

# CONJONCTURE

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*"Tout l'art de la politique est de se servir des conjonctures." Louis XIV*

## Net gains of outsourcing

By Yousouf Ismael

Information and communication technologies (ICT) pervade every sphere of economic activity. It is hard to imagine an industry developing without ICT as a key enabler for growth. The barrier between business and technology is today irrelevant.

Communication technologies have become an integral and inevitable part of any business strategy whether it is focused on productivity improvement, cost savings, markets development, new business ventures, products development, supply chain management, distribution or facilities and infrastructure management. More IT in business and government services brings better efficiency across the economy and helps accelerate economic growth, or at least helps ease the impact of downturns.

The increased penetration of the Internet and mobile telephones in our daily lives has created a new kind of economy, the information economy. ICT both as an industry in its own right and as a support tool to the various sectors of activity is bound to expand even faster as more and more developing and less developed countries develop national IT strategies, increase spending on computer systems and telecom infrastructure and encourage private business in these sectors. One study for a mobile network operator has suggested that a 10 per cent increase in mobile penetration in a country can grow the gross domestic product by 0.6 per cent.

Connectivity is key to unleashing the potential of ICT and IT-enabled services and deepens its diffusion in the economy. The services sector is increasingly ICT-intensive. This means that public as well as private sector services can reach out to a growing pool of customers regardless of geographic barriers. There are huge economic efficiency gains, but the achievements in terms of society advancement are even more telling. A larger section of the population now has access to

services that otherwise would have been inaccessible without the ICT conduits.

Industries and companies that incorporate IT in their operations have inbuilt cost competitiveness that translates into better prices and service delivery to the market. Firms register an increase of productivity of their manpower, especially in the more skilled segments of the workforce, and an increase of capital input per worker (capital deepening).

The subsequent rounds of cost savings (through better costs and prices) lead to an overall improvement in efficiency and resources allocation in the economy. The information economy has taken roots in all areas of economic and social life and is growing fast. Broadband connectivity will make it grow even faster and will raise the efficiency, productivity and competitiveness benefits to the economy.

ICT also facilitates the adoption of new business models that help unlock value which is usually tied up in the various activities of an organisation. Communication technologies enable firms to outsource some of their non-critical operations (accounting, payroll, human resource management, customer support, the IT platform and a range of front-office and back-office activities) to third-party specialist service providers.

### Mauritian companies have yet to tap the true potential of IT

Whilst outsourcing allows companies to become more agile and efficient, it has also developed into a massive service industry in its own right. India, Mexico, Philippines and Ireland have made it big in the business process outsourcing (BPO) industry. Many African countries like Tunisia, Morocco and Senegal are emerging as key players in the

French-speaking markets.

Mauritius has since the beginning of the decade tries to establish itself as an offshore outsourcing platform for both European and North-American markets. Whereas the BPO sector is scaling up to new heights and offering more and more complex services to American and European clients, very few Mauritian companies have considered outsourcing as part of their growth and/or cost cutting strategies.

The economic downturn is forcing many Mauritian firms to reconsider the way they do business. Many companies have yet to tap the true potential of IT. IT-enabled outsourcing should be seriously explored.

However, some issues must be addressed as a matter of priority. Firms that are considering shipping some of their activities to third party operators must have the peace of mind that the confidentiality and security of their data and information are not being compromised. Data protection laws and standards should be in place and should be supported by adequate enforcement capabilities.

Whilst the use of IT internally has a big positive impact on efficiency and productivity, outsourcing can raise business performance to an even higher level. Mauritian BPO providers should see local companies as a market to be captured. Besides technical know-how and service delivery capability, they must demonstrate good ethical and professional behaviour to attract business from locals. The confidentiality issue will be a vital consideration in deciding whether or not to outsource and to which provider to hand over the business.

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## Corporate social responsibility as a relative

By Touria Prayag (Cont Pg 8)

There are several aspects to Corporate Social Responsibility (CSR): respect for the workforce, allowing the employees to exercise their full labour rights, respect for the environment, having ethical standards of best practice, etc. But there seems to be consensus on these, at least in theory.

Is mandatory CSR a friend or a foe of business? First, I would like to steer away from this dichotomy to think of CSR in terms of a relative, rather than a friend or a foe. Some of our relatives we like, some we dislike, some we are indifferent to, some we wonder why ever they exist but in hard times, we all stand by each other. And times are hard.

### A capitalism with a social conscience is emerging

Corporate Social Responsibility is nothing new: it was first heard in the 1970s. Why are we suddenly talking about it non-stop? Why has it become the buzz word the world over? For several reasons, one of which is the economic crisis, and the

financial scandals surrounding it. The silver-lining of these is that we are beginning to see the emergence of a capitalism with new features. We are not talking about socialism. We are not talking about communism.

But we have reached a period of history where the corporate sector has every reason to seize every opportunity to wash itself off the stigma and the scandals it is immersed in and prove that its heart is in the right place. The capitalism which is emerging as a result of the guilt and eagerness to do the right thing is a capitalism with a social conscience. We have paid a high price for it. The world has earned it.

We are talking about CSR also because it is in line with the United Nations Millenium Development Goals. These goals are anchored in a period of history. This is why CSR comes as the inevitable relative – a relative who is here to stay, a relative who needs our attention.

The modalities of CSR are not clear yet and there is perhaps no one size-fits-all solution because there is not one single policy in every company. Some companies have been committed to CSR without being asked; some used it as part of their marketing strategy; others used it insidiously as a devious way to get round the advertising ban. I will not go into the game of name-and-shame or praise and blame. It is not my position to do so.

I thank those companies who have been donating generously from the bottom of my heart. But you should not be shouldering the burden alone. Those who have never given a penny and who are scandalized that they have to start giving a fraction of their profits to the less privileged, you need to know that we have reached a period in history where the prosperity of the few is unsustainable without the prosperity of the many.

We have reached a period in history where we can no longer look away from our impoverished relative.

## What's intelligence got to do with it?

By Samad Ramoly

Generally, the latest global financial crisis has been attributed to a combination of regulatory failure, inadequate mathematical models and greed. We seem to have been oblivious of another element: tunnel vision. It translates a narrow perspective stemming from concentration on a single idea, opinion, data, to the exclusion of others.

Mindsets such as silo mentality, groupthink, bean counting, refer to an equally reductive process. Does the financial sector have a monopoly on tunnel vision? Absolutely not. Any system or organisation that inhibits sharing of information and restrains dissent transforms itself into an echo chamber, reduces efficiency and is bound to collapse at some point.

Globalisation is straining our level of consciousness through which we perceive in blacks and whites a world that typically unfolds in grays. The paradox is that while technology integrates and massifies the world like never before, it simultaneously creates fragmentation and boosts demand for more specialised and sophisticated professions. Bearing the 'expert' label is not, per se, a curse. But, when it feeds on self-absorption and grows into a media darling, it also loses its relevance and can hurt badly.

An 'expert' is not necessarily dumb though, she may well be the savviest but may have been bullied into a "silo" disconnected from the outside world. As a result, within the same

organisation, a consulting firm for instance, members of the same department may be adamantly "bullish" while others in another department may be as adamantly "bearish" on economic prospects.

