

## Preface: Adam Smith's Market Never Stood Alone

From Adam Smith's single reference to the "invisible hand" in *The Wealth of Nations*, one would be hard pressed—even delusional—to derive a theory of the self-sufficiency of the market economy. Quite the contrary. As the headline of a commentary by Harvard economist/philosopher Amartya Sen proclaimed in the *Financial Times* on 11 March 2009, "Adam Smith's market never stood alone".

Indeed by understanding that the self-interested individual may sometimes be "led by an invisible hand to promote an end which was no part of his intention"<sup>1</sup>, the founder of modern economics laid open the possibility that the invisible hand could yield either positive or negative, unintended results. The global economic crisis we are in demonstrates the negative consequences of promoting a financial "free market" that approaches human needs—like social protection, health care, education, justice and community—only in terms of their profitability. The crisis also presents an opportunity to explore the need for shared, international responsibility, to engage—in an ongoing way—the political governance of the global economy.

The idea for *Re-Defining the Global Economy* grew out of a meeting on the financial crisis that took place on 13 November 2008, just two days before the original G-20 Summit and two weeks before the United Nations Review Conference on Financing for Development. Co-sponsored by Initiative for Policy Dialogue at Columbia University and the Friedrich-Ebert-Stiftung New York office, the meeting was led by Nobel Laureate Joseph Stiglitz, who was joined by more than 50 expert academics, international regulators, banking representatives and policymakers from the US, Europe, Asia and Latin America in a frank discussion of the financial crisis, its causes and the future of financial regulation and institutions. Following the meeting, we in the Friedrich-Ebert-Stiftung wanted to organize a broader discussion based upon the questions raised by each of these events and by the unfolding crisis itself. In particular, we hoped to solicit more input from the developing world and on behalf of trade unions and other parts of society whose needs and concerns did not necessarily have a representative voice within the G-20.

We invited expert authors—politicians, practitioners and academics with extremely thoughtful, and therefore sometimes controversial views on how to respond to the crisis—to contribute short articles to what we envisioned would become a general, political reader, something to promote discussion at conferences, meetings and town-halls around the world. We are therefore honored that Joseph Stiglitz's "Social Democratic Response" to the financial crisis, crafted in the immediate aftermath of the November G-20 Summit, will introduce the publication.

*Re-Defining the Global Economy* takes three approaches to the project implied by the title. The first relates to the institutional arrangements necessary for a just, well-

---

<sup>1</sup> Adam Smith, *Wealth of Nations*, Book IV, Ch. II, pg. 485 Modern Library Edition, New York

governed and well-functioning financial system. Authors **José Antonio Ocampo**, **Eric Helleiner**, **Tony Porter**, **Kemal Derviş** and **Peter Bofinger** contributed to this section and addressed problems related to development-friendly reforms, making governance more accountable for both informal, transnational networks and formal institutions, and whether there is a role for public sector rating agencies.

The second approach tackles the thorny question: does a just, well-governed and well-functioning financial system require *global*—as opposed to national or regionally coordinated—regulation? Authors **John Eatwell**, **Arturo O’Connell**, **Stanislaw Kluza** and **Avinash Persaud** contributed to this section and wrestled with concepts like how a global regulator would function, what role central banks need to play in the new order, and the necessary relationship between global and nationally-based prudential regulation.

The third outlook on the crisis concerns what political and economic arrangements are necessary for securing social protections. Authors **Dean Baker**, **Damon Silvers**, and **Prabhat Patnaik** contributed to this section and confronted questions such as how to create political space for effective regulation, defining labour’s perspective on democratizing financial regulation, and—most fundamentally important—food security, of which Prabhat Patnaik contends, “Neither the seriousness of the world food problem nor the intimate relationship between the world food problem and the world financial arrangements has received the attention it deserves”.

There is no singular outlook represented in this reader. Each author’s views are solely his own. However, they share the outlook that financial markets have to be actively and responsibly governed, not left to an invisible hand, when the interests of people are at stake. They share the outlook that the crisis yields an opportunity to fundamentally reshape the present global economic architecture in such a way that preserves the project for development that is sustainable and human-centered. Perhaps most of all, these authors’ contributions argue for a shared, international responsibility, to engage—in an ongoing way—the political governance of the global economy.

We would like to bring this discussion to you.

*Sara Burke*  
Editor  
Policy Analyst, Friedrich Ebert Stiftung New York Office

*Werner Puschra*  
Director, Friedrich Ebert Stiftung New York Office