

The Economic Crisis and Poor People in 'the South'

Rob van Drimmelen

I was born and raised in the Netherlands and studied monetary economics at the Free University in Amsterdam. In a previous professional incarnation, I worked in a bank in the USA, well before the present crisis..... The mysterious ways of the Lord led me to the World Council of Churches where I worked, in different capacities, for almost 15 years. At present, I am serving as General Secretary of APRODEV, the association of 17 ecumenical development and humanitarian agencies in Europe.

Following what I learnt from the Reformed tradition about good sermons, I have divided my contribution into three parts:

- 1) Why should we, as Christians and churches, be concerned about economic issues?
- 2) What are the signs of the times? (Matt. 16:3)
- 3) Interpreting the signs of the times (Romans 8:31)

In each part, I will try to focus on perspectives which pertain to realities in 'the South'.

I. Why Should We, as Christians and Churches, be Concerned about Economic Issues?

Those of you who have ever visited the Free University in Amsterdam know that the main building of that University is rather high. The Faculty of Economics is located on the bottom floors of the building whereas the Faculty of Theology is on the top floors. Economics is with both feet on the ground whereas theology is with its head in the clouds; there is quite a distance between the two. The way in which the Free University has located both Faculties is typical for the way in which many people see the relationship between economics on the one hand, and theology and Christian faith on the other hand. One of my objectives this afternoon is to show that there is a closer link between economics and faith than the locations of the Faculties at the Free University may suggest.

During the past couple of decades, more and more people have begun to reflect on the relationships between Christian faith and economic life, and many churches, especially in the North, have issued statements, declarations, and pastoral messages on economic issues. *Faith in the City* was one example from the UK but, more recently, churches and church leaders have spoken out on the economic crisis following the 'credit crunch'. Polemics about statements from leaders in the Church of England are a case in point.

That Christians and churches reflect on these issues may not come as a surprise because economics is about the daily lives of people; it is about procuring food, shelter, clothes, and performing meaningful work. But why should Christians, churches and church-related organisations speak out on these issues? Would not it be better to leave this to the economists and the politicians?

No Separation between Spiritual and Material Life

The main reason for our concern for these issues is that Christian faith cannot make a separation between spiritual and material life. Just a few weeks ago we celebrated that God became incarnate in Christ to share the human condition with us. The Lord's Prayer, taught to us by Jesus, is about spiritual life as well as about material issues such as our daily bread. In some languages, including my own, the text in the Lord's Prayer speaks about forgiving our debts instead of forgiving our sins or trespasses. Biblical scholars have explained to me that this is a legitimate translation of the original text. Bread and debt were probably among the most pressing problems for the Israelites at the time and they are still urgent concerns for many people in the world today.

No dichotomy can be made between the spiritual and the material realm; if people are starving, that is a political-economic problem but also a religious issue. It would be heretical to separate the prayer for 'our daily bread' from the meaning of the Eucharistic bread, and it would also be wrong to interpret the 'forgiving of debts' only in a spiritual way.

Economy and Oikonomia

As you know, 'economy' comes from two Greek words 'oikos', meaning house or household, and 'nomos', meaning law or rules. Economics, therefore, refers to household rules and, in this sense, economics is as old as humanity because people have always applied household rules.¹

Like many households, God's household, God's economy, is structured around a table, the Table of Bread and Wine. This illustrates that God's economy aims at establishing community, koinonia, with the Holy Trinity as the supreme model for koinonia. This is yet another important message we have received about God's purpose for the worldly economy. When Christ said: 'Man does not live by bread alone', he was reaffirming Deuteronomy 8:3 which links the community's spiritual duty with the socio-economic needs of the poor.

Theological reflections like these have also inspired theologians of various traditions. An example is the US theologian Douglas Meeks who wrote a book called *God the Economist: the Doctrine of*

1 Apart from the ordinary sense of the word, 'economy' has a special meaning in traditional Christian theology. Economy is the synonym of the incarnation of God in Christ. The incarnation of the second person of the Holy Trinity was a special way of God's 'home management', God's economy, in order to save the world. In this divine economy, God accommodates himself to human conditions with the sole intention of saving humankind. Kenosis, or God's self-emptying for the salvation of the world, is the central theme of the divine economy. In Christ's offering, the whole created order was offered to the Father. According to the Orthodox tradition, in every Eucharistic celebration we participate in the self-offering of Christ by offering ourselves and the whole creation to God the Father. In the Eucharist - which means 'thanksgiving' - we offer bread and wine, the fruits of human labour and the symbols of the whole material creation, to the eternal Father through Christ. In return we receive the Body and Blood of Christ (see K.M.George, 'Towards a Eucharistic Ecology', in Gennadios Limouris (ed.), *Justice, Peace and the Integrity of Creation: Insights from Orthodoxy* (Geneva: WCC, 1990). The Eucharist exemplifies the co-operation between God and us for our sustenance and the transformation of the world. We find our purpose in this synergy, in the fact that we are invited to be co-workers with God. This is the link between the 'daily bread' and the bread of the Eucharist, and the connection between the divine economy and the worldly economy. It illustrates that we cannot separate the spiritual from the material realm.