### The pretence of knowledge

Too often, we confuse knowledge with intelligence. A four-year-old girl, for example, can be trained to reel off multiples of five up to one thousand. That is probably because she has a very sound memory. Nevertheless, it takes an informed and insightful mind to explain how, say government officials, shelter behind bogus statistics and buzzwords to prove their worth, or to decipher the toxic patterns embedded in International Monetary Fund/World Bank-inspired policies that make them so backlash-prone.

The bad news is that tunnel vision is not that easy to beat. At best, in the short run, leaders can strive to alleviate its impact by identifying the comfort zones in a bid to somehow unleash cross-sectoral/departmental team spirit and feed-backs. But we are in the midst of systemic dumbing down. Focus must now be on overhauling the education system so that future generations can cope with challenges to come.

Basically, formal education must enable individuals to switch nimbly from the left brain (analytical) to the right brain (intuitive, creative and contextual) and vice versa.

However, we kid ourselves if we trust that merely introducing some hours of 'philosophy' courses will do the trick. In fact, there is no evidence that they help to develop 'lateral thinking', 'think outside the box', 'blink', 'nudge'; terms coined by various researchers to express sharpened cognitive skills.

Clearly, exam-oriented education driven by rote learning overemphasises the use of the left brain. If churning out thousands of citizens every year with literal perspective on every encounter and dampened entrepreneurial spirit is not what we desire, we need to urgently revisit school curricula. They must not only be significantly broader but, in addition, they must be inquiry-based from the very start to ignite both the right and left brains. Cross-disciplinary approach to learning is key.

To reduce the risk of being led astray, we must remain wary of leaders from all walks of life who pretend to know more than they actually do. Information must flow freely; it must be filtered and updated regularly too. A reversion to time-tested common sense is overdue. By overcoming intellectual and cultural provincialism, we also celebrate pluralism in all its forms, foster collaboration and innovation while paving the way for genuine progress.

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## How easy is it to make money?

By Sameer Sharma (Cont Pg 3)

A few issues ago, I wrote about how the direction of the US dollar determines the direction of markets. Suppose you know next to nothing about stocks but wish to trade American stocks for example, should you spend weeks doing research before you make your investment? In general you should but these days you do not.

Here is the secret that is worryingly working too well these days. Just look at the dollar, if it is losing value, buy gold, buy commodities, buy stocks, in most cases, it does not even matter what you buy, just do it. If on the intraday chart you see that the dollar is stabilizing, begin to book profits and once the dollar strengthens a bit, sell. If you just followed this simple rule that requires no great intellect, you would have made a lot of money and until that correlation between the dollar and stocks and commodities breaks down, you will continue to do so.

The correlation in fact, whether we look at it on a day to day or better on a tick by tick basis, is astounding. The dollar leads and the asset markets follow and so all you have to do is look at a currency chart and buy or sell or short accordingly. A few issues ago, I also talked about the amount of liquidity on the sidelines.

Back in August of 2009, it was estimated that fund managers had on average 16% cash in their portfolios. There were also trillions of dollars in money market funds. Today, cash at hand is down to a still high 10%, about 5% above where it tends to be. It is very difficult to go against the market when you have such large amounts of liquidity and this has actually been the reason why shorts have been killed in recent months.

The fact that shorts got killed also helped the market go higher. When I short a stock that begins to go up, the first thing I do is to buy to cover. This short squeeze helps the market go higher. At this point, you are probably wondering why the dollar is so important to equity and commodity markets?

Historically, currencies like the Japanese Yen have been the world's favourite carry trade currency. You would for example lose your job as a trader if you were long a stock the day the yen was appreciating against the US dollar. In recent months, things have changed as US short term rates converged towards those of Japan. The world's reserve currency is, as many have put it lately, the world's carry trade currency. These days all you need to do is to look at the EUR/USD or better the DXY index (dollar index) and you are all set.

I have to say that it has been an incredible run, there is a party going on in the markets and everyone is joining in the fun. Risk appetite measured by the dollar's decline is increasing on a daily basis and the volatility index (VIX) is even below 20. Then we cannot ignore earnings. Results have so far been better than forecast for 76% of S&P500 companies.

Of course nobody will tell you that generally analysts who make these forecasts tend to cut their estimates a few weeks before the end of every quarter to give the impression of being cautious. Remember, it is always better to undershoot rather than overshoot in the business of forecasting!

Now many in Mauritius will understand very well that when you are a large company that exports to Europe or Asia, currency depreciation coupled with

cost cutting can do wonders to your bottom line. You know that it is revenue growth that you need to look at and you more importantly need to estimate organic revenue growth. Bar the technology stocks such as Google and AAPL, organic revenue growth is down and not up. Earnings are down too vs a year ago by the way, it is just that they are better than "forecast" and the dollar has a lot to do with that.

### The US market remains overbought

Reports coming in from across the US are not that bullish. When you read Bloomberg news, you will never read about growth but about better than expected figures or worse than expected figures. Unemployment in the US continues to rise, the commercial real estate sector remains stressed despite so called "attractive valuations" and bar the young generation buying such things as the IPHONE, there is not a heck of a lot of consumption going on right now.

I think that if you want to have a feel for the US market, you look at a company like General Electric or better yet just look at the Defence Sector Index and you will not find much to smile about there. The US economy might probably be out of a recession right now but we are not doing that great. Credit card defaults continue to worry and lending remains extremely weak and not many jobs are being created. Exports are doing okay however, largely due to the dollar and productivity gains made over the past decade.

The big banks are starting to turn, Goldman Sachs and the likes are showing decent profit growth but that is mainly on their capital markets business

which should not surprise anyone considering how far the market has gone since last March. If you are looking for signs of growth, it is again in technology and selected companies in the telecommunications sector.

Inflation appears to be in vogue these days. The Australians were the first to act by raising rates because let's face it, they depend on China much more than on the US these days and as long as China does ok, they will do ok too. The Bank of Canada on its part has stated that rates will remain on hold until next summer and besides they are not too happy with the strength of the Canadian dollar which is almost cancelling out whatever good fiscal policy has been able to do in the manufacturing sector.

The Chinese too (if Chinese accounting methods are to be trusted) have grown by 8.9% this past quarter and so anyone who is bullish right now is happy and probably telling you to buy. It is amazing, the world is apparently growing so much these days but yet the Baltic Dry Index is not and news has it that the Saudis are unhappy about all the extra oil they have in tankers right now.

I have been participating on the upside of this market since March and after July I have been very cautious about this market and stories about global growth. I read about how monetary easing will create inflation and I want to believe it too but then I look at the long end of the US yield curve and since July, yields have fallen not risen! Implied inflation from Treasury Inflation Protected Bonds for the next two years stands at a super 0.54% right now. Unemployment is still rising in major economies and the output gap remains large.

It is certainly very bizarre to see that inflationary pressures are creeping up ever so slightly in certain countries, especially in China (property prices are worrying the central bank) while there is no sign of it in the developed world. Is the weakening dollar exporting inflation? It probably is but it would be nice to keep some inflation right now. Inflation would not be that bad for the US right now as long as it comes along with growth too.

