

L'Economie de la Panique, faire face aux crises financières /
The Economics of Panics, confronting financial crisis

Jérôme Sgard – Paris, La Découverte, septembre 2002, 304 pages

Main issues and conclusions

(in rough English)

J. Sgard - CEPII, 9 rue Georges-Pitard, 75015 Paris -
Tel : 33 1 – 53 68 55 35 - fax : 33 1 – 53 68 55 03
Email : sgard@cepii.fr

SUMMARY

Introduction: the Economics of Panic

I- The Stages of Panic

1. Foreign exchange crisis and banking crisis
 - The invention of emerging markets
 - A case study: Thailand
2. The management of an international liquidity crisis
 - The Korean crisis
 - Korea vs. Mexico
 - Korea vs. LTCM
3. From market crisis to monetary crisis: Indonesia
 - The course of the crisis
 - Liquidity crisis and hyperinflation: twin sisters?
 - From liquidity crisis to the crisis of capitalist economies
4. Money and Insolvency: the Russian crisis of August 1998
 - The stages in the crisis
 - The reason for the surprise
 - The monetary experience of the 1990s': beyond the payment crisis
5. The return of the exchange rate: Argentina and Brazil
 - Wall Street, september-october 1998: the pick of contagion
 - The successful Brazilian forex crisis
 - The Argentine disaster of 2001

II – Crisis management: money and property rights

6. Did the IMF get it wrong in Asia?
 - The IMF and the crisis of the XXI^o century
 - The strategy for stabilisation in Asia
 - Why did it failed? An interpretation
7. Two institutions for crisis management
 - The lender of last resort
 - The bankruptcy rule
 - What about international payment crisis?
8. Conditionality and Multilateralism: a genealogy
 - Conditionality before Bretton Woods
 - The IMF and conditionality: a progressive construction
 - Collective action and burden sharing during the 1980s'.
9. The 1990s': new architecture or old problems?
 - What type of institutions for globalised markets?
 - The lender of last resort and international monetary stability
 - Which bankruptcy procedures for globalised markets?
10. Partial Globalisation

Bibliography

1- *L’Economie de la Panique* is an account of, and a reflection on the main financial crises which have destabilised the world economy since 1995: Mexico, Thailand, Indonesia, Korea, Russia, LTCM, Brazil and Argentina. It puts into perspective these successive experiences and the international policy debate on the so-called “international financial architecture”: the impact of the large IMF bail-out programmes, the issue of conditionality and moral hazard, the proposition for an international lender of last resort or for a bankruptcy procedure for sovereign States, capital controls and debt moratorium, etc.

Competitors of this book are, among others :

- Cohen B. (1998), *The Geography of Money*, Ithaca/ Londres, Cornell University Press, 229p..
- De Gregorio J., Eichengreen B., Ito T., Wyplosz Ch. (1999), *An Independent and Accountable IMF*, Genève/ Londres, International Center for Monetary and Banking Studies/ CEPR, 134p..
- Delhaise Ph. (1998), *Asia in Crisis, The Implosion of the Banking and Finance System*, John Wiley & Sons, Singapour, 280p..
- Eichengreen B. (1999), *Toward a new international financial architecture*, Washington, Institute for International Economics, 189p.
- Eichengreen B., Portes R., eds. (1995), *Crisis ? What crisis, Orderly workouts for sovereign debtors*, CEPR, Londres.
- Feldstein M. (Editor), *Economic and Financial Crises in Emerging Market Economies*, NBER, University of Chicago Press, (NBER Conference Report)
- Haggard S. (2000), *The Political Economy of the Asian Financial Crisis*, Washington, International Institute of Economics, 272 p..
- Stiglitz J. (2002), *Globalization and Its Discontents*, W.W. Norton & Company.

What are the main new elements in *La Panique*, when compared with the existing literature ?