*God and Political Economy*² The thinking of Meeks also influenced the pronouncement on economic life of the United Church of Christ in the USA. According to Meeks, the Garden of Eden can be considered as the ideal household - economy - created by God as the Supreme Economist. In the Garden of Eden there was fullness of life and sufficiency of resources. Adam and Eve were appointed as stewards - managers - of the household of God. Certain household rules had to be followed. For example, Adam and Eve were not allowed to eat the fruits of the tree of the knowledge of good and evil. By breaking this household rule, Adam and Eve committed sin and, as a result of breaking God's rules, scarcity and suffering were introduced in God's good creation. I am not a theologian, so I don't know whether this is sound theology. Yet it is an interesting thought that scarcity and suffering are the result of people breaking God's rules for the household.

The Old Testament is full of rules given by God for the keeping of the household - the economy - of the people of Israel. The covenant that God made with Israel contained many guidelines for household management. The prescriptions for the Sabbath and Jubilee years are probably among the best known. The covenantal obligations aimed at safeguarding the Creation and at protecting the most vulnerable people in society: the poor, the widows, the orphans, the lepers, the strangers and the sojourners.

The Sabbath and Jubilee year rules were rather radical but apparently this was deemed necessary because free market forces alone and by themselves do not create economic justice. In the Bible we do not find any reference to some sacred law of demand and supply. Jaweh asks for justice. Just institutions and laws are to be set up to protect the poor, the vulnerable and Creation as a whole.

It is clear that we should not try to imitate the Old Testament prescriptions for economic life because they do not fit our modern-day societies. For example, the poor in Kenya would not benefit if the farmers in the UK would refrain from mowing the edges of their fields. Nevertheless, the WCC Assembly in Canberra said that the Sabbath and Jubilee Years provide a clear vision on economic and ecological reconciliation, social restoration and personal renewal.

We should not try to imitate, but we can try to follow the Biblical message to set up just mechanisms, systems and institutions which protect the rights of the poor and the weak, and which safeguard the environment. Therefore, we have to ask: who are today the people in the world who 'add house to house and join field to field' (Isaiah 5:8) at the expense of economic justice? Who are today the poor, the lepers, the widows, the orphans and the strangers? How is Creation being threatened and violated today? How can we today be like the caring and sharing community that we find described in Acts 2 and 4? How can we give a modern meaning to the concept of the economy as a household where, around a table, sharing takes place?

An Example from the Bible

Although the Bible was written many centuries ago, it remains a Book which teaches us many things that are relevant for the world economy today. The story about Joseph is a case in point. As Pharaoh's economist, Joseph manages the food stores so well that he redeems the Egyptian nation from famine. In fact, the 'whole world' came to Joseph, the great economist, to buy grain (Gen. 41:57). The livelihood of many people depended upon him, not the least Jacob and his

2 Douglas Meeks: *God the Economist: the Doctrine of God and Political Economy* (Minneapolis, USA: Fortress Press, 1989).

family. When Joseph's brothers are finally confronted by the well-disguised Joseph, he gives a stirring definition of a true economist:

*God sent me before you **to preserve life**...And God sent me before you to preserve for you a remnant on earth, and to keep alive for you many survivors (Gen. 45:5b,7)*

And yet, according to the story, Joseph laid the groundwork for the economic conditions under which the descendants of Israel suffered. His economic power grew into massive political power, gaining control over the land, and creating a labour force. In the midst of extreme famine, the people came to Joseph to buy food. When their money had run out, he required them to pay with their cattle, flocks and donkeys. And when money and livestock were gone, Joseph required their land and labour in exchange for food (Gen.47:19). As a result:

...the land became Pharaoh's. As for the people, he made slaves of them from one end of Egypt to the other (Gen.47: 20-21)

Joseph's management of Pharaoh's economy was certainly successful in the beginning but in the end its logic became inhumane. The great economist Joseph succumbed to a household management that aimed at preserving life but ended up as an economy of slavery.

I am sure that in this story about Joseph, you recognise some elements of today's global economic system: a political-economic logic which contained good elements, was taken to its bitter end and perverted into a disaster for many people on our globe. People in the South certainly recognise this story about Joseph when they experience the debt crisis. For some home owners in the North who have taken a mortgage the story also rings bells. There is nothing wrong with extending and accepting loans as such but, because of several factors, the situations can degenerate so much that whole economies in the South are kept in bondage and home owners in the North experience foreclosures.