Some will tell you that the trillions of dollars of liquidity that has been pumped in the system will lead to inflation in two years or less and that may be true but we are yet to determine the extent of the shock on consumer demand. Manufacturing companies in the US do not have much in terms of pricing power right now as witnessed by their results. Maybe all that money that has been pumped is only plugging part of the huge output gap? The problem is that we just have no clue and it is worrying because the economic fundamentals are not doing as well as a stock market that is highly dependent on the dollar.

In terms of technicals, the US market remains overbought at these levels and Relative Strength Index divergence from price chart has lasted more than two months now. The longest period of divergence was set in 1987 and we all know what happened eventually! I do not care what oscillator you look at, all signal overbought conditions but as long as the dollar goes down, the market is going nowhere but up. The Feds do not mind the dollar weakening either because at the end of the day, exports are all they got going for them right now.

My advice would be as follows: as long as the dollar continues to go down, stay invested but trade with tight stops that are around 4-5% lower than current levels. The market has a tendency to correct by a couple of percentages before it goes back up. This is why I wrote about buying on the dips in the last article and selling on the highs. That rule still stands as long as the market does not fall by more than 5%. The VIX indicates complacency in the market while the volatility time skew shows that volatility is coming our way by December.

Overall, I am in the party but I do realize that the food may be tainted and I think that there is nothing wrong with being very cautious right now and

buying some cheap out of the money puts or having stop losses on your positions 4-5% below current levels. It is increasingly feeling like a bubble out here, sadly it won't be our first bubble but it is a bit early to be forecasting doom and gloom right now. In school, I learnt that recessions just do not end like that, especially not the kind we are witnessing today and even when we do get out, when you look at the debt to income levels out here, you cannot possibly be that bullish at these market levels.

Going back to the technicals, the S&P500 has encountered heavy resistance at the 1,100-1,115 level and has stalled around there. The oversold dollar has begun to consolidate but its formation remains weak and this dollar direction uncertainty has to worry us. If the dollar begins to appreciate on any bad economic news, the carry trade positions will need to be unwound very quickly and this will not be good for markets to say the least. Be careful!

### Being concentrated on just three stocks is not diversification

On the Mauritian front, I have noticed that local funds have continued to increase their holdings of New Mauritius Hotels (NMH) in anticipation of a Euro area economic rebound. So far tourist earnings remain extremely weak and quite frankly, I do not understand how these bullish bets can be justified yet. This is an illiquid market, so it takes no Einstein to realize that 40-80 million rupees here and there can make this market look very sexy but give me a break, it is too early to be taking such large scale bets.

If you are a trader or medium sized investor, then yes absolutely speculate on these stocks because your positions are small and you can get in and out more easily and hence you can take a calculated bet which is reasonable. Of course, you need to look at the price of oil, at the travel data, at what the competition in other countries are doing before you get all excited but the hotels sector bet is something that was very obvious since June. However, if you are a mutual fund manager who is supposed to be managing the money of people who wish to save for longer term purposes, I just do not think that you should be buying such stocks that aggressively yet.

Now some may say that we did it and the stock is up but mutual fund managers go beyond being a speculator, it's a question of risk budgeting, a question of waiting for the earnings of the company for at least one more quarter before a large investment in that sector. Results of companies can take up to 3 months to come out in Mauritius, a sad story for a country with so many qualified accountants but those who have worked in the financial sector know why things are the way they are!

In a market like Mauritius, stocks will go up when local funds buy and when foreigners stop selling en masse and begin to make small investments again. It is not a very liquid market and so you should not be that naïve about it. The worry is that because it takes so long for companies to release results, it is almost impossible to make responsible earnings forecasts and hence responsible valuations and hence responsible investments. I just do not believe that this is being properly addressed in the current system.

What concerns me more however is the fact that a few funds have continued to increase their local equity exposure probably because they feel that a stable currency outlook coupled with a rebound in export markets will bring them the returns they missed earlier this year. The problem with holding too much Mauritian equity is the fact that your local portfolios tend to be concentrated on Mauritius Commercial Bank, State Bank of Mauritius and NMH. It is an extremely concentrated portfolio which creates a lot of problems when it comes to risk management.

Recently I played around with a hypothetical portfolio of Mauritian stocks, local cash account, foreign bonds, emerging markets equities, developed market equities and a fund of hedge funds. Once your local equity holding goes above 55%, the Kurtosis of your portfolio distribution shoots up like there is no tomorrow. There is clearly a case for local authorities to do more to encourage the healthy development of this illiquid secondary bond market and there is a need for local managers to quantitatively stress test their portfolios and come out with estimates of adjusted VaR (adjusting for fat tails and skewness).

At the end of the day, being concentrated on just three stocks is not diversification but "diworsefication". Funds need to implement more sophisticated risk budget techniques to limit potential downside to their portfolios and they do need to have a larger local cash/bond component and seek out sectors in emerging and frontier markets that will complement the portfolio rather than overweight on local stocks. There needs to be a better balance between quantitative and qualitative analysis when it comes to portfolio optimization.

### Low savings and productivity deficit

Finally, I often get asked about the Rupee and its direction and I keep on telling them that nobody can forecast such things. What I can tell you is that technically, the Rupee continues to hover around a key 30.00-30.30 (average bid and ask) support level. If it breaks this, it will go to 29.00-29.40 (average). This appreciating trend can only be broken if the Rupee goes above 31.45 average. The Rupee remains slightly overbought in the short term but should continue to benefit from a weak dollar but I guess that as long as it does not fare too well versus the Euro, lobbies will not cry out too much.

With regard to inflation, I think that we need to remain worried because there are conflicting signals as I described before. The reforms have certainly helped the economy whether the storm but worryingly, productivity figures have remained dismal and that is a big underreported problem. The savings rate continues to worry, especially the gap between investment and savings and this does limit the flexibility of the central bank a bit.

The Mauritian economy depends on growth in the capital stock. Cut the savings rate when there is no productivity growth and your miracle can turn into hell and back rather quickly. Of course, had they not actively encouraged negative real interest rates in 2007 and 2008, we would not have managed to squeeze the Mauritian consumer like that. The Finance Minister will need to address the savings rate issue and the productivity issue in his next budget much more aggressively. We should do away with taxes on savings and increase them elsewhere.

Bar the obvious need to speed up spending in infrastructure, there is a need to accelerate programs that provide loans to students and to invest more in education. The productivity deficit cannot be resolved overnight but it needs to be the main priority of the government. On that front, since the current Consumer Price Index is "unforecastable", the Bank of Mauritius needs to refine the way it measures inflation so that it can implement inflation targeting. Wage growth needs to come down in line with labour productivity growth or else the reforms would have gone in vain.

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## Can the effects of global financial crisis be mitigated?

By Roshan Boodhoo

There has been an increasing number of global currency and financial crisis following the breakdown of the Bretton Woods system in the early 1970s. These financial crises have affected even the most stable economies and there is an urgent need to reform the global financial architecture so that, in the future, such crisis can be better managed and eventually prevents them from reoccurring.

### Fixed exchange rate regimes

Following World War II, many countries abandoned the inefficient gold standard to join the Bretton Woods System. The system promoted a fixed exchange rate which was linked to the US Dollar thereby making the US economy stronger. The Bretton Woods System created the International Monetary Fund (IMF) which was mainly responsible of providing support to weaker economies while fostering growth and development. Another institution created under the system was the World Bank which had the responsibility to finance construction and building as a result of the damage caused during the world war.

McKinnon (1962) was among the first authors to argue that the fixed exchange rate under the Bretton woods system enhanced the market stability which considerably reduced the exchange rate exposure as well as transaction costs and stimulated international trade. This is in line with a more recent study by Raguseo and Sebo (2008) who showed that there is an increase in trade intensity within European countries upon adoption of the fixed currency (Euro) of the European Union (EU). However, due to various reasons including the high inflation rate that persisted, the Bretton Woods system failed.

Following the breakdown of the Bretton Woods system in the early 1970s, a number of attempts were made to reinstate a fixed exchange rate regime, such as the European Monetary System (EMS) from the late 1970s to early 1990s, but none of them were successful. Since then, the international monetary system was left to float freely. The free floating rate system is characterised by high volatility in currency markets and has witnessed many financial crisis. The most recent ones are the Asian Financial crisis (1997-1999) and the Mexican Peso Crisis (mid 1990s). Since then, many proposals have been put forward by academics and professionals to reform the global financial architecture among which the main ones will be reviewed hereafter.

So far, the only successful monetary system maintaining a fixed exchange rate has been the European Union which was formally approved in 1993 through the Maastricht treaty which introduced the Euro currency. However, in the wake of the current world financial crisis (resulting from the US Subprime Mortgage Crisis), the strength and stability of the Euro is yet to be tested.

### Governance of capital flows in a global economy

In the aftermath of the Asian Financial Crisis, the then US Secretary Rubin called for a strengthening

of the international financial architecture (Rubin, 1999). During the past decades, many academics, professionals and policy makers (including the government) have put forward a number of proposals to reform the international financial architecture.

The global financial architecture revolves around a principle of *laissez-faire*, that it to let currencies and financial markets to be adjusted by market forces. Hence this gave rise to the worldwide acceptance of an open capital account and discouraged countries to make use of capital controls resulting in financial markets around the world to be more integrated (Bagella, Hassan and Lothian, 2002). This high degree of market integration is vulnerable to the contagion effect of financial crisis.

Akyuz and Cornford (1999) argued that the Bretton Woods system made no provision for rules and regulations regarding international capital movements since the latter were not relevant under a fixed exchange rate system which maintained a stable currency. However, even after the breakdown of the Bretton Woods system, there was an increasing need for such regulations to enhance the international financial system but no such regime was introduced. The Bank for International Settlements (BIS) was set up only to manage certain features of capital flows and supported a limited number of countries only.

Due to the abovementioned issues, many academics and professionals proposed that there should be an international institution to regulate the international capital movements. In this respect, Eatwell and Taylor (1998) proposed that there should be a mega-power agency, namely the World Financial Authority (WTA), to regulate and supervise all financial institutions around the world.

The idea of having a World Financial Authority is further supported by Frenkel and Menkhoff (2000) who argued that once the WTA established, the IMF should be converted into a lender of last resort. However, this proposal might not be feasible since governments may not be willing to give up much of their decision and policy making power thereby losing sovereignty and also, there is the risk that the super-agency is not able to reach the anticipated level of efficiency (White, 1999).

The contagion effect of financial crisis has showed that the existing financial architecture should be reformed to adapt to a more globalised and integrated world economy. Soros (1998) argued that the increase in the frequency of financial crisis in the past decades is due to an inadequate global institutional framework which should have been in place to regulate capital flows at an international level. He therefore proposed that an International Credit Insurance Corporation should be set up to reduce excessive credit accumulation thereby minimising fluctuation in bank lending across borders.

Fischer (1999) proposed that the existing macroeconomic policies, banking and financial practices as well as disclosure of information should be improved in the capital flow recipient nations and also, in the capital flow source nations.

Another key player, as argued by the author, would be the International financial institutions (including IMF and World Bank) who would be responsible to redesign the global financial architecture and to strengthen the role of the IMF as a lender of last resort. This would be much more feasible as compared to having a new international regulatory and supervisory body which might be difficult to implement.

### The idea of target zones

The floating exchange rate regime has been in place since the collapse of the Bretton Woods system but has not delivered any of the anticipated effects such as stability in exchange rates, increased macroeconomic policy independence or even improvement in the balance of payments. Moreover, the floating rate system has been characterised by volatile exchange rate systems and currency misalignments (Jacque, 1981).

Bloomfield (1983) who reviewed the book written by Kenneth Dam (1982) argued that the author discussed the failure of IMF in properly communicating the obligations and arrangements under the floating exchange rate system. Moreover, no proper guidelines were given on market interventions and on surveillance procedures. Given this lack of policy coordination and poor institutional guidelines, it comes with no surprise that the floating rate era has brought in many financial crises during the past decades.

Akyuz and Cornford (1999) argued that exchange rates misalignments are attributable to the G-3 countries (that is France, Germany and United Kingdom) and the major reserve currencies (namely the dollar, euro and the yen). The G-3 countries have very large economies as compared to developing countries and thus, they rely less on international trade. Another key aspect is that the major industrialised countries have the ability to mitigate foreign exchange risk as they can borrow, lend or deal in their own currencies.

Edison, Miller and Williamson (1987) were among the first authors who proposed the introduction of target zones using any of the three major currencies so that a stable exchange rate system can be created. This is in line with the ideas of Zhou Xiaochuan, the governor of the People's Bank of China, who recently proposed the creation of target zones using the main currencies as a means to reach the ultimate objective of having an international currency for all countries provided there is enough support from the major political leaders of industrialised countries (Zhou, 2009).

However, it is important that countries have a coordinated macroeconomic policy and intervene in markets when necessary so as to keep the exchange rate exposure low and maintain stability in the target zones. A stable environment in target zones will promote growth opportunities and also reduce volatility in currency markets as it has been observed in the case of the European Monetary System (Krugman and Miller, 1993). Such a system could be monitored by the IMF.

However, Frankel (1999) argued that target zones allow currencies to float in a pre-specified range with respect to a currency in another zone. He discussed that if the range is narrow, then it will resemble the fixed exchange rate regime under the

Bretton woods system whereas if the range is sufficiently wide, it will therefore resemble the actual current floating rate system. Hence target zones are not advisable since both the fixed and floating exchange rate eras have witnessed a number of financial crises and failed to maintain global financial stability.

Zhou (2009) argued about having a world currency as initially proposed by Rogoff (1999) who stated that a world currency should be created and issued by a World Monetary Authority which would also be acting as a world regulator as well as a lender of last resort. However, it would be rather difficult for such an arrangement to work properly since the economic policies and situation of countries are too diverse ranging from highly industrialised to underdeveloped countries.

### Increasing interests in dollarisation

An interesting reform proposal is full or official dollarisation which has been attracting increasing interests since the 1990s. Dollarisation means that the home currency is replaced by the US Dollar or any of the other major currencies like the euro or yen. Arguably, dollarisation is favourable to unstable economies where the home currency is too volatile. For instance, countries like Panama, British Virgin Islands or Ecuador are currently using the US Dollar as the official currency.

Calvo and Reinhart (2000) argued that many countries, mainly including developing market economies, opt for dollarisation since they have large debt levels denominated in US Dollar, a large proportion of foreign currency reserves are in US Dollars and with dollarisation, these countries can more easily access international credit markets. This is in line with Goldstein (2000) who argued that dollarisation might eventually be the best option to have a stable global financial architecture. Conversely, Balino, Benett and Borensztein (1999) argued that dollarisation will cause a slowdown in the economy of the country since the latter would have to give up its policy making decision to the currency issuing authority.

Recently there has been a lot of hype with regards to a new exchange rate system called Bretton Woods II. However, so far, no such system exists but some countries having their currencies fixed with the US Dollar or other major currencies have been referred as Bretton Woods II; for instance the Chinese yuan which is pegged to the US Dollar has been called the Bretton Woods II by Dooley, Folkerts-Landau and Garber (2003).

World leaders and international authorities are currently working on a new global financial architecture and many have proposed for a new Bretton Woods System to be designed. However, it is critical that such a system is made to adapt to the new world financial environment which is facing increasing risk of recurring financial crises and also ensure that the system does not have the same drawbacks as the original Bretton Woods system which collapsed in the early 1970s.

### Debt workout mechanisms

To reform the global financial architecture, it is important that there is an orderly workout of international debt as this may be an important tool

to decrease or avoid future financial crises. As it has been observed in the Asian Financial Crisis and the current financial crisis, the effects of a crisis quickly spread over the world thereby causing defaults on external liabilities of countries which have a direct impact on international financial stability (Senior and Westwood, 2001). One way to limit such problems is by the use of bailouts.

However, bailouts pose a lot of problems among which the main one is moral hazard. Also there is a shift of liabilities to the debtor countries as it has been witnessed in the current financial crisis (Jeanne and Zettelmeyer, 2001). Hence bailouts might not be an ideal solution to manage a crisis and furthermore, it is getting increasingly difficult to raise the required funds. So this has led to the rethinking of international debt workout mechanisms.

Raffer (1990) argued that the reform should mainly focus on the implementation of new principles as a means of reforming the financial structure. His main principles are: 1) debtor countries are given a time out or 'stop debt servicing period' in repaying their debts in case they do not have sufficient funds at a particular point in time; 2) to provide support to countries in terms of working capital to carry out operations when necessary; 3) to increase flexibility with regards to assets and liabilities of the debtor such that equity conversion is allowed to take place and write off bad debt when needed.

To implement these principles, Raffer proposed that all member countries of the United Nations should ratify a new international treaty to bring into existence an International Bankruptcy Court. This institution would arguably be able to guarantee an orderly workout mechanism for international debt.

Another proposal to improve the debt workout mechanism is to have debt audits.

The current financial crisis has been a result of irresponsible mortgage lending and in many cases, the debt repayment capacity of borrowers were not even assessed. The debt audits will enable governments and financial institutions to determine which debts are legal.

The debt audit should be carried out as a transparent process to ensure its effectiveness. There is an increasing trend towards the adoption of debt audits in many countries since its implementation in Ecuador. With debt audits, it is expected that lenders will act more responsibly in the future.

### Reform of the IMF

The roles of the IMF should be reviewed to adapt to a new international financial environment which is being increasingly affected by effects of recurring financial crises. While there are hundreds of proposals on the roles of IMF, this paper will focus solely on a very important proposal, namely converting IMF into an international lender of last resort.

Among the advocates of converting IMF into a lender of last resort, Fischer (1999) argued that individual countries cannot deal with financial crises on their own because the world is too integrated and the crises easily contaminate other countries with maximum adverse effects on small and

developing economies.

Fischer (1999) therefore proposed that if the IMF is converted into a lender of last resort, countries will be able to have adequate economic support to deal with the financial crises. This will maintain financial stability in markets thereby ensuring a fair exchange rate system. This proposal is supported by Sachs (1999) who argues that a lender of last resort will play a valuable role in case of liquidity crises which might arise from volatile exchange rates and failure of capital account policies.

On the contrary, Corsetti, Guimaraes and Roubini (2005) and Niskanen (2002) among other authors have argued that if the IMF becomes an international lender of last resort, countries may become lenient on their risk management activities and policy making as the governments know that they will have the support of the IMF should they encounter economic problems that can have an impact on international markets and the world economy.

The new roles of IMF should also focus on the improvement of policy making with regards to surveillance and conditionality. Moreover the voting system of the IMF should be reviewed so that developing countries can have more decision making power Gerster (1993).

### A single world currency?

The proposals put forward by academics and professionals have laid down the stepping stones for a new financial architecture but we have yet to reach a consensus on the implementation of these proposals. As reviewed in this paper, some proposals seem to be more feasible than others but in my opinion, the ideal way to reform the global financial architecture is to have a single world currency. The main advantages of having a single currency for all countries would be the mitigation of foreign exchange risk and information asymmetry which have been among the main causes of world financial crises during the past decades.

However, the creation of a new world currency would only be achievable with the political and economic support of all the highly developed and industrialised countries. As proposed by Zhou (2009), one of the best possible options to achieve a single international currency is through the introduction of target zones as an initial step. But the main problem that might be faced with a world currency is that there might be conflicts mainly among the developed countries on the powers related to the issuance and control of the world currency. Arguably, the World Financial Authority proposed by Eatwell and Taylor (1998) could be a world regulator which would also issue and control the world currency.

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## D'un Prix Nobel à l'autre

### Par Jacques Garelo

Les lauréats du prix Nobel peuvent-ils passer pour des génies de la science ou des modèles de conscience ? On peut le croire à la lecture du palmarès de certains prix décernés à des scientifiques, qu'il s'agisse de sciences de la nature (médecine, physique, chimie) ou de l'homme (économie). Les pionniers de l'atome, les inventeurs de la pénicilline, les découvreurs du virus du sida, méritaient certainement d'être distingués.

De même, des économistes de diverses écoles pouvaient-ils à juste titre prétendre à la célébrité : Samuelson, Arrow, Myrdal, Hayek, Solow, Friedman, Coase, Buchanan, Becker, Lucas, Sen, Smith, entre autres, ont certainement contribué au développement de la science économique contemporaine. Il y a eu à l'inverse, au moins dans la discipline qui est la mienne, de sérieux glissements, et le Nobel a pu récompenser quelques authentiques charlatans, tenus pour tels par la profession.

#### La signification ambiguë des Nobel

La signification des Nobel de littérature et, a fortiori, du prix Nobel de la Paix, est bien plus ambiguë, car ici les critères scientifiques font défaut ; affaire de goûts, affaire d'opinions. Décerner un prix Nobel à Jean Paul Sartre qui a fait l'apologie du stalinisme (il a d'ailleurs renoncé au déshonneur qui lui était fait), ce n'est pas comme l'attribuer à Henri Dunant ou à Mère Térèse. Entre les deux guerres, les promoteurs de la Société des Nations et les grands diplomates (Chamberlain, Stresemann, Buisson, Briand, Kellogg, Henderson) ont été autant de lauréats alors qu'ils n'ont pas su barrer la route au totalitarisme, ni prévenir la seconde guerre mondiale.

Depuis les années 1950, le critère de sélection a été de toute apparence de couronner des chefs d'Etats et des diplomates dont les efforts en faveur de la paix se limitaient à dialoguer, le plus souvent en vain. Ainsi Yasser Arafat faisait-il équipe avec Peres et Rabin, Kissinger avec Le Duc Tho, Mandela avec De Clerck. Les organisations internationales, de l'ONU à l'OIT en passant par Amnesty International ou autres officines « pacifistes » ont été grassement récompensées, leur rôle dans la paix mondiale étant nul sinon négatif. On trouve donc juxtaposées des personnalités douteuses avec d'authentiques hommes et femmes de bien.

J'ai été de ce point de vue très déçu par les lauriers de Barack Obama. Je ne doute pas de sa sincère volonté de rompre avec la diplomatie traditionnelle des Etats-Unis, et de se rapprocher des adversaires de l'Occident et de la civilisation : une initiative diplomatique méritoire. Mais je ne comprends pas pourquoi on ne lui a pas associé Mahmoud Ahmadinejad, qui entend aussi bouleverser les données de la diplomatie mondiale. Puisque la Maison Blanche veut tendre la main à l'Iran, il fallait associer étroitement Washington et Téhéran.

Les mauvais esprits ont laissé entendre que c'était une manière pour le prix Nobel de faire pression sur Obama afin de le dissuader de céder aux requêtes des militaires qui veulent intensifier la lutte en Afghanistan. D'autres médisants ont vu aussi dans

ce prix une compensation après l'échec d'Obama auprès du comité des J.O. la candidature de Chicago ayant été éliminée sans ménagement.

#### La gestion des biens publics

Je laisse ces digressions sur le prix Nobel de la Paix pour revenir au prix Nobel d'économie, qui a été attribué conjointement à Elinor Ostrom et Oliver Williamson. Elinor Ostrom a concentré ses recherches depuis des dizaines d'années sur les droits de propriété. Pendant longtemps elle a vécu dans l'ombre de cette « école des droits de propriété » qui a été fondée par Armel Alchian, Harold Demsetz, et qui compte aussi nombre d'économistes comme Steve Pejovitch et Garrett Hardin. De ce dernier elle a repris le thème de « la tragédie des biens communs » : les biens qui n'appartiennent à personne sont mal gérés, leur gestion est impossible.

« *Res ullius res nullius* » : les Romains avaient déjà compris l'importance de la propriété individuelle pour le bon usage des choses. Ostrom a voulu explorer des solutions nouvelles : n'est-il pas possible de gérer des « biens publics » et doit-on privatiser absolument tout ? Elle a cherché des institutions nouvelles qui, à base de coopération entre les gens concernés, permettraient de prendre soin de ce qui est à tout le monde.

Ce genre de « possession plurielle » conduirait à des solutions supérieures à celles que peuvent apporter propriété privée et marché – qui souvent ne sont pas adaptés. Pas adaptés par exemple aux biens environnementaux, et ici Ostrom se sépare des « nouveaux environnementalistes » qui voient la meilleure défense des espèces et des essences dans la privatisation. Cette thèse lui vaut actuellement une forte réputation, car elle vient renforcer les partisans et théoriciens du « développement durable ».

#### Logique du pouvoir

Ce parcours est très différent de celui d'Oliver Williamson, dont la notoriété est bien plus grande dans les milieux universitaires. Williamson a été longtemps considéré comme l'un des disciples majeurs de Ronald Coase, prix Nobel en 1991. Ronald Coase a inventé le concept de « coût de transaction », pour expliquer que les relations marchandes pouvaient être compliquées, sinon rendues impraticables, par les coûts nécessaires à l'organisation d'un marché.

Dans sa théorie de la firme, publiée dès 1937, il explique comment est née l'entreprise moderne : alors que la production artisanale exigeait l'éclatement de la production en un grand nombre de relations contractuelles, les « manufactures » regroupaient tous les facteurs de production en un lieu unique : des relations hiérarchiques se substituaient aux relations marchandes. Dans l'entreprise, une fois le contrat de travail signé, on ne discute pas, on s'exécute. Le travail en commun exige en effet une organisation qui ne s'accommode pas de négociations permanentes, et pour éviter le phénomène de « *free rider* » (certains cherchent à se décharger de leur travail sur les autres) il faut un contrôle permanent. Voilà comment naît le paradoxe de l'entreprise : conçue pour satisfaire le marché, elle ne fonctionne pas

suivant une logique marchande. Demeure l'éternel problème : qui contrôle le contrôleur ? Disciple de Frank Knight, Coase conclut sur l'importance du profit : c'est finalement la sanction du marché qui oblige les contrôleurs à bien faire leur travail.

De cette architecture très complète, Williamson reprendra essentiellement l'importance de la hiérarchie dans toute action passant par une organisation collective. Mais il se pose la question : le profit est-elle suffisant pour assurer la police de la firme ? On rejoint ainsi le problème de la gouvernance : quelle responsabilité pour les dirigeants d'entreprises ?

Henry Manne estime que c'est le marché des droits de propriété sur l'entreprise qui règle le problème : la Bourse par exemple permet aux actionnaires de contrôler les managers, ils vendent leurs titres quand la gestion ne leur paraît pas correcte, quand les profits ne sont pas suffisants). En revanche, Oliver Williamson privilégie les relations hiérarchiques et les phénomènes « d'agences » : il reste dans une logique du pouvoir plutôt que dans une logique de propriété.

Il est certain que les thèses de Williamson ont été très en vogue ces derniers temps, car beaucoup de commentaires sur la crise ont souligné la défaillance des marchés boursiers et des financiers. Ces commentaires semblent ignorer que le marché est « défaillant » quand il n'est pas libre, quand des réglementations empêchent la mise en responsabilité réelle des managers, et a fortiori quand les managers sont encouragés et couverts par les autorités publiques, ce qui peut aller parfois jusqu'à la complicité et la corruption.

Il me semble, mais c'est une opinion très personnelle, que les deux lauréats du Nobel d'économie sont des sceptiques du marché et de la propriété privée. En cela ils sont bien dans le « politiquement correct ». Murray Rothbard avait écrit un ouvrage intitulé : pourquoi je n'aurai jamais le prix Nobel. Il donnait cette explication, toute simple : « je ne suis pas politiquement correct ».

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## Que faire des banques centrales ?

Par Jean-Yves Naudet

La pression des gouvernements européens vis-à-vis de la Banque centrale européenne (BCE), pour qu'elle participe à la relance, l'utilisation de la Fed dans la politique américaine, y compris pour financer le budget, les manipulations des taux de change, notamment par la Chine, tout cela pose le problème du rôle des banques centrales. A quoi doivent-elles servir et quel objectif doivent-elles poursuivre ? Doivent-elles être indépendantes du gouvernement ? Faut-il envisager leur disparition, au profit de la concurrence monétaire ? Autant de questions fondamentales.

### La BCE est théoriquement indépendante

Le premier phénomène, c'est la question de la Banque centrale européenne. Construite sur le modèle allemand de la Bundesbank, garantie par les traités européens de la manière la plus stricte, elle a une mission clairement définie : s'occuper de la lutte contre l'inflation. Et pour cela elle est totalement indépendante de tout pouvoir politique : gouvernements nationaux, commission européenne, parlement européen.