- i. The main episodes have been the object of comprehensive fields-surveys, in 1998 and 1999, which allowed **for the interviewing of more than 150 actors or close witnesses**: they came from the local Central Banks, Ministers of Finance, commercial banks, enterprises, think tanks and universities, the IMF and the World Bank, the US administration (Treasury and Fed).
- ii. This made possible a much more precise analyses of **the domestic dynamics of crisis**, which has been very much neglected both on the spot, by international crisis manager, and in the academic agenda on an *ex post* basis. A consequence is the complexity of these crisis is often very much reduced and their comparison quite rare. How do the mechanisms of the crisis in Thailand differ from those in Indonesia ? What is the difference between a banking and a monetary crisis? What are the possible interactions between domestic and international liquidity crisis ? What are the links between the 1998 Russian financial collapse and the development of barter and parallel monies in the years before? How can we account for the relatively successful Brazilian devaluation of 1999 while a rather comparable inflationary experience, in past decades, caused a major disaster in Argentina in late 2001 ?
- iii. A strong emphasis is put on the systemic consequences of the liberalisation of **short term capital movements**, which comes out as the main institutional reforms of the 1990s’ which made possible the “invention of emerging markets”. Their impact is analysed both in the years before the crises (large capital inflows, speculative bubbles, etc) and on the short-term dynamics of financial collapse. In particular, *La Panique* insists that refusal to consider any temporary

control on capital outflows was indeed the key issue of principle around which the IMF strategies revolved, ... and often collapsed.

iv. Beyond this, one of the stronger conclusion is that liberalisation and globalisation do not call for a “withdrawal” by the State, as has been endlessly repeated during the 1990s’, but for its re-definition and often its strengthening, although along different lines as before. This indeed does not point towards the interventionist or redistributive State of the continental type, but rather to a more restrictive defender of the rule of Law, which certainly requires as well strong institutions, resources and legitimacy. The eventual aim of this book can thus be seen, in retrospect, as an attempt to reconstruct some analytical bridges between economic and political liberalism: a line of reflection which was at the core of the classical XIX^o century political economy, but which has been largely lost since then.

2- On a country by country basis, the analysis developed in the first half of the book underline the main following points:

Thailand (Chap. 1). Although the Thai crisis has often been presented as a standard example of a twin-crisis, hitting both the exchange rate regime and the banking sector, a lot of uncertainty remains in conventional accounts as regard its actual working. It appears indeed that this economy had already entered an open banking crisis by the end of 1996, more than six months before the conventional starting date of the Asian crisis (July 2, 1997). During the intervening months, **the Central Bank injected enormous amount of liquidity into insolvent, non-viable financial institutions** to the effect that the domestic financial system was further destabilised and the pressure of capital flights on the exchange rate increased. This banking crisis, which was badly managed in the most spectacular way, was thus the main force beyond the collapse of forex, rather than the relation working the other way around, as generally assumed. An other element is that after the confidence crisis by depositors and international investors receded, by october/ november 1997, a “second banking crisis” immediately started, on the asset, or credit side of the banks’ activity: though less spectacular than the former, systemic crisis, its long term consequences on intermediation and growth proved much more difficult to overcome.

Korea (Chap. 2). In December 1997, after the IMF had been overwhelmed by the on-going run on the Korean foreign exchange peg, the US Treasury put in place an extraordinary framework for crisis management in order to avoid an imminent cessation of payments. A detailed political-economic analysis of this **off-market recoordination** of international banks is presented and compared with the somewhat parallel attempt launched at the time of the Mexican Tequilla crisis of 1995 – with much more confusing results. One conclusion comes out strongly, which illustrate the broader political debate on US international actions, since September 11:

“ While the US has an unequalled capacity to project its might, it is never as powerful as when it succeeds in mobilising national actors into a cooperative game, to which they will contribute their own resources. In that case, the issue at stake is to establish and defend the rules of the game, even if they will remain temporary. If not, unilateral action rapidly reaches its limits. It is striking that in Mexico and Korea (initially), a weak framework for collective action delivered, almost inescapably, the least constraining outcome as regard private sector involvement: that is, in a nutshell, the G10 just opened and financed a large exchange bureau, for the sole benefit of international investors. Conversely, by late December 1997, the emergence of a strong collective, public actor at the international level allowed to brake out of the logic of unconditional bail-out and impose some burden-sharing ”. (page 65-66).

Indonesia (Chap. 3). The main contribution here is a step by step ‘deconstruction’ of the dynamic which led, within a few weeks time, from a twin crisis of the Thai type – banks and forex – to an **open monetary crisis**, of a much more radical and unique nature. First, by early January 1998, the panic transformed into a fully-fledged flight out money, towards real goods markets. Then, a few days later, a complete brake-up of trading relations followed in the real economy, due to the overall paralysis of the monetary order. This is interpreted as the “end-game scenario” of a liquidity crisis when it is allowed to develop on its own logic, without public regulators being able to contain it. Its trajectory then runs from the inter-bank market to retail banking, to reserve money and real transactions. Historically, comparable episodes of a systemic collapse of a market economy have only been observed at the end of the larger hyperinflation – Germany in 1923 or Argentina in 1989-1990, for instance. This gives to the Indonesian crisis **a unique place in the history of financial and monetary crisis**, which has remained until now either neglected or, more often, fully ignored.

