capital inflows to developing countries, bank loans in 1983-1989 fell to 16 percent of net capital flows. At the same time, the share of net capital flows going to Latin America and the Caribbean dropped from 43 percent to 16 percent [Akyüz and Cornford, pp.8-12]. Direct investments flowed only toward certain countries such as the United States which became for the first time a borrower in net terms and Southeast Asia because of its prospects for growth and its favorable stock-market reputation.

The processes of deregulation of financial markets and innovation became consolidated in certain parts of the globe which were strictly inter-connected, areas of high finance in which economies of scale and of goal played a very important role. Peripheral countries and economic agents participated as spectators or as occasional clients, giving the international financial system a highly asymmetric configuration. This development which continues to the present produces a hierarchical stratification between global agents and countries, agents and countries which are occasional clients, and marginal or excluded agents and countries. The latter are agents without economic muscle who are excluded from participating actively in a high-finance market but are not free from the negative effects of global development on their real economies, especially if they have elements of intrinsic weakness.

International Financial System of the 1990s

In nominal terms, net capital inflows to developing countries increased more than 20 times between 1970 and the late 1990s. In real terms,⁷ however, the increase is five-fold, and relative to the output of the recipient countries represents a recovery from the stagnant levels of the 1980s rather than any increase since 1970. Specifically, total net inflow of capital to developing countries in 1975-1982 was 4.91 percent of their GNP; in 1990-1998 it was 5.00 percent [Akyüz and Cornford, pp. 8-9].

Cross-border financial activities have become an increasingly important aspect of the international financial system during the 1990s. Every dollar of international trade is “moved” by sixty dollars of international finance,⁸ and the process of globalization is not fully played out due in part to the creation of the Euro. Furthermore, due to a relaxation of controls on the outward capital in developing countries, net capital flow doubled between the early 1990s and the late 1990s. A major component of both capital inflows and outflows in developing countries is liquid assets driven by short-term arbitrage opportunities [Akyüz and Cornford, pp. 13-14].

The growth of international finance is accompanied by other changes of which the most relevant is the opportunity to carrying out “precision” financial operations which remove the financial risk from the shares in question and recompose it in a new “derived” instrument which is given a price and put into circulation on the market. The single most important phenomenon in finance during the 1990s, according to Alan Greenspan, was the development and expansion of financial derivatives. At the end of 1998, there were outstanding derivative contracts at U.S. commercial banks -- the biggest players in global derivative markets -- amounting to \$33 trillion of

which \$4 trillion were exchange-traded derivatives. The balance were off-exchange or over-the-counter derivatives. Since 1990 derivative contracts have been growing by an annual rate of 20 percent. While remaining optimistic as to the future of derivatives as a device for individual financial institutions to unbundle risks and promote wealth creation, Greenspan admitted that there was no economic downturn during the 1990s to test the robustness of derivative markets, and acknowledged that there is a “deep-seated” fear that systemic risks have risen at the same time individual risks have fallen [Greenspan, pp. 1-6]. In any case, such innovation in products favor the integration of national markets, of borrowers and investors, into a single global market, and they also favor the despecialization of insurance companies, investment banks, pension funds and pools.

Integration of financial markets accentuates the macroeconomic instability of countries whose currencies are structurally weak and whose exchange rates, which may be subject to speculative attacks, are controlled by currency interventions on the part of central banks. This makes the system of global finance even more asymmetric. Weak currencies, which are not present in the portfolio of the large financial agent, can only become weaker if for some reason, perhaps only the contagion of a crisis originating elsewhere, they come under speculative attack.

The development of derived financial instruments, particularly on exchange markets, made the currency and financial crises of the 1990s more dangerous, shorter but more intense because their leverage effect multiplies their impact on markets as compared to direct trading in currencies. The dynamics of financial and currency crises therefore may be determined largely by operations involving the market of derived products which, while they do not cause a crisis, make it materially worse.

Thus, the international movement of capital recorded in the balance of payments of a given country does not provide a full accounting of its actual financial situation, especially in the face of speculative attack, and may result in policy interventions which are inadequate or counterproductive interventions in economic policy.

New Architecture for International Finance

It is no coincidence that at the dawn of the new millennium which has been characterized by moments of acute tension on the world's financial markets, people again are talking about the architecture of the system. This means reopening the question of national and international choices concerning the exchange rate system, the system of international reserves, and the system of adjustment. This latter aspect has shown itself to be the weak link in the international monetary and financial system since it is the point where conflicts most easily arise. Because the financial system is global, an imbalance in one country leads, by definition, to an imbalance of the opposite kind in other countries. Who, then, should bear the burden of taking action, the burden of adjustment?

In the debate on adjustment, the problems of mature financial systems are very different from the problems of emerging countries. For the latter, in particular, there is much discussion about whether and to what extent there is a contagion effect which transmits a situation of financial crisis

to countries which are not the object of speculative attacks,⁹ but are associated by international investors to events in the country where the crisis developed originally.

The crises of the 1990s came in clusters which are traceable to: (1) the existence of shock in different countries which were struck by the crisis simultaneously; (2) the presence of strong commercial links which therefore mechanically exported the crisis from one commercial partner to the other; or (3) financial connections between the countries which had the same effect as commercial links. It also is possible, however, that a crisis in one country motivated international investors to reconsider the whole set of fundamental questions relating to all of the countries where they had financial exposure. It is one thing to record and another to interpret the facts, but if there is contagion, the architecture of the financial system has to provide an international or supranational fall-back lender which supplies a public asset which the market by itself cannot produce.

In the present debate, various hypotheses have been formulated concerning the degree of mobility of capital. According to Tobin [p. 5], “worldwide gross volume of foreign exchange transactions is mind-boggling, 1.3 trillion dollars per business day and growing.” Further, 90 percent of these transactions are reversed in a week and most of the reversals occur within day. Among those calling for nation-state controls on capital flows are the academician James Galbraith [p. 4] and the international financier George Soros [Schifferes, pp. 1-2]. Daly [p. 7] takes a much harder line: “We must learn to distinguish internationalism from globalism and abandon the latter in favor of the former.”

In the 1970s Tobin recommended a tax on foreign exchange transactions to reduce currency speculation. There are two major objections to this tax. First, the tax might paralyze currency markets. Second, for economic and political reasons the tax cannot be implemented [de Burnhoff and Jetin, pp. 7-14]. These two objections notwithstanding and even though there has been widespread disapproval of the tax in financial circles, Tobin continues to promote it as a partial remedy for financial integration which “went too far too fast” [Tobin, p. 5].

There are other institutional-type proposals as well. These range from the suggestion of formally creating a supranational fall-back lender, thus restricting in part national monetary sovereignty, to setting up international bankruptcy procedures which would cut off at a certain point the burden connected to positions of unsustainable debt, to extending global financial regulation to some on a voluntary basis and to others on a compulsory basis, to using incentives to discourage investors from short-term foreign debts, to encouraging the holding of adequate official reserves, to promoting foreign banks which would compete effectively with national banking systems. A new and very interesting point in the debate concerns the so-called “bailing in” of private financial institutions. This involves finding contractual or other ways of involving the private system in crisis prevention and management. The bailing-in proposal has the undoubted advantage of urging the principal actors in the global financial system to take on the role of social responsibility in their actions.

Although it is important to dedicate resources to the design of a new architecture for the international financial system, there is no perfect institutional design. Indeed, in a reality where

change is a natural part of the financial system, what seems to be an imperfection sometimes turns out to be an important factor of flexibility and resiliency of the system.

New Architecture and Old Problems: The Debts of the Poorest and the Promotion of Development

The great missing pieces in the debate on the new architecture are the rules and institutional forms which best ensure that even in the era of integration the financial system is able to carry out its positive role of supporting real development. It is necessary to reconsider the eminently fiduciary nature of credit and finance if we are to find room for inter-temporal trade in a global financial system about which we have only an approximate understanding. A certain blossoming of local initiatives, in particular initiatives of micro-credit, represents a positive signal of recovery of the original role of finance. The connection of these initiatives to the Internet is a further sign that the global dimension can leave room for diversity.

We need to reconsider certain facts, including the nature of the foreign debt of the poorest countries. This debt is an increasingly heavy burden because of the mechanical laws of the accumulation of arrears and interest. Moreover, it is inconceivable that the creditors among whom governments and public agencies are conspicuous will get back what they lent a long time ago under vastly different conditions. Paradoxically, private financial institutions have been more willing to redefine the terms of indebtedness of countries to which they granted credit in the 1970s. For them common business sense alone has been sufficient to guide the process of reducing the burden of debt of the developing countries.

The practical results achieved on this question have been very modest. The high point was the agreement to extend the IMF initiative in favor of highly indebted poor countries (the HIPC initiative) on the basis of the consensus reached during the 1999 G8 Summit in Cologne [G8 Communiqué, §§ 29,30] and at the annual assembly of the World Bank and the International Monetary Fund. A procedure was outlined which would speed up, increase, and extend the cancellation of approximately \$34 billion of the debt of the poorest countries, reinforcing the link between cancellation and policies to reduce poverty. However, the timing, the size, and the coverage of the HIPC initiative are severely inadequate to deal with the urgent question of re-launching development in these marginal countries. By June 2001 paid-in contributions to the HIPC Trust Fund amounted to less than \$1 billion. Debt relief through the World Bank amounted to \$1.5 billion by the January 2001, and \$1.7 billion from the IMF [World Bank, pp. 1-8]. John Paul II repeatedly has invoked the cancellation of the international debt of the most indebted countries on grounds that the poorest countries are unable to pay the interest on the debt without negatively affecting the already-low standard of living of their citizens.¹⁰ In reference to countries with a high level of international debt, we have a situation which is similar to the one which many centuries ago made charging interest illegal.

The experience of the debt crisis of 1982, the repeated financial crises of emerging countries, the increasing difficulty for small, very poor indebted countries to take part in real inter-temporal trade, confirm that the problematic aspects of international finance tend to re-occur, in different

forms, and are difficult to avoid or to resolve through mechanical or cold institutional intervention. This consideration opens the way for responsible and ethically motivated action on the part of real living breathing human persons and financial institutions.

Norms of Evaluation

We return now to the broader and more compelling issue of economic integration of which financial integration is an essential part. Recent experience with financial integration as presented in the foregoing is instructive because it gives us information which is helpful in making our implicit norms more explicit and therefore in reaching a decision as to which ones to keep and which to change. Indeed experience with financial integration is especially instructive at this time because as Tobin notes [p. 1] trades involving financial assets are the easiest to globalize. For that reason, there is more information available today about what happens when financial markets are globalized than there is for product markets, labor markets, and natural resource markets.

To the extent that greater efficiency in the utilization of global economic resources including financial resources leads to greater sufficiency of goods and services to meet fundamental human material need, fears regarding the negative effects of globalization are significantly relieved. It is precisely when greater efficiency fails to address the unmet needs of populations in the developing world that economic globalization becomes an issue enveloped in fear, frustration, and even leads, as we have seen of late, to tension-filled public demonstrations.

Waters [1988] identifies the four hard-core premises of mainstream economics: (1) the individual is the basic unit of the economy, (2) who acts freely, self-interestedly, and calculatedly in a self-regulating economy, (3) whose economic behavior is grounded in reason and, though it changes as economic conditions change, is predictable and knowable with mathematical certainty and empirical precision, and (4) whose ultimate worth is determined instrumentally. The four hard-core premises of personalist economics are: (1) the person is the basic unit of the economy, (2) who acts freely but within certain limits, self-interestedly but often with regard for others, and calculatedly but at times impulsively, whimsically, or altruistically, in a self-regulating economy which from time to time must be constrained deliberately in order to serve the common good -- the needs which originate in humans living in community and which are met only when community members are prepared to act collectively -- and to protect the weak and the needy, (3) whose economic behavior is grounded in reason and faith,¹¹ changing as economic conditions change but at times reflecting moral rules and principles, predictable and unforeseeable, and knowable with mathematical certainty and precision but sometimes mysterious and beyond human understanding, and (4) whose worth at times may be construed instrumentally but finally is not reducible to economic calculus because it rests squarely on the conviction that humans have a worth and dignity beyond measure.¹² Thus, the central differences between mainstream economics and personalist economics all originate in and are reducible to the differences between the individual and the person. Anyone who disagrees with the norms which we are recommending likely will find that the disagreement originates in the premises which inform our selection of norms.

Norms are of two general types: actuating and limiting.¹³ An actuating norm evaluates economic globalization in terms of a desired outcome. A limiting norm evaluates globalization in terms of an unwanted outcome. Our actuating and limiting norms are presented in Table 1A and Table 1B. In both instances the premises of personalist economics were most informative. Two principal sources are cited as supporting these norms: the Universal Declaration of Human Rights and the various public statements of John Paul II. At times this support is explicit, and at other times it is more implied. In citing John Paul II we see no reason to document every public statement relating to these norms. Rather, we have focused on his public statements made since the late 1980s when economic globalization increasingly has become a matter of public discourse and concern. Table 1B also explains why limits are necessary. The centrality of justice, solidarity, and caring or charity in the actuating norms in the main prompts the following concluding remarks.

Concluding Remarks

Financial transactions, since they involve human agents and human behavior, are subject to the type of scrutiny which applies to any human behavior. Specifically that means scrutiny as regards the fundamental fairness of the behavior of the agents involved in a given transaction. For example, according to the principle of commutative justice, a borrower and creditor have two mutual obligations. Both agents are required to: (1) exchange things of equal value, and (2) impose equal burdens on each another. In the typical loan transaction, this means that both parties are agreed without coercion as to the amount to be borrowed, the schedule for repaying the principal, and the rate of interest which equalizes the burden accepted by the creditor to make the funds available immediately but receive repayment in the future subject to the risk of default. Excessively high rates of interest are condemned as usurious, and the creditor is labeled a “loan shark.” Thus, there must be some upper limit to the rate of interest imposed on the borrower which equalizes his/her burden. What that limit should be must be determined in general by market forces, by the specific financial conditions at the moment, and by parties who are not driven entirely by personal gain but who understand that the creditor and most especially the borrower are human beings whose dignity must be respected and who never is to be taken advantage of or exploited. Otherwise, there is no “level playing field” -- notice that “level” strongly suggests equality -- in financial markets allowing the powerful to dominate and exploit the weak, and at times denying credit to those most in need especially the poor in developing countries. Debt restructuring and debt forgiveness are justified under commutative justice whenever the burden to the borrower becomes unduly onerous or impossible to bear.

Further, the creditor or lender has a duty under the principle of distributive justice to treat as equals all prospective borrowers who are in the similar financial circumstances notably as determined by risk evaluation, that is to treat them all alike. The principle of distributive justice demands that the lender not engage in price discrimination even when the opportunity presents itself. This requires transparency as to the details of credit transactions which preferably is done by voluntary compliance or if necessary by some kind of private or public institutional oversight. We include transparency as one of the actuating norms of evaluation and we note that the International Monetary Fund already has affirmed two codes relating to transparency: The Code of Good

Practices on Transparency in Monetary and Financial Policies and the Code of Good Practices on Fiscal Transparency [Trade and Development Report, 2001, pp. 81-82].

The ethical standards originating in the principle of commutative justice and the principle of distributive justice require honesty and competency on the part of lenders and borrowers alike. That is, for genuine justice in financial affairs what is most important are the human persons involved. Once they know what their duties are they must be willing to do what justice demands.

In the matter of reconciling economic rationality with human solidarity what is most important is the faithful practice of the principles of equivalence and distributive justice in order to assure that financial transactions do not result in exploitation and discrimination. In a sense, justice is like the oil filter on an internal combustion engine. The filter removes the impurities in the oil so that the engine operates at a higher level of performance. If we represent the economy as the engine of economic growth and development, the filter of justice allows the economy to function more effectively and more efficiently.

However, more than justice is required to forge a true sense of solidarity among human persons. Justice by itself can become cold and calculating if it is not tempered by caring or charity [John Paul 1998, §1]. That is, a deep regard for the well-being of other human persons with whom we interact in our everyday economic activities of work, consumption, and leisure. Caring helps develop a sense of solidarity by affirming that all human beings are equal and never should be used for the personal gain of others. Charity helps develop this sense by insisting that all humans are precious and before all else their well-being, not maximum efficiency in the utilization of economic resources, is the most important end of all economic affairs. Economic systems, in other words, are subordinate to human persons. It is not acceptable when human persons are subordinated to economic systems in the form of such gross abuses as slavery, sweated labor, starvation wages, and unsafe working conditions.

Once again representing the economy as a internal combustion engine, caring is the oil which lubricates the engine so that it can function safely at high temperatures. Charity -- seeing in every human being a precious human person -- works like a higher grade oil, allowing the engine to function even more effectively and more efficiently. In real terms, caring and charity mean going beyond the demands of justice such as workers willing and able to do more than job descriptions require and merchants willing to give their customers more than they bargained for. This additional value, which helps solidarity grow and flourish, has a real economic component. The worker and employer, the merchant and customer, contribute directly to the real though intangible business asset "goodwill." Caring and charity thus become valued economic resources which are absolutely unique in two ways. First, they acquire value only in the giving and never in the hoarding. Second, they are never depleted in utilization.

Economic agents operating daily in international financial systems must have a working knowledge of what is required of them in justice, and their supervisors must monitor their subordinates' work to assure that they are faithful to those demands. In other words, senior executives and officials of financial institutions must make justice an everyday priority of the

institutions which they manage and direct. Otherwise, justice becomes an empty promise which has no more significance than a poster to hang on the office wall and then ignore. In addition, transparency is necessary to assure that institutions are functioning according to the demands of justice. Regulatory agencies, preferably of the voluntary or self-regulatory type, are preferred for this oversight role because they necessarily function closer to the day-to-day operations of the financial institutions whose operations they are examining.

Locating the oversight agency as close to the actual lending institution and therefore close to the specific conditions in which that institution extends credit helps the oversight agency avoid supporting projects which have little or no prospects for economic success and long-term survival, and other projects which otherwise might be turned to personal gain. That is, the funds which are made available do not lead to the corruption of public officials or others. The imperative in this regard is simple enough. The projects which are supported by funds from such institutions as the World Bank and the International Monetary Fund should not do more harm than good, especially when the harm done originates in their failure to probe those elements or conditions deeply enough. Ignorance on the part of such important international institutions is intolerable and unacceptable.

As to the role of politics in the global economy, government should do for the people what the people are not able to do for themselves.¹⁴ This means that there are two principles which define the role of government in economic affairs. First, the government ought not usurp the role of private enterprise nor transform private enterprise into state enterprise. This is the limiting principle as to the role of public officials. Second, the government should offer the assistance required to enable private enterprises to function effectively and efficiently. This is the actuating principle. Clearly, though, there should be no government assistance for those enterprises which abuse justice and routinely engage in such practices as discrimination, exploitation, and profiteering.

It is clear now that the sovereignty of nation-states is eroding and that at least two major trends of governance have developed, with certain areas overlapping, which aim to combine market autonomy with institutional regulation. One trend is international integration, the other is international cooperation. In the context of international integration, areas of free exchange and customs unions (such as EFTA and NAFTA), common markets (EC), and monetary unions (EMU) have been created. In the context of international cooperation, ever since Bretton Woods (1944) we have seen the creation and growth in importance of organizations in charge of commercial cooperation (GATT, now WTO), of monetary and financial cooperation (IMF, BRI), of cooperation in development (the World Bank, regional-continental banks), of regional-continental aggregations (Mercosud), and other forms of functional or sectoral coordination (OECD, ILO). Two other institutional types of international cooperation must be mentioned: (1) the G8 which was founded in 1975, a date which some consider to be an institutional turning point in globalization; and (2) the European Union which is the most advanced example in the movement beyond nation-states.

All these systems of cooperation should be accentuated with the aim of combining global markets and international solidarity. The speed of development of ICT, other technologies and the financial and productive forces of globalization are eroding traditional forms of national sovereignty. It is proving a severe challenge to supra- and international institutions, whether these be formal or

informal, voluntary or compulsory, which have played an important role despite their difficulties and failures in reconciling market freedom with the rules which are the concern of the institutions.

The crucial problem for the future lies in the combination of institutional rules and the autonomy of markets with cooperation and coordination. If we start from the assumption that with globalization single nation-states no longer have the capacity to formulate and apply rules which are valid for transnational agents, then we have the problem of supranationality.

Over the last 50 years many steps have been taken in this direction, but there still is a need to prevent the more powerful developed states from being tempted to act, more or less deliberately, as world financial leaders. It is unlikely that such action would be compatible with the rules of an agreed and shared supranationality. It is also necessary to enable weaker states to take on stable international commitments, and this is possible only if internal democratic institutions are reinforced.

Economic globalization and financial integration can and must represent a great opportunity to produce positive effects, in particular for the reduction of the gap between the rich and the poor, so long as we persevere in ensuring that within the context of institutional, supranational rules, economic bodies, and markets are free to move autonomously for the effective development of each human person and of the whole human person.

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TABLE 1A. ACTUATING NORMS OF EVALUATION

Actuating Norm of

Sufficient goods/services to meet personal needs/wants. UD Articles 22,23,25; Peace 1998 §§4,8; Peace 1999 §§9,13; Peace 2000 §§9,13,14,17; CA §§19,43; SRS §34.

Sufficient goods/services to meet common needs. UD Articles 17,26,27,29; Peace 1999 §§1,2; Peace 2000 §§6,12,13,17; CA §35,43.

Justice in economic affairs. UD Articles 7,23; Peace 1998 §§5,6,8; Peace 2000 §§5,16,17; SRS §34.

Caring or charity in economic affairs. Peace 1998 §§1,2, 8; Peace 2000§15; CA §58.

Opportunities for creativity in work. UD Article 27; CA §25.

Opportunities for participating in workplace decision making. UD Articles 4,23; Peace 1999, §6; CA §15; SRS §34.

Solidarity throughout economic affairs. UD Articles 15,20,23,27,29; Peace 1998, §§3,4; Peace1999 §9; Peace 2000 §§5,13,15,17; CA §§13,15,27,32,43; SRS §38.

Economic equality. UD Articles 1,21,23; Peace 1998 §§4,6; Peace 2000 §3; CA §15; SRS §34.

Opportunities for private ownership of the means necessary to provision need. UD Articles 12,17; Peace 2000, §13; CA §§6,30,42,43.

Individual freedom in the global marketplace and the workplace. UD Articles 4,5,13,20; CA §39.

Peace/tranquility in economic affairs. UD Articles 26,28; Peace 1998 §7; Peace 1999 §11.

Transparency in economic affairs to assure that commutative justice, distributive justice, and contributive justice are practiced. UNCTAD Trade and Development Report, 2001.

Opportunities to work. UD Articles 23,26; Peace 1999 §8.

Opportunities for rest and leisure. UD Article 24.

Efficient allocation of human and natural resources. CA §34.

Sources: Universal Declaration of Human Rights (UD); selected statements by John Paul II (see references); Trade and Development Report, 2001, UNCTAD.

TABLE 1B. LIMITING NORMS OF EVALUATION

Limiting Norm of

Excessive consumption or consumerism. Peace 1999 §2; CA §§36,41,57.

Excessive hours of work, addiction to work or workaholism. UD Article 24; CA §15.

Excessive leisure or forced idleness. Peace 1999 §§2,8; CA §§33,41.

Ability to service debt. Peace 1998 §4; Peace 1999 §9; CA §35.

Carrying capacity of the planet. Peace 1999 §4,9,10; Peace 2000 §17; CA §37; SRS §34.