Qu'elle se serve de cette autonomie d'une manière parfois discutable est une autre question : 1) elle préfère contrôler les taux plutôt que la masse monétaire, tout en gardant quand même un œil sur celle-ci ; 2) elle se fixe un objectif d'inflation de 2% au lieu de zéro ; 3) elle a fini par suivre le mouvement général consistant à relancer l'économie en baissant les taux d'intérêt, mais elle a moins baissé que les autres.

Tout compte fait, la BCE a globalement rempli son contrat : elle a participé à la stabilisation des prix en Europe. Depuis qu'elle existe, l'inflation a été sous contrôle.

Cela ne plaît pas aux yeux du gouvernement français, mais aussi de plusieurs de ses homologues. Les ministres de l'économie et des finances de la zone euro ne cessent de faire des appels du pied au gouverneur de la BCE, Jean-Claude Trichet, pour qu'il participe plus activement au grand jeu de la relance. Même Jean-Claude Juncker, président de l'Eurogroupe, a déclaré : « *Je respecte l'indépendance de la Banque centrale, mais au sujet de la sortie de crise, il faut avoir un regard large* ». En clair, créons de la monnaie et abaissons encore les taux d'intérêt pour relancer l'économie. Keynes n'est pas mort.

Ces pressions restent très feutrées, on suggère simplement une « coopération » ou une « concertation » entre politique monétaire et budgétaire. Certes, ajoute Juncker, la politique monétaire est indépendante « *mais nous devons rester en contact* ». Cela veut dire que la politique monétaire doit participer à l'effort de relance, voire même envisager des politiques monétaires « non conventionnelles », c'est-à-dire de financement monétaire des déficits publics.

On pourrait imaginer, dit-on encore, « *un mécanisme temporaire de consultation* ». Mais M. Trichet s'en tient aux textes : en vertu du traité de Maastricht, « *il ne peut y avoir de coordination ex ante* » car « *la seule aiguille dans le compas de la BCE* » doit rester la lutte contre l'inflation. Bien entendu ce respect des principes fondateurs de la BCE s'accompagne sans doute d'un certain scepticisme sur l'efficacité des politiques budgétaires laxistes.

### La Fed pratique des politiques « non conventionnelles »

Dans certains autres pays, comme les Etats-Unis, les banques centrales n'ont pas la même indépendance vis-à-vis des gouvernements et elles sont plus ou moins, comme le disait Napoléon, « *dans la main du gouvernement* ». L'exemple de la Fed le prouve bien : la politique monétaire n'est alors qu'un élément de la politique d'ensemble du gouvernement.

La maison Blanche veut-elle un plan de relance ? Elle va jouer sur le budget (plus de dépenses publiques, plus de déficits), mais aussi sur la Fed, qui va baisser ses taux d'intérêt et créer massivement de la monnaie. C'est d'ailleurs ce qu'avait fait la Fed dès les années 2000, en pratiquant des taux artificiellement bas, qui ont conduit tout droit à la crise des subprimes.

Mais puisque le gouvernement peut donner ses ordres à la banque centrale, pourquoi ne pas lui demander non seulement d'accompagner la politique budgétaire par des taux d'intérêt faibles, mais carrément de financer directement le déficit budgétaire, comme on le faisait du temps où l'on faisait « tourner la planche à billets » ? Avantage : il est inutile de lancer des emprunts pour demander aux épargnants de financer le déficit, puisque c'est la création de monnaie qui offre sur un plateau au gouvernement les moyens de combler ses trous.

De plus, l'inflation qui accompagnera nécessairement tout accroissement inconsideré de la masse monétaire va alléger le remboursement de la dette, qui se fera en monnaie dévaluée. Les consommateurs, les épargnants et les titulaires de revenus fixes sont évidemment spoliés par cette technique : l'inflation est un impôt sur les avoirs et les droits en monnaie. Cet « impôt d'inflation » (Milton Friedman) est une pure et simple spoliation de tous ceux qui détiennent de la monnaie officielle, ou dont les revenus dépendent de la valeur de cette monnaie.

### La manipulation des taux de change

Il y a une troisième façon d'utiliser les banques centrales, qui n'est d'ailleurs pas incompatible avec l'une ou l'autre des deux autres, c'est de s'en servir pour contrôler les taux de change. C'était le cas avec les changes fixes, mais c'est un peu passé de mode depuis les années 1970, car la banque centrale devait, pour maintenir la parité, acheter ou vendre des devises, pratiquant ainsi de faux prix des monnaies.

On est passé aux changes flottants, suivant la suggestion de M. Friedman : on laisse le marché fonctionner et déterminer le prix de la monnaie comme celui de n'importe quelle marchandise, suivant l'offre et la demande.

La réalité est plus subtile, car certains pays comme la Chine interviennent pour empêcher artificiellement leur monnaie, le Yuan, de monter, afin de stimuler artificiellement leurs exportations. Les Américains n'hésitent pas à pousser à la chute du dollar pour redresser leur balance extérieure. La manipulation, via la banque centrale, du taux de change devient aussi une arme de politique économique, notamment pour modifier les courants commerciaux.

Que faudrait-il faire ? Si banque centrale il y a, la réponse est claire : sur le plan externe, laisser totalement librement flotter les monnaies, pour avoir un vrai prix. Sur le plan interne, rendre les banques centrales indépendantes des gouvernements, pour ne pas laisser le pot de miel à la garde de l'ours, et les obliger, conformément à leur rôle théorique, à pratiquer des politiques de lutte contre l'inflation, en contrôlant la création de monnaie. Il ne faut pas leur demander de se mêler de la croissance, elles n'y ont aucune efficacité. Tout ce qu'on leur demande, c'est d'offrir en permanence un cadre monétaire stabilisant.

### Et si l'on remplaçait le monopole par la concurrence ?

Mais, à la suite de Friedrich Hayek (1976), on peut envisager aujourd'hui une hypothèse plus radicale, celle de la disparition des banques centrales et de leur remplacement par une concurrence entre banques privées émettant de la monnaie sous leur seule responsabilité. Il appartiendrait à chaque banque de créer un espace de confiance dans sa monnaie : des expériences de « banque libre » se sont déroulées avec succès plusieurs fois dans l'histoire.

Cette idée, un peu académique et peu connue du grand public et de la classe politique, ressurgit aux Etats-Unis face aux dérives actuelles de la politique monétaire. C'est un thème que défend depuis longtemps Ron Paul, représentant républicain. Voici que *Le Monde* (oui, *Le Monde*, et sur toute la largeur de sa dernière page « Haro sur la Fed »), nous explique que Ron Paul n'est plus seul et fait des adeptes. Il souhaite un étalon-or, ou argent, ou diamant ou « *tout ce qu'on voudra sauf une monnaie sous la coupe d'une institution non représentative qui peut faire tourner la planche à billets comme bon lui semble* ».

Si ces thèses reviennent à la mode, c'est en raison des erreurs de la Fed, à l'origine de la crise et qui prétend maintenant soigner l'économie américaine qui s'est « shootée » à la drogue monétaire en lui administrant une dose supplémentaire.