Russia (Chap. 4). *L’Economie de la Panique* first proposes a step-by-step account of the Russian 1998 crisis, starting at the time of the Hongkong krach in October 1997 down to the failure of the IMF intervention on July 14, and the final collapse of both the financial system and the macroeconomic framework on August 17 (floating of the exchange rate, public default on the sovereign debt, collapse of the banks). While the conventional wisdom assumes that the Russian crisis was first and foremost a public debt crisis (due to the famous GKO market), it is shown – with day-by-day statistics – that the banks had entered already by May an acute, although silent liquidity crisis. Remarkably after this issue had remained wholly neglected in the *Economic Memorandum* signed with the Fund in July: the underlying collapse of the banks kept accelerating, and shortly provided the IMF with yet another bad surprise. It is then possible to link this “banking track” in the 1998 crisis to the many institutional and microeconomic failure which characterised the course of Russian reforms during the previous years – poor creditors rights, extension of parallel monies and barter, low discipline of payments, etc. The main insight, here, is that **the failure to construct a viable monetary order over the 1990s’ was, above all the consequence of the failure to strongly establish property rights and the solvency constraint**. A last remarkable trait of the Russian crisis is that the run on the banks’ assets was not only a reaction of depositors, but first of their own shareholders and managers, which emptied the banks’ coffers in two or three weeks. Elements are provided on this superior example of financial piracy.

Brazil and Argentina (Chap. 5). These Latin-American experiences are put in the long term perspective of financial and monetary crises in the region: the emphasis is put on the structural constraints on macroeconomic and foreign exchange crisis which are inherited from past decades of high inflation and monetary disintegration. The Brazilian Plano Real (1994) is thus compared to the Argentine Currency Board (1991) as **alternate strategies to re-established a functioning monetary unit**. Both relied for a prolonged period of time upon a fixed-exchanged rate anchor. In Argentina, the eventual exit from the peg saw a joint crisis of the three main components of a monetary order: the unit of payment (with the issuing of parallel monies), the unit of payment (with the risk of a violent dollarisation) and the domestic payment system (with the freezing of bank deposits). On the other hand, with hindsight, the Brazilian 1999 episode comes out as the best approximation of a “textbook devaluation”: a development, which surprised almost everybody after the long series of catastrophic scenarios, observed since 1995.

3- The second half of the book discusses under various view-angle issues of economic policy and international architecture raised by the financial crisis since 1995. As in the first part, a summary of the main elements of the current debates is proposed, including the main critics addressed at the IMF, the propositions put forwards to better managed the world economy and, lastly, the (few) reforms which have actually been enacted. This, however, is brought into a broader analysis and discussion of the structural failures of the present world-economy and possible routes for reforming it.

Has the IMF got it wrong in Asia? (Chap. 6). The discussion starts with the old question of whether the IMF imposed in 1997-98 inadequate policies which eventually magnified the crisis. Issues of budget policy are rapidly left aside: yes the Fund got it wrong initially, but nobody has proved that his requirements have had a real impact, considering it adjusted the policy course already by early 1998.

The key point however is the “Stiglitz critique”: did too high interest rates failed to reach their aim – stabilising the forex – while increasing financial distress in the local banking and enterprise sectors, so that bankruptcies, credit crunches and recessions were unnecessarily aggravated? *La Panique* argues that the Stiglitz critique is not empirically validated. In Thailand and Indonesia, the two countries on which the IMF was most criticised, Central Banks injected massive amounts of liquidity in support of non-viable private institutions, until respectively October 1997 and March 1998. In the former case, injections were sterilised, so that a large quasi-public debt has been accumulated; and in the latter one a massive relaxation of monetary policy, on top of the rapid fall in the exchange rate, caused a large inflationary shock during the first quarter of 1998. In other words, both Central Banks failed to respect Bagehot’s old condition that a lender of last resort should only support “solvent but illiquid banks”. In such conditions, the answer was not to further increase money supply, so as to maintain interest rates low and support the banking sector, as recommended by Stiglitz. The rational thing to do was to seize the failed institutions, possibly via a bank holiday and capital controls, so as to stabilise the economy and help the market start anew on a stronger footing. But this, of course, required strong, well-informed public institutions, and a government able to confront private interest...

Two institutions for crisis management. (Chap. 7)

From this point on, the analysis shifts to a more theoretical approach to crisis management. Two logics of intervention into crisis-stricken economies are contrasted, which are valid both at the national and international levels: the **lender of last resort** and the **bankruptcy procedure** (whether it takes a judicial form or remains more ad hoc). While the former operates from “within the market” and aims at preserving the continuity of exchanges and payments, the latter relies upon a controlled interruption of transactions: it actually takes out of the market the distressed agent and re-coordinate stakeholders – first of all creditors – “around the table” so as to reach a negotiated exit from the crisis, including when necessary via foreclosures and liquidation.

Both logics thus aim at re-establishing some coordination mechanisms – in or out of the market – so as to avoid the worst case scenario where individual agents rush to seize the debtor’s assets, in an uncontrolled free-for-all: this would lead to large-scale, uncontrolled redistribution of debts and wealth. This, it is defended, is the worst thing to happen in a capitalist economy, founded by definition on individual norms of accumulation, solvency and allocation of profit. In other words, crisis management should protect or stabilise the markets as co-ordination mechanism; but, beyond that, it should **avoid at any cost a dissolution of the formal distribution of assets and liabilities**, that is of debt and wealth – as happened to a large extent in Indonesia, Russia and Argentina.

While the lender of last resort is a well-known and much-discussed institution, the logic of bankruptcy has received much less attention, both from theoreticians and applied economists. Pages 178 to 192 propose an economic analysis of bankruptcy, based on its history since the European Middle Ages. This remarkable institution thus comes out as an exceptional witness of the progressive development of strong capitalist rules. Remarkably, in England, France and the US, for a large part of the XVIII^o and XIX^o centuries, its affirmation has raised continuous public debates, campaigns, reforms and recriminations. The central point was the condition under which debt could be forgiven and some capital losses transferred unto creditors (bankers to start with): the risk of the capitalist enterprise would then be de facto redefined and split between stakeholders. At the same time, interestingly, imprisonment for debt slowly disappeared, so that insolvency was not considered anymore as a political or a moral fault, calling for a penal trial, but as a recurring, normal accident in a Darwinian economy.

Remarkably, the same mix of individual and social issues, i.e. moral and interested motives, of financial expediency and higher philosophical arguments are to be found in the current international debate on burden sharing and moral hazard:

“All along the XIX^o century, the opponents to bankruptcy law have tirelessly put forwards the founding principles of a liberal society or, rather, of their understanding of it: intangibility of private contracts, individual freedom, and responsibility of the capitalist entrepreneur. Granting a relative irresponsibility to failed debtors would then only encourage laziness and adventurism, which would expose bankers to excessive risks, thus causing a contraction of credit. More radically, the possibility that a collective renegotiations of contracts, where the majority rule would be imposed upon dissident creditors would put into question the very foundations of a free, liberal economy (...) the more so if the State, or its judiciary is to take part into the procedure. Just as the current opponents to burden sharing or the reduction of developing countries’ debts, these harbingers of “market discipline” would thus as well put forwards altogether principles of economic efficiency, as well as moral and political constitution (...) Today, just as two centuries ago, to legislate on bankruptcy is to define the capitalist risk, but also to settle the rules of an economy founded on contract and property.” (186)

How are the two alternate logics for crisis management being adapted at the international level, after having been invented and established at the national one? How do they help understanding the main issues of “international financial” now discussed, in an age of globalised markets ?

A genealogy of conditionality (Chap. 8)

This chapter analyses how the classical rules for the management of international financial crisis slowly emerged. A key element is that since the early years of the XX^o century, **collective action against crises has been de facto tightly linked to the renegotiation of sovereign debt**, that is to an off-market, bankruptcy type approach. Just as a domestic credit market, a market for sovereign debt requires a working procedure to settle defaults, which are recurring events. If this set of rules does not exist the cost of the crisis, both for debtors and investors, will be much larger and the market may even not survived, as was illustrated in the 1930s’ or, to some extent, between the 1820s’ and the 1850s’.

In the post-World War I period, this logic of debt renegotiation started to be structured around two main concepts: multilateral coordination and conditionality. The latter is defined as the exchange of financial concessions against policy commitments, under the arbitration and surveillance of an independent third party - that is the equivalent of a judge in standard bankruptcy trial. Historically, this actor took many different forms: the US money doctors during the three first decades of the XX^o century, the League of Nations between 1922 and 1932, the young Bank for International Settlement between 1930 and 1933 and finally the IMF, that is mainly the “second IMF” which took form at the onset of the international debt crisis of the 1980s’. It was indeed **after the Mexican default of 1982 that conditionality found its classical form**: it was anchored in a strong framework of collective action and operated by a credible multilateral institution, endowed with large lending capacities as well as with sufficient powers and lee-way to negotiate directly with sovereign governments.

The main critical element highlighted by this long term perspective is that conditionality should not be analysed within the framework of a private, contractual relationships, where policy commitments would be a proxy, or a mimic of the collaterals and other types of guarantee available for private contracts. On the contrary, conditionality is entirely structured around the principle of sovereignty, which was at the heart of the IMF constitution as of the post-WWII multilateralism:

“Joseph Gold (1979), who established the legal doctrine of the Fund, underlines that from a legal point of view conditionality has no contractual character. He puts forwards the imprecise character of policy commitments and, above all, the notion that it does not constrain the Fund. Hence, Letters of Intent, which sums up such commitments are only signed by the country’s authorities while the Fund separately announces the opening of a credit line without any formal

relation between the two. (...) Particularly, the quantitative targets are not contingent clauses which would oblige the IMF to respond in a predetermine way in case of non-respect (...). In such a framework, the stability of the bilateral relationship lays primarily on the repetition of such exchanges of commitments over time. (...) The logic of collective action which emerged at the time of the default is thus extended over time while, at the corporate level, it is over when the judge withdraws from the scene and allows for the orderly settlement of respective liabilities (...). This is why conditionality is indeed wholly established within a logic of interactions with sovereign States and not in the sphere of commercial exchange, regulated by contracts. (...) It is because of the Fund is founded on the co-ordination and not the transfer of sovereignties that it remains a true representative of the classical multilateralism, as it took form with the withdrawal of European imperialisms, after the Second World War". (pages 227/229).

The 1990s': new architecture or old problems? (Chap. 9)

The analysis of recent crisis, the hindsight of past historical experiences and the theoretical opposition between the lender of last resort and the bankruptcy rule help highlighting the new – and not so new - issues which emerged during the 1990s'. The main innovation, when one considers the successive IMF experiments since 1995, is the sudden irruption of the concept of **an international lender of last resort**. This clearly brakes with the historical record which had been dominated till then by off-market re-negotiations. Moreover, this innovation is not restricted to the analytical framework and the official discourse: new forms of intervention have emerged which are clearly linked to this new logic although they did not produce exactly this institution – the enormous increase in the volume of financing mobilised in support of individual countries, the priority given to the stabilisation of international payments rather than to domestic stabilisation, the intervention in the capital account of crisis-stricken countries, the relative autonomisation of the IMF vis-à-vis the collective action with the private sector (see the relaxation of the rules of conduct as regard so-called 'lending into arrears').

It is shown that this change of paradigm has had a large impact on the interaction rule between the Fund and member-countries as on conditionality – that is the very core of multilateral collective action. This is exemplified above all by the "intervention doctrine" of the new **Contingent Credit Line** (CCL). This instrument which was added to the Fund's armoury in may 1999, and has yet to be signed upon by one country, formalises a relationship wholly at odd with the experience accumulated since the early 1950's, especially the jurisprudence of *stand-by agreements*. Its main feature are: a pre-qualification of receiving countries, a massive unbalance as regard the distribution of constraints and discretion between the IMF's Board and the country, the absence of any framework for burden-sharing with the private sector, finally an extension of the content of conditionality towards the microeconomic and political-economic terrain. This indeed recalls Charles Kindleberger's old thesis that an international lender of last resort should rest on an hegemonic relationship.

If one goes beyond the specifics of each crisis, two main elements have however illustrated the limits of this new type of approach. First, the large bailout programmes have had at best uneven results, often associated with large problem of moral hazard. Then, the failure of such strategies to protect the local banking sectors and more generally the local economies, as for instance in Indonesia, will affect expectations and strategies: in the future, if they feel they won't be protected efficiently by multilateral interventions, countries may opt for a go-it-alone approach and unilateral measures: this could indeed bring the world economy to situation close to that experienced in the 1930s'. These two reasons explains why, in the future, off-market approaches will most probably regain some ground: the main issues of "international architecture" are now to design their new forms, which cannot be drawn directly from past experiences.