When churches and church leaders speak out on such issues, they stand in a long tradition, from First Testament to New Testament, and from the Church Fathers to the Reformers and to church synods today. Therefore, the Church today must do what its predecessors did over the ages, namely to carry out 'the responsibility of reading the signs of the time and of interpreting them in the light of the Gospel' (Gaudium et Spes, no.4; Matt.16:3). In this process, it will recover not only the traditions, but also the Tradition by which the Good News of salvation is made effective in a world that is socially and economically more complex than ever.

What are some of the signs of the times?

II. Signs of the Times (Matt. 16:3)

Simon Braid has already given a very useful overview of some of the factors that have led to the crisis in which we find ourselves today. It may be good to take a step back and ask ourselves: what crisis are we talking about, and, what is this a crisis of?

Asked how the crisis affects him, a poor charcoal producer in Tanzania may respond: 'Which crisis? I have known crises as long as I have lived. In fact, my whole life is like a permanent crisis!' We read stories about millionaires committing suicide or wanting to disappear after they lost fortunes during the past years. Those stories make the headlines, but what about those who

make up one-third of the world population for whom life is a daily struggle for survival and who have to live on less than two dollars a day?

Actually, poor people in the South are not facing one, economic, crisis; they are beset by multiple crises. Prior to the 'credit crunch', the Least Developed Countries were already suffering the impact of the energy and food crises. Quite a few of these countries also feel the impact of climate change. These different crises feed back into and intensify each other. Environmental destruction is both a result of and a cause for poverty. Food security cannot be secured without tackling global warming. Food security is also an important condition for political stability: over the past 18 months, food insecurity led to political instability in more than 30 countries.³

Poor people in the South had no part in causing the economic crisis in the North. But innocence, it seems, will not protect anyone. The financial crisis that began in the USA has now hit the 'bottom billion': the poorest people in the 60-odd Least Developed Countries. The global meltdown affects poor countries in different ways.

World trade diminishes, prices of raw materials (important export products for developing countries) decline, foreign direct investment decreases, migrant remittances are reduced, and aid flows decline. Obviously, different countries are hit differently by these various developments. The drop in oil and commodity prices benefited oil- and food-importers. But this followed a sharp price rise and, for many, relief has come too late. The food crisis of 2007-08 increased the number of people suffering from malnutrition to 963 million.⁴

Falling export prices are exacerbating poor countries' woes. The African Development Bank predicted that, while African current accounts were in surplus by 3.8 per cent of GDP in 2007, they will turn out to be in the red by 6 per cent for 2009.

Many poor countries 'export' workers who send back remittances. These were worth \$300 billion in 2008, more than total ODA. Some countries heavily depend on such remittances. For a country like Tajikistan, they amount to 45 per cent of GDP. As a result of the economic crisis, remittances are falling. Malaysia revoked work visas for 55,000 Bangladeshis in order to boost job prospects for locals. Countries which send workers to Russia are doubly hit: many work in the crisis-affected oil industry and send money back in fast-depreciating roubles.

According to the Institute of International Finance, a think-tank in Washington DC, net private capital flows to poor countries will slump from almost \$1 trillion in 2007 to \$165 billion in 2009.⁵ In 2009, banks are likely to have extracted more from emerging markets in debt repayments than they inject in new loans.

As capital inflows and export earnings vanish, the debt burden of poor countries is rising. According to the World Bank, emerging markets' financial shortfall in 2009 could be as high as \$700 billion.

Against this backdrop, official aid trends will become a central determinant of what will happen to the Least Developed Countries. Unfortunately, past experience has shown that Official

3 *Financial Times*, 17 November 2009.

4 Brot für die Welt and EED, *Von der Finanz – zur Hungerkrise: Wie sich die Finanz- und Wirtschaftskrise auf die Ernährungssicherheit auswirkt und wo politisches Handeln möglich ist* (Briefing Paper no. 5 (2009) in a series on this topic.

5 *The Economist*, 19 February 2009.

Development Assistance (ODA) tends to decline during recessions in donor countries. During the recession in the 1990s, ODA levels, as a percentage of Gross National Product, fell significantly from 0.33 to 0.22 per cent. After 1997, aid levels began to climb again. Recently, however, some donor countries (such as Ireland and Italy) have slashed development budgets, citing the economic crisis. Britain's Overseas Development Institute reckons that official aid may fall by about a fifth, or \$20 billion, in 2009.

Especially striking is the growing gap between rich and poor. The gap between the richest 20 per cent of the world's population and the poorest 20 per cent has grown from 30 to 1 in 1960, to 74 to 1 in 1994, to 100 to 1 in 2004 (well before the crisis). The income of the richest one per cent was then equal to that of the poorest 57 per cent.⁶ Also in individual countries, like Britain, the gap between rich and poor has risen quite sharply (8 per cent above the OECD average).⁷

Behