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RESPONSE TO THE GLOBAL ECONOMIC CRISIS: IS THERE A CONSENSUS, IS IT BEING APPLIED, ARE THE GOALS OF EXPERT'S RECOMMENDATIONS BROAD ENOUGH TO ESTABLISH A NEW LASTING GLOBAL STABILITY?

INTRODUCTION

The current global crisis and recession, sparked by the bankruptcy of Lehman Brothers, the investment bank, in 2008, has prompted many reactions from experts, politicians and philosophers across the world. It has been related or compared to the Great Depression of 1930s, the crisis of the 1980s, and the Asian, Latin American and Japanese crises of the 1990s. But the underlying real estate bubble has been bigger than ever, fueled by deep deregulations and biased economic policies, which led to abusive use of highly leveraged investment strategies supported by booming derivatives and securitization markets, which in turn were boosted by faster global interconnections relying on new IT technologies.

Getting beyond the purely financial aspect, the crisis is questioning established economic models including neo-liberal views and Keynesian reaction even though many people advocate reinstating the Galls Steagall Act. It is affecting trust in institutions, creating political instability and building uncertainties as it is not clear if inflation, deflation or stagflation will follow. As a result, most politicians now advocate concrete new regulations. The Dodd-Frank Wall Street

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Reform Act (2010) under President Obama is one such example but it could be the last ambitious attempt for reforms before another crisis strikes. It is judged as timid or revolutionary depending on the interests, and it is far from being fully implemented due to the active lobbying by financial institutions representatives nostalgic of deregulation. It includes rules like Volcker, also related to other non-US reforms like Vickers (Chow and Surti, 2011), and the EU (Barnier, 2012), all aimed at protecting deposits of customers from speculation and at separating banks' activities by setting administrative and prudential frames but each, taken separately, lacks global comprehensive scope so their effectiveness is compared to the "Maginot line" and their full application is not planned before 2014 in best case.

We will review and analyze some of the root causes of this crisis and related selected policy recommendations advocated by both insider and outsider experts, which have also inspired above regulations. We will see how the scope of such recommendations is increasing, from US-based to global, from purely monetary or fiscal to prudential and socio-political, and analyze what is the common accepted set of reforms and how they can be implemented effectively. By getting beyond economic experts' points of view, we will question the long-term effectiveness of such measures and the nature of their goals

REVIEW AND FEASIBILITY OF THE INSIDER'S VIEW

Hervé Hannoun, the Deputy General Manager of the Bank for International Settlements, is an "insider". His analysis focuses on the role and shortfalls of central financial institutions as well as of monetary, fiscal and prudential policies during the present crisis. He advocates clear roles and rules in order to avoid similar crises in the future, and promotes what he calls a "global financial stability framework" proposed by the Bank for International Settlements (BIS).

Hervé Hannoun leaves open the question of the root cause of the crisis, acknowledging weaknesses in both regulation and overly accommodative macroeconomic policies, but he recognizes there was a market failure related to the reckless behaviors in the financial sector, poor market discipline and a failure of banks' risk management. He also advocates a global and comprehensive framework.

He argues that today there is too much reliance on and expectations of the monetary policies and of the role of central banks (CBs), which should insure price stability, resolve balance sheet problems, fix interest rates and relieve sovereign credit problems, among others. It is understood that in response to the crisis, CBs undertook unconventional monetary policies by slashing interests rates towards zero not only in the short term but with forward guidance over extended policy horizons, and, at the same time, intervened massively on financial markets by purchasing huge volumes of assets that now over-inflate their balance sheet. Such purchases include massive build-ups of foreign currency reserves to control foreign exchange rates (especially in emerging economies) but also longer-maturity assets like government bonds. Such measures were seen as extraordinary and limited in time, but both the increased maturity of purchased instruments and the extended policy horizon for interest rates are contributing to making such policies a normal. In Europe, some people wanted the ECB to practice a "Bazooka" policy by printing money to resolve the sovereign debt issues and the bank funding issue under the same illusion of unlimited power of intervention of the CB and with little concern for inflation, which was seen as potentially favorable in such circumstances.

H. Hannoun opposes the policies of "Bazooka" and prolonging extraordinary measures because:

- First, they supply liquidity but do not solve the underlying solvency problem of firms saddled with toxic assets resulting from excessive speculation and mismatch with the real economy. Applied together with a low interest rate policy, they increase the risk that the private sector does not take the necessary steps to make indispensable adjustments to balance sheet and, on the contrary, reverses to a new round of leveraged risk taking, knowing that the central bank would come to the rescue. Also governments can feel less compelled to reduce sovereign debt and even may push for it if refinancing cost is known to remain low and CB is ready to buy bonds. The insider sees such rescue program of the CB as distorting market mechanism and promoting problems like the "too big to fail" issue because knowing there is a back-up for risks, credit markets are subsidizing the big banks.
- Second, such massive interventions of CBs give the impression that they are monetizing the public debt and that they could exert long term influence on assets formation and shape the long term yields and thus limit the role of the market. Finally, it is not clear how this asset inflation can be tempered as it becomes taken for granted by all actors and the risk is that when reversed, it will be a major disturbance to the economy. The ultimate risk consists in an unexpected return of inflation that would damage the CBs' credibility, even if globalization and greater flexibility on labor markets are contributing to price stability. Among others, inflation could return through speculation or ineffective usage of limited supply goods like raw materials boosted by cheap credit. Of course some governments could be tempted to push for higher inflation in order to reduce debts. But inflation is just another form of default because inflation destroys the value of investor's fixed income claims as surely as default.

Therefore, price stability should be the only goal monetary policy can pursue over the longer term. The solutions proposed are to fix "the new frontier of monetary policy" vs. the respective domains of financial stability, of foreign exchange rate policy and of fiscal policy.

1) All macroeconomic policies should be symmetric in up and down phases of business cycles and countercyclical, in particular fiscal policies should be more sustainable to keep deficit under control especially in good times but act as a shock absorber in crisis. They should remain independent from monetary policies and not advocating inflation to ease government debt. This measure is a rebuff to hard neo-liberals who, under the banner of zealots like Grover Norquist and his pledge, do not accept any fiscal pressure increase anytime (2011), but it is gaining momentum.

2) CBs should cease to be the lenders of last resort with unlimited capacity to buy assets and bonds. They should "extend credit on a fully collateralized basis and in the frame of extended prudential policies and leave unsecured lending to private bankers accountable to the market". CBs shouldn't either control forex rates as it is inconsistent with domestic price stability, it requires trans-border cooperation of CBs. Policy should be based on a long term horizon that takes into account the lags between the build-up of risk and its materialization with the main focus on lasting price stability, but in short term CB should keep ability to surprise the markets in order to counter biased global financial communication and expectations towards pre-defined accommodative monetary policies. As we will see later from the outsider's views, this part in order to be effective requires CBs to act independently of mainstream financial actor's expectations or interests.

3) Prudential policy should feature two dimensions: a micro-prudential dimension designed to limit the stress of individual banks using a framework mostly provided by Basel III, which is just being postponed, and a macro-prudential dimension designed to limit system-wide financial distress by re-regulating the financial sphere including shadow banking and derivatives market for which there is a wide consensus of all analysts but equally strong resistance from financial group interests plus a risk of reintroducing excessive protectionist measures.

4) Monetary policy should:

- be more symmetric in its response to financial cycles and lean more aggressively against the boom and ease less aggressively and persistently in the bust.
- prevent build-up of financial imbalances by offering less accommodative monetary conditions in the booms because they contribute to underpricing risks.
- maintain a longer horizon for price stability policies that would allow inflation to run below the target for a longer period and give forward visibility to CB. This policy would counterbalance financial propensity to instability described by Hyman Minsky (1992) as the "Financial Instability Hypothesis", which states that "success breeds excess breeds failure.

H. Hannoun promotes post-crisis adjustments with in-depth intervention in balance sheets by using fiscal policy like quantitative easing adopted after the crisis. Vern P. McKinley (2012) is strongly against bail-outs which are wasting taxpayer's money without proper justifications. He argues that the regulators and politics are to be blamed for the crisis and that the bail-out process is a set-up to further expand influence of flawed national financial regulators. He is in favor of shutting down unsound institutions as well as of instilling more transparency in financial institutions. In subsequent papers H. Hannoun recognizes the need to move from bailing out financial institutions to bailing in their shareholders and creditors and he also supports exploring alternatives to bank bailouts. Another more classical view is from Professor Prabaht Patnaik (2008), from the center for Economics Studies and Planning in India. He agrees with Keynesian view that free market is defective as it cannot distinguish between enterprise and speculation and tends to be dominated by speculators. Globalized finance and deregulation have undermined the role of the nation-state assumed by J.M. Keynes to correct this defect. They have replaced Keynesian fiscal intervention as a means of sustaining growth by reliance on "bubbles lead to booms" paradigm. Therefore he recommends injecting demand into the economy through state intervention and big projects as a means to restore confidence and improve solvency. President Obama in USA or François Hollande in France and many other key actors support this view, which is not incompatible with the symmetric proposal of H. Hannoun, but could lead to populist tendency like "soak the rich" without true reforms to finance it.

Other analyses show that H. Hannoun may have missed some further interactions between fiscal and monetary policies which support his symmetric approach while refuting strong austerity policies recently conducted because they bring negative consequences. Christina D. Romer (2012) has for instance demonstrated that fiscal changes have large effects on output and employment in the short term and that it is correlated with monetary policy. For instance when monetary policy is constrained by the zero lower bound, it becomes less effective but then the response to fiscal change is boosted. Also monetary policy changes exacerbate results of tax increases because often tax increases for fiscal consolidation involve VAT increases which in turn push inflation up because central bank does not measure inflation net of tax. Another interesting finding is that financial markets are not so sensitive to the national long term debt as such but they turn on a country only if both the debt is unsustainable and there is no policy to reduce it. Therefore in times of crisis immediate austerity measures are counterproductive in short term while giving fiscal incentive may pay off as long as parallel steps on fiscal discipline are taken to reassure the markets on longer term deficit reduction plans. An example of such austerity plans is the increase of retirement age which has a delayed beneficial effect on the economy but immediate effect on rating agencies.

H. Hannoun has established a comprehensive list of tools which should make it possible to achieve the above targets in prudential, monetary and fiscal policies. Similar tools are the basis for Basel proposals or the 2010 Dodd-Frank Wall Street Reform Act. But other tools like taxing financial transactions, advocated among others by French President Nicolas Sarkozy, are not considered except as a way to create an buffer for financial institution, which, according to H. Hannoun, poses a moral hazard because the establishing the buffer could promote irresponsible behaviors. If such a tax were applied globally it could both limit leveraging in transactions and help reduce government debts counter-cyclically during economic expansion without creating additional burden on the non-financial economy.

Finally, H. Hannoun does not question deep enough the rationality of financial markets. Mitsuhiro Fukao (2009), researcher at Japan Center for Economic Research, has analyzed similarities between the 1997 Japanese crisis and 2008 asset crisis initiated in the USA. He shows how banks hided mortgage-related losses in unconsolidated subsidiaries using Credit Default Swaps (CDSs) and other tools. He emphasizes the leverage effects induced by the investment banks' usage of customer assets to raise funds, boost risky activity leading to overcapacity of goods in given speculative segments, and distribute CDS for which they underestimate the future cost of the CDS protection and take no provisions while declaring as profit the CDS fees received. Such a scheme is not exactly a Ponzi scheme but it is philosophically not far from it (Ponzi schemes are illegal). This scheme also involves "gambling spirit" but, unlike gambling, it is not thoroughly regulated. Proposals like "narrow banking" or "retail ring fencing", offered by Vickers, try to limit effects of such abuses by reducing the scope of regulated bank's business activities, but it should raise deeper concerns on the goals of financial institutions, which are absent in the insider's analysis.

To wrap up on insider's view, H. Hannoun analysis of the crisis is technically convincing even if he does not question the rationality of the financial agenda shaped mostly by neo-liberals. His proposals are somehow "technocratic", practical implementation program unclear and very focused on monetary or regulatory aspects, they aim financial stability exclusively without connecting it to the real economy or "human benefits". In his mind, those points will be clearly collaterals of a sound financial system within the rational world. He also advocates internal systemic reforms but does not challenge the framework within which such reforms must be implemented. Finally, he mostly discards other proposals like taxing financial transactions. This is probably the main weakness of the very comprehensive review because the very slow progress of reforms made till now demonstrates that in order to reverse domination of financial interests, enforce some re-regulation and avoid going back to pre--crisis status quo, most of the reforms require strong political support at global scale.

REVIEW AND FEASIBILITY OF THE OUTSIDER'S VIEW

Thomas I. Palley, is an economist living in Washington, so he is an "outsider" from the point of view of financial institutions but still a "specialist" on hard economical issues. In his arguments he is mostly referring to the US institutions but most of the time they can be extended to the rest of the world, as the problem is clearly global. He argues that the financial crisis and the Great Recession have prompted rethinking of central banking and monetary policy. In his view, the insiders do not question the monetary policy framework and focus on the role of the CB as the supervisor of the banking system, while himself he proposes to focus on CB governance, independence and representativeness of all interests in society. Therefore he proposes to rethink macro-economic theory, major monetary policy reforms and a more open minded and pluralistic economic philosophy for the CB. He recognizes that there are overlaps between the insider and outsider reform programs and underlying tools but he questions the substance of insider's reforms which are not promoting the necessary deeper philosophical changes. For the outsider, after reviewing recent history of neo-liberal deregulations, the Federal Reserve and most other central financial institutions have committed "significant sins".

The main point is that the Federal Reserve is legally mandated to pursue maximum employment with price stability, and such goal is absent in actual operations or in the insider's view. Therefore it needs institutional transformations so that Federal Reserve "thinks of itself as an agent for helping realize the American Dream". Beyond price stability it should allocate credits and shape the financial system in ways that ensure growth and full employment. The issue is that through its ability to issue money and set interest rates the Federal Reserve is of course part of the solution but this power can be abused, and T.I. Palley demonstrates that there is a political capture of the federal Reserve by financial market interests leading to excessive or selective usage of Federal Reserve to entrench only one set of interests, and therefore the Federal Reserve is also part of the problem. CB independence is needed against populist temptations but in itself as promoted by insiders, it is not enough because public's preferences are divided along several conflicting interests. Also the economic model monopolistically promoted by institutions is neither hard science nor the "true" model, it is just one fashionable view, which. by lack of alternatives, has blinded actors on the market reality.

This is why T.I. Palley proposes to address governance reforms, economic philosophy, monetary policy and regulatory reform and he offers a set of ten very clear reforms backed by concrete policies and tools. Most of the tools are fully in line with insider's list of tools to achieve a "global financial stability framework", again the main difference being the application of the reforms:

Reforms number 1 to 5 cover structural and procedural changes of the Federal Reserve (FR) and are not in line with any of insider's proposals. They aim at making FR administration independent from private banking through nationalization, its management more democratically accountable by giving new elected presidents appointment of the FR Chairman and by issuing a social report on other appointees. Such reforms can only be decided by strong political will to counter financial influence and have had no good prospects until now, maybe the reelection of Barak Obama and other changes in Europe will revert this. Also included is an economic philosophy reform with three policy proposals to correct the perceived intellectual failure of the FR which relate more to a code of conduct:

1) "Policy makers must exercise self-conscious skepticism toward euphoria to limit booms" which is easy said but as difficult to achieve as "right predictions".
2) "Strong regulations are needed to contain financial speculation and excesses", which is in line with insider's view.
3) "Discretion dominates rules, there is always need for judgment as long as it does not generate uncertainty which can paralyze economic action". This point is partially in line with the insider's view to "surprise the market" but could lead to risky experimentations.

Reforms 6 to 9 cover the monetary policy reform including prudential aspects. They are partly in line with the insider's view and they offer a deeper commitment to selected practical tools and regulations.

1) The first such recommendation is not, as we have seen, supported by insiders. It targets inflation rate so as to hit the minimum sustainable rate of unemployment as given by the backward bending Phillips curve, which should in turn reduce worsening of income distribution imbalance. That minimum unemployment rate of inflation (MURI) is probably about 3% to 5% in the USA. The main difficulty, apart from estimating that rate, is that better employment alone may not ensure better redistribution.
2) Second is to adopt a system of asset-based reserve requirements (ABRR) to enable targeted discretionary counter-cyclical balance sheet controls on the financial sector which should also apply to shadow banks and hedge funds. It is partly in line with insider's view to raise reserve requirements but adding the asset base dimension. This is probably a key tool but it requires to set-up a new dimension inside management of CBs to control many more parameters.
3) Third proposal is to target more than just the overnight interest rate for instance by targeting mortgage based security (MBS) interest rates, it is only partly in line with the insider's view on longer term price stability policy because one goal would be to ensure full employment, not only the price stability.

4) Last proposal is to use the bully pulpit to speak out on behalf of better overall economy policy, both to promote alternative views and to create wider support against financial institutions resisting changes. All recent major reforms projects in Europe or the USA have been initiated this way but are either late or heavily amended and thus less effective.