Corruption. Peace 1998 §5; Peace 1999 §6; CA §§20,48.

Speculation. SRS §43; CA §§43,48.

Human and natural resources. SRS §34; CA §§32,33.

Ability of the needy to fill the employment opportunities available. CA §33.

Ability and willingness of developed nations to absorb immigration from developing nations.
CA §§28,35,52,57

Sources: Universal Declaration of Human Rights (UD); selected statements by John Paul II (see references).

Limits are necessary to assure that

Economic development does not deplete economic resources wantonly.

Consumption does not become consumerism, materialism.

Creative destruction does not result in more harm than good.

Creativity does not become triviality, human objectification, obscenity.

Freedom does not infringe on others' rights, does not become license or discrimination and does not lead to piracy and counterfeiting.

Equality does not become uniformity, does not undermine production.

Economic development does not become corruption.

Justice does not become cold and calculating.

Solidarity does not become exclusion and collusion.

Efficiency does not become marginalization and unemployment.

Profits do not become exploitation of workers or consumers.

Full employment does not become inflation or paid idleness.

Economic development does not become environmental contamination.

Tranquility does not become suppression.

Democracy does not become marginalization and denial of minority rights.

Endnotes

1. Smith [pp. 25-50], for example, uses “globalization” to characterize the effects of the Canada-United States Free Trade Agreement and the North American Free Trade Agreement on Canadian labor institutions.
2. Our definition closely matches the one used by Nitikin and Elliott [p. 14]: “... globalization is ... the establishment of the global market free from sociopolitical control.” And Daly’s as well [p. 1]: “Globalization refers to global economic integration of many formerly national economies into one global economy, mainly by free trade and free capital mobility, but also by easy or uncontrolled migration. It is the effective erasure of national boundaries for economic purposes.”
3. Three of the ten -- Ford, General Electric, and IBM -- also are ranked among the top ten global brand names in the first-ever ranking of the top 100 global brands by dollar value. To be included in this ranking of 100 “best global brands” a brand such as Starbucks, Coca Cola, or Marlboro is defined as a global brand only if it has sales of at least 20 percent outside its region or home country [see Khermouch and others, pp. 50-57].
4. The sum of both exports and imports.
5. From the *2000 World Investment Report* published by the United Nations Conference on International Trade and Development, as reported by Beams.
6. More precisely, GDP converted to international dollars using purchasing power parity conversion factors.
7. Measured in relation to the import price index of developing countries or, in other words, in terms of its purchasing power over foreign goods.
8. Estimated by Arestis and Sawyer and reported in de Brunhoff and Jetin [p. 8].
9. An IMF working paper centering on private capital flows found evidence that there is contagion based on trade linkages for both foreign direct investment and portfolio flows, that contagion appears to be stronger in the 1990s than in earlier periods probably due to increased financial integration, and that there are strong empirical indications of contagion for countries in the same geographic region. The authors reported that the size of the current account deficit appears to be the most important factor in the decision to invest or withdraw funds [Hernández and others, pp. 16-17].
10. In his 1991 encyclical letter *Centesimus Annus* he states the following with regard to the foreign debt of the poorest countries: “ ... it is necessary to find -- as in fact is partly happening -- ways to lighten, defer or even cancel the debt compatible with the fundamental right of peoples to subsistence and progress” [John Paul II 1991, §35].
11. By faith we mean acceptance of the truth on the word of another.
12. The very first sentence of the Preamble of the *Universal Declaration of Human Rights* affirms the inherent dignity of all human persons. Nowhere in *Declaration* does one find any affirmative reference to human beings having instrumental value.
13. A satisfactory norm for evaluating economic globalization must have two elements. An actuating principle is necessary to specify what globalization should do. A limiting principle indicates what it should not do. See Becker [p. 11].

14. Abraham Lincoln's formulated this principle as follows: the legitimate object of government is "to do for the people what needs to be done, but which they cannot, by individual effort, do at all, or do so well, for themselves" [Shaw, p. 136] .
