



Promoting and Developing  
Social Security Worldwide.

## Keynote speech

### Seminar on Social Security in Times of Crisis: Impact, Challenges and Responses

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**Financial Crisis:  
It is time to be credible!**

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It is time to be credible!

## Introduction – From one metaphor to another

1 – The main G20 scenario: a global response that has not changed the rationale that caused the crisis

2 - Alternative scenarios: which approach could articulate local and global responses?

## Introduction – From one metaphor to another

From the metaphor of the burning house to the medical metaphor

The G20 prescription: a strong dose of morphine for a body attacked by two sources of infection

**1 – The main scenario: a global response that has not changed the rationale that caused the crisis**

11 – The G20 scenario, main scenario

12 – The intellectual foundations of the scenario

13 – Dead ends and lack of credibility in the main scenario

**11 – The G20 scenario, main scenario**

Twin objectives that can be described as follows:

- end of the crisis as of 2010, through a global economic recovery
- a new regulation of the international financial system

First steps : the G20 meeting held on 2 April produced two concrete series of decisions

A – The funding of a plan of approximately \$1100 billion:

- additional resources for the IMF (\$750 billion)
- additional loans by multilateral development banks (\$250 billion)
- funds to boost international trade (\$150 billion)

B – A division of roles between the IMF and the FSB (Financial Stability Board):

- for the IMF, funds for intervention and the task of macroeconomic policy control (\$750 billion endowment , +\$250 of SDR) as well as the revision of quotas by January 2011, and an open appointment of the DG;
- for the FSB, new international regulation applicable to “all markets, instruments, systematically important financial institutions”.

## 12 – The intellectual foundations of the scenario

In standard economic thought, one can find deep-seated orientations on which the proposed reforms are based. Markets and equilibrium are the cornerstones of the rationale of this economic thought.

This way of thinking sees only “market imperfections”, the “asymmetric information” and the “inadequacies” of financial regulators in the current crisis.

What is needed is simple: to better order the driving force of agents through more effective rules; markets could then restore their fundamental role of regulation.

Illiquid banks will recover their financial health once their books are balanced; insolvent banks will disappear or be nationalized. There is no need to worry about other measures. Finance has not gone mad.

*\*see for example Jean Tirole « Leçons d’une crise », Toulouse School of Economics n° 1 - 12/2008*

## 13 – Dead ends and lack of credibility in the main scenario

What happens after the banks’ books are balanced, economic growth is back, and new regulations are in place?

Risks of forming “new bubbles” (or “hyper bubbles”) in some asset prices is highly probable:

due to two immediate reasons:

- high liquidity has been and will be widespread in the financial sphere
- interest rates have been and will continue to be drawn downward

## 13 – Dead ends and lack of credibility in the main scenario

(...)

Because of two main reasons

- the monetary issue, which is the real source of the crisis, has not been addressed (the cause of the crisis can be found mainly in the liberalization trend during the 1970s and 1980s)
- the valuation rationale has not been addressed by the new regulations (at the root of income inequality and the distortion of added-value)

## The monetary issue

- exchange rate liberalization in 1971
- interest rate liberalization in the 1980s
- creation of a financial industry of risk hedging (derivatives, speculation development)
- creation of credit derivatives and securitization, end of the 1990s
- overdevelopment of the financial sphere and the rationale of asset price bubble formation

## The valuation rationale issue

- reform of the PAYGO scheme in the USA (Erisa law, 401k plans)
- emergence of new institutional investors managing third party retirement funds
- exacerbated competition between these investors to harness retirement savings > emergence of the financial performance rule
- “new corporate governance” first in the USA during the end of the 1980s, then in England (early 1990s), in Europe (mid 1990s) ; creation of shareholder value rationale
- changes in the work organization of companies and in the labour market (flexibilization, externalization, delocalization)
- distortion in the distribution of added-value and the creation of income inequalities

## 2 - Alternative scenarios: which approach could articulate local and global responses?

- 21 – Rupture scenarios  
and the decomposition of the world into centrifugal forces
- 22 – reconstruction scenarios and the challenge of a coherent political approach

## 21 – Rupture scenarios and the decomposition of the world into centrifugal forces

The main scenario contains some risks in the social arena. It has already sparked social protests with different degrees of radicalization (ex. Greece, Guinea, Niger, China, ..., not to mention what happened in Guadeloupe and Martinique).

It is not possible to exclude new social flare-ups, which may go hand in hand with a new global geo-politic order that is more or less pronounced (implosion of the European zone and the Euro, and a sharp decline of the dollar)

It is difficult to move forward without considering worst-case scenarios about what might happen: back to strong protectionism, nationalist upsurge toward identity- and communitarian-based action. All of this may create a number of risks. As in most situations, the blame can be placed on someone else...

## 22 – reconstruction scenarios and the challenge of a coherent political approach

Several scenarios for overcoming the crisis have been proposed. Broadly, (alternative) recovery measures are often thought to be

- a “bottom-up” dynamic, or
- less often, a “top-down” approach, or
- even less often, a political approach that could associate these two ideas in a coherent way. It is necessary to deal with both the monetary and the shareholder value issues simultaneously.

**A coherent political approach to recovery** to react to the global crisis (which affects finance, economy, energy, ecology, but is also an intellectual crisis ...)

**The titles of the different chapters of the recovery could be:**

(reflections arising mainly from international colloquiums)

at the global level

**currency as a public good of humanity**; poor countries' debt forgiven;  
a new global economic governance

at the regional level

a multi-polar and multi-lateral world  
with regional economic integration

at the national level

the creation of public financial centres  
a restoration of public policy and services

at the local level

the relocation of economic activities  
**new ways of organization activities**

## Conclusion

**What is most important now is perhaps to**

- **make the crisis and its seriousness understood, undertake a non-complacent assess;**

- **work out a path to recovery that takes concrete action on a number of simultaneous planes, from a global to a local perspective**

**Our world faces important challenges:  
environmental, energy- and food-related.**

**These challenges are so fundamental that they call for new kinds of citizenship participation in work and money-related relationships.**