Reform 10 covers regulatory reforms and proposes 10 main rules which again mostly follow the insider's proposals or at least do not contradict them and seem very common sense-oriented when compared to the insider's analysis of the origin of the crisis. Mostly the proposals try to link short term actions to longer term outcomes, as advocated by H. Hannoun, and to regulate the whole financial sphere:

1) Financial market regulation should be comprehensive and cover all financial institutions on the basis of what they do, targeting shadow banking.
2) Lenders should be required to hold an ownership interest in all loans they originate, with the target of limiting risky loan pushing.
3) Top management bonuses to be paid in the form of longer term stock options. This has been a hot political issue after the crisis, especially when management of bailed out institutions still got bonuses. However, there is a strong opposition to regulate bonuses despite the popular support.
4) Establish strict leverage limits.
5) Subject lenders to liquidity requirements.
6) Make it illegal for investors to purchase CDS insurance coverage on bonds they do not own. This could limit speculation by financial institutions.
7) CDS market should be regulated, in line with insider's recommendations.
8) Financial companies should be required to issue contingent convertible bonds (COCO) as part of their capital structure to reduce maturity mismatch problem. Such bonds automatically convert into equity if later eroded bellow a threshold. It seems easy to implement and to get consensus.
9) Introduce a system of ABRR to reinforce interest rate policy, in line with the insider's views.
10) Limit political contribution from financial institutions. Such reform also gets wide consensus but is probably unrealistic as there are always indirect means to bypass such controls.

The outsider recognizes that such reforms need full political support but are unlikely to happen because, on one hand, present institutions are protecting themselves and, on the other, such reforms do not resonate well with the public who does not understand their effect and therefore they are not on the political agenda. In Europe, there are even doubts about the legitimacy of the European institutions themselves and it increases skepticism on their proposals for reforms. The social crisis following the financial crisis should be seen as an opportunity to change that but up to now progress has been slow, and the Basel III in Europe has just been delayed.

T.I. Palley's analysis is widely agreed upon among outsiders. For instance Miguel d'Escoto, President of the 63rd session of the United Nations General Assembly said that the response to the crisis should be multi-faceted: "we are not looking for poorly conceived institutions, we are not looking for the next bubble to burst leaving people feeling deceived and neglecting the needs of the poor". As a response Professor Joseph Stiglitz from Columbia University stressed the need to reflect on the role of financial markets in the economy. They should be evaluated on how they serve citizens as they are not an end in themselves but a means to economic growth and prosperity for all. He said that the underlying doctrine of the current system was flawed and that this was the root cause of the problem. What is good for Wall Street is not necessarily good for the society. The "trickle-down economy" had been consistently rejected as a means to provide prosperity for all. It brought some prosperity but, at the same time, it increased inequality.

CONCLUSION

The insider and the outsider generally share the views of the crisis and both list mostly overlapping tools to overcome it and prevent from recurring. Such tools are discussed today across the world by different committees and organization with still limited success in short term implementation and not enough global coordination. Moreover, most solutions do not take sufficiently into account softer and not easily modeled effects like panic, euphoria or anticipations which affect economic outcomes and should be considered when thinking about financial stability. The outsider's view gives a better explanation for this weak result in reforms by pointing out the flawed management and goals of existing institutions and suggesting that they require a wider political agenda to be changed. There is a "financial feudalist order" looming over our modern societies that needs to be reformed, "capitalism can create opportunities out of its own contradictions but not reform itself" (François Houtard). Some non-conformist authors like Steve Keen in *Debunking Economics* (2001) even questions the basic structures of modern economics.

Without rethinking the role of the economy within our societies we risk losing confidence in financial institutions and creating lasting social instability leading to political instability. As Plato said in his Republic and Dialogues, there was a broader political cycle that began with tyranny, evolved into oligarchy, shifted into democracy, fell into anarchy and then returned again to tyranny. Such cycles are visible in some emerging nations with failed economies, and it is clear that we are not immune to them in the developed world. Therefore, as explains Richard McCormack (2012), the challenge is to manage "our current economic problems intelligently and not letting them deteriorate to the point that demagogues from the political world are given space to return to power". Other sources of instability, like the aging populations and clash of generations or the global warming, could also change the socio-economic environment and bring additional stress unless preventive fiscal adjustments and capital redistributions are put in place.

Such issues have been discussed at various forums. UNDP has proposed eight millennium goals for 2015 addressing most urgent social and developmental issues:

1) Eradicate extreme poverty and hunger.

2) Achieve universal primary education.

3) Promote gender equality and empower women.

4) Reduce child mortality.

5) Improve maternal health.

6) Combat AIDS, malaria and other diseases.

7) Ensure environmental sustainability.

8) Develop a global partnership for development.