Le vieux projet « *audit the Fed* », qui faisait sourire, est pris désormais au sérieux : plus de la moitié des représentants l'ont désormais signé et demandent au moins un débat.

Ce n'est qu'un exemple et le projet de Ron Paul peut être discuté. Mais le thème n'est plus tabou. Les banques centrales actuelles ne sont pas la seule solution, et leur pouvoir infini de création de monnaie est trop tentant pour les gouvernements. Il ne faut pas demander au chat de garder la tasse de lait.

La concurrence existe pour la plupart des produits ; pourquoi pas pour la monnaie ? Il a été démontré par les disciples de Hayek que la macro-régulation de la monnaie par les banques centrales est moins performante que la micro-régulation par des banques privées, concurrentes et responsables.

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## Corporate social responsibility as a relative

By Touria Prayag (Cont from Pg 1)

The only possible route is to help him stand on his feet. It is part of progress. The day before yesterday, there was slavery. We moved on because we had to move on. Not because we wanted to but because we could not stop progress.

### CSR is the only way towards social cohesion

Yesterday, there was indentured labour. We moved on again. Then there was the fall of the Berlin Wall, the end of Apartheid, of Milton Friedman's laissez-faire capitalism, of Thatcherism, of Reaganism, then there was globalization. A lot of protest, demonstrations, people rolling on the floor but no one has been able to stop the world from becoming a global village. Access to information, much to the sadness of many totalitarian regimes, could not be stopped.

Today, there is CSR because that is the only way towards social cohesion. Just as our ancestors never knew that one day slavery would come to an end, thirty years ago, while you were waiting for me to be born, none of you could have predicted that we would be sitting today and talking about the obligation to help our compatriots whether we like it or not. Progress can't stop it.

And we should welcome it as a way to bring cohesion and harmony to the whole society because if I help lift someone out of the kind of poverty which robs him or her of their dignity, I am helping him/her educate their children and taking them off the street. And by taking them off the street, I am decreasing the chances of them breaking into my Ferrari when I am at Le Pescator having lunch with my bank manager. I decrease the chances of having them steal my blackberry and my laptop when I stop to pick up the lobster for my dinner.

And for as long as their children are off the streets, they are not peddling drugs to my butler. So, by accepting to pay, over and above the altruistic considerations, I am improving my well-being and my peace of mind. And it is with this reasoning in mind that we also accepted the government's Stimulus Package.

Of course I hear you say, 'we have been doing all this. We have been displaying a social conscience out of our own free will. Why make it mandatory?'

The answer is: we haven't. Not all of us, we haven't. Corporate Mauritius as a whole has not. Some companies did not wait for the government to pass laws to commit themselves to Corporate Social Responsibility. We know who they are. And we also know, unfortunately, that they are few and far between. Those who are giving are overstretched and because we know they are generous, they are approached constantly.

Those who have a culture of hoarding have continued to hoard. Shamelessly! Others have been organizing big communication events to dish out crayons '3 pour dix', showing that they are more interested in how much publicity they will get out of the 3 pour dix crayons than in the impact the meaningless donations will have on the groups they are trying to lift out of poverty.

Why make CSR mandatory? Because nothing else has worked. Because appealing to the humane side of people does not always work!

What happened to the Eradication of Absolute Poverty Fund programme? It earmarked one billion rupees, 300 million to be given by the corporate sector and 700 million by government. Where is it? Has it been able to even make a dent in the misery of our compatriots, handicapped, single mothers, elderly people, families with numerous children, children who are caught in a vicious circle of poverty, CPE drop-outs, battered women, people with drinking habits, drug abuse?

Those companies who are used to helping have been helping. Others have been interested in window-dressing and spin-doctoring. They have, above all, been interested in marketing.

Why should the private sector be forced to help? Because government cannot do it alone. No government can. No government has been able to. Because the few companies who are doing more than their fair share cannot or should not shoulder the burden alone either.

Yes of course, the Corporate Sector has been creating jobs. Yes, of course, those who are well off spend and pay tax. If they don't spend and keep money in the bank, they still pay tax. Thank you. But it is not enough!

### Will the CSR money reach the target groups?

Now, the real issue is not whether or not mandatory CSR is a good thing but rather what will happen to the money we will be giving. That is a legitimate question. If I am giving 2% of my profits to help those who need it, I want it to go there and help where the hurt really is.

How exactly is this money going to be channelled to the needy? I don't know. What I do know is that the target groups have already been identified. That is good news.

The other good news is that the areas where help is needed have equally been identified. Now that is an awful lot of good news. What I am sceptical about is how the money will go from my bank account to those target groups to help in the areas identified.

There are three options. The first one is 2% to the Mauritius Revenue Authority. How much of that money will reach the target groups? How much of it will go into bureaucracy? How much of it will increase the cholesterol and block the arteries of those handling it? I don't know. But if you are giving the money, you have the means to make those handling your money accountable. You have to ask to see the results and be able to quantify them.

The second option is funding Non Government Organisations: now let's stop being nice to each other and say this. Some NGOs are doing a fantastic job. Others have become very lucrative family enterprises. Many today talk about 'the NGO business'. That is appallingly ironic. This is a great opportunity to encourage the ones which are doing good work. Let the others suffer a natural death. It

is all in your hands.

The third option is choosing one's own projects and seeing them through. I think that this would be a fantastic opportunity to own one's own project, monitor its progress and evaluate the results. But this can only work if we manage to think outside our own personal interests. Creating non-jobs for spouses and relatives is a danger. Let dignity help us rise above self-interests.

### CSR is a window of opportunity

To conclude, CSR is here to stay. Because the ultra liberal economic philosophy is over, like slavery, indentured labour, communism, Apartheid, Friedmanism, Thatcherism, Reaganism. Each of these forms has existed and was quite acceptable in the historical period in which it occurred.

If we take slavery, it involved terrible atrocities. But they were acceptable at the historical period in which they occurred. We are sorry for our ancestors who were subject to it. But we cannot spend our lives moaning about it. And certainly, we cannot judge our ancestors with today's eyes. But slavery, indentured labour and many other horrendous things are over. It is nobody's fault.

Many other privileges we have today, our children will not have. And I hope they don't. We have to reckon with a new face of capitalism. The kind of capitalism where the corporate sector was only accountable to its shareholders is over. We have to come to terms with it. It is nobody's fault. It is part of progress. No one can stop it.

When the dust settles a little, corporate Mauritius and the rest of us will start looking at CSR with today's eyes, not with yesterday's. And we will begin to see in it a window of opportunity to help where the hurt is.

Those who are not giving because it is not in their culture to give should see in this a way of alleviating some of the burden on those multinationals which have a social conscience and which did not wait for the CSR to become compulsory for them to extend a helping hand to impoverished Mauritius. I hope they will now know that it does not pay not to pay.

Mandatory CSR is a relative who is a potential friend if handled properly, who can become a foe if ignored and can turn into a terrible monster if taken advantage of. This is an opportunity for us to have a new model based on social equity, based on compassion for the less privileged.

Is CSR going to be a viable project or a costly fantasy? I hope we do not turn it into a costly fantasy where the benefits go to us and to our close ones. I hope we can all rise above our base instincts and make it work. We have to make it work because that is the direction the world is going. We have to make it work for our own sake!

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