On much-discussed direction is Anne Krueger's proposition for an **international bankruptcy procedure for sovereign states** – which confirms its canonical opposition with the lender of last resort and the exceptional, and most probably provisory nature, of the latter's emergence on the international scene. Krueger de facto builds on the oldest premises of bankruptcy law in European history and insert them into the framework of IMF working procedures. Its future however remains

difficult to appraise. Moreover, even if implemented, such strategy will not solve all issues: market-based *Collective Action Clauses* could be a complementary one and, beyond, questions of capital controls or debt moratorium are also, de facto, on the table.

4- Partial Globalisation. – The concluding chapter takes some distance from the short-term issues of crisis and crisis-management and questions, more broadly, what the recent experiences tell us about the current working of the world-economy. The main proposition put forwards contradicts the standard view that we are *de facto* in a wholly globalised economy, or in a soon-to-be globalised, single world market. On the contrary, it is argued, the key problem is the structural and durable tension between opposite forces: on the one hand markets are indeed more and more integrated internationally. But on the other hand these complex flows of contracts and payments may brake down and cause havoc, unless they are sustained and defended by economic institutions which, by and large, remain national ones. Two among these institutions have a special weight, which has already been felt in the context of crisis - money and property rights. We know indeed that their weakening or destruction causes by far the largest social disruptions, not just market failures.

While the construction of these institutions, in Western developed economies has been the result of a long and often conflictual history, they are still at the core of complex processes of development, in non-Western countries where capitalist rules of the games are still recent and fragile. This is most evidently the case in Eastern Europe ; but comparable issues of institutional development are also observed in southern, emerging economies. Hence the dangerous tension between their close insertion into world markets – especially the capital markets of the 1990s’ – and the limited competencies, strength and legitimacy of their national, public institutions. This indeed has been spectacularly reflected in the poor performances of the local lenders of last resort (which should protect money) and local bankruptcy procedures (resp. property). Hence the massive social costs associated with such financial disruptions, when compared to OECD countries: the forces of socialisation, which push in the direction of an informal redistribution of wealth, are extremely hard to control, so that accumulation can remain crippled for years afterwards.

Beyond these two major capitalist institutions appears, of course, **the old figure of the liberal State** : one which tasks is to defend the rule of law and guarantee the economic institutions on which any capitalist economy should rests; if not, markets coordination will prove weak and the benefits of capitalist growth will be limited, with their distribution often contested. For sure, citizens may then express a further, legitimate preference for a strongly redistributive State, for active environmental or cultural policies, or for the funding of large international aid programs. But, it is argued, the democratic expression of such political preferences, and the possibility of their implementation, will depend upon the strength of the public space – structured by law and public institutions– at a time when it is subjected to the corrosive or corruptive action of unfettered private interests. In other words, what the recent financial crisis demonstrate in the most violent way it that liberalisation does not call for the privatisation of the public space, but rather for the difficult formalisation of **a new “division of labour” between public and private spheres**, public rules and private enterprise.

The main structural weakness of the present world-economy thus brings back to the highly diversified historical processes, whereby capitalist regimes and the State of Law have been established in the different regions of the world. For a part this reflects into unequal institutional capacities. But a more qualitative diffraction can also be observed within the most developed regions, with the stronger public institutions. Even here the key issue is not for institutions to “close the gap” with globalised markets, after the latter have run the show since the early 1990s’. On the contrary, it is defended that this institutional and historical source of geographic fragmentation is **strongly resistant to convergence**. This is illustrated by the European construction. For sure some member countries have abandoned their money, although an enormous amount of political capital was needed for this. But as far as property rights are concerned, the EU has largely failed since the 1960s’ to force a minimal degree of convergence. Whether one looks at the corporate bankruptcy law, at the statute of

enterprises, the regulation of public offerings or the definition of intellectual property laws, these key elements in the definition of property rights are still, by and large, a reflection of the respective legal and institutional history of each country. This strongly suggests that the underlying institutional structure of globalised markets is, and will remain in the foreseeable future, fragmented: this indeed is the main structural weakness of a partially globalised economy.

Hence the main policy conclusion on this point: in order to better manage the world economy, and better respond to its crisis, the direction is not the construction of “globalised institution”, which would be established on par with the markets – as an international lender of last resort would have been. The main aim is to strengthen and develop the State of Law at the national level, so that collective action between sovereign States will be stronger. The present state of partial globalisation does not require to abandonment but **the reinvention and development of the classical multilateral rules, as inherited from Bretton Woods** .