Financial stability as such is not part of it, nevertheless, this list leaves open the possibility to achieve such goals either by international or state promoted and financed actions which requires stronger or targeted fiscal pressure or by setting up a regulatory and financial framework that would give preference to projects and institutions that support such goals. President Barak Obama for instance strongly promoted in 2008 establishing of such framework to promote sustainability and alternative energy sources both through state subsidized projects and fiscal incentives. So financial stability is necessary to initiate such program but, as such, is not sufficient. A comprehensive policy based on fiscal, monetary and regulatory reforms must help redirecting resources and talents from short term speculation and consumption to longer term societal goals with a global perspective. The millennium project perhaps is not specific enough on progress as it targets actions achievable in the short term. The approach runs the risk of sacrificing key long term beneficial developments like scientific fundamental research for shorter term social development benefits not sustainable in themselves. It is paradoxical to see China as sometimes more involved in such long range projects than Europe or USA.

Therefore the millennium project should be seen as a subset of a wider higher-level proposal to promote ethical progressing civilization. A more humanistic approach could target:

1) Insuring well being, education, fair arbitration, respect and opportunities for all citizens.
2) Allowing and protecting freedom of expression.
3) Promoting sustainable quality of life.
4) Fostering creativity and progress (in the sense of opening up new horizons).

Again there seems to be no link between the above targets and the condition of financial institutions but such goals can be achievable only provided that deeper rethinking the fundamentals of financial policies and philosophy takes place than proposed by Palleys. It involves, as advocated by the outsider, longer term returns, allowing open debates, giving initiative to legitimate politics and creating a truly global framework for financial institutions supported by public legitimacy and aimed at promoting coherent regulations that would prevent financial actors from bypassing necessary contributions to the societies. But also states and international organizations should play prominent role, not in opposition to but supported by competitive financial markets needed to promote efficiency and to bring liquidity. The main difference would be that the notion of profit should be extended to include longer term and collateral effects in line with the above principles and beyond purely employment optimization. Some existing developments like micro-credits and business angels are good examples of more creative financial approaches. New targets or indexes measuring sustainability, quality or satisfaction could be introduced and used in association with fiscal policies to guide CBs' actions or to prompt financial institutions to create new products and insure a stable framework for major long term projects. These could involve developments in advanced research, long range exploration, infrastructure improvement or more friendly, less productivity-oriented support organizations. Also, such a wider framework might require some elements of solidarity. Solidarity-based institutions need controls against abuses and also need to increase their efficiency but cannot be subjected exclusively to a traditional market-based financial approach requirements assuring at the same time they still can benefit from the wealth that efficient finance helps generate. Wealth in itself does not bring aim but aim supported by wealth is more achievable!

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ABSTRACT

The current global crisis and endemic recession, initiated by the bankruptcy of the investment bank Lehman Brothers in 2008, has prompted numerous analyses from experts, politicians and philosophers across the world, presenting their views and offering solutions to end the crisis and prevent its recurrence in the future.

In this paper we review some of the root causes of this crisis and related selected policy recommendations advocated by both an insider expert of a financial institution and an outsider expert. In order to judge the feasibility of such policies we juxtapose them and introduce additional ideas from both experts of economic institutions and non-experts.

Hervé Hannoun, the Deputy General Manager of the Bank for International Settlements, is the "insider" expert. He focuses his analysis on the role and shortfalls of central financial institutions and of monetary, fiscal and prudential policies during the present crisis and then advocates clear-cut roles and rules in order to prevent the recurrence of similar crises in the future and to bring what he calls a "global financial stability framework" as promoted by the Bank for International Settlements (BIS).

Thomas I. Palley, an economist living in Washington, is the "outsider" expert. In his view, the insiders do not question the monetary policy framework and focus on the role of the central bank as the supervisor of the banking system. His interests, in turn, focus on central bank governance, independence and representation of all interests of the society. Therefore he advocates rethinking the macroeconomic theory, major monetary policy reforms and proposes a more open minded and pluralistic economic philosophy for the central bank with a focus on the mandate to promote policies maximizing employment. He includes a detailed list of concrete tools to achieve such goals. He recognizes that there are overlaps between the insider and his reform programs but he questions the substance of insider's reforms which do not promote necessary deeper philosophical changes.

Our analysis shows that the outsider's views are correct in challenging the goals of financial institutions before regulating the means that they apply to achieve these goals as it becomes apparent that financial dominance without the proper goals in place could bring social or political disasters and therefore not be sustainable or not prevent future crises. But the outsider does not challenge deeply enough the possible goals of financial institutions, so we define what could be a wider framework within which financial institutions should operate and we also give hints about how they could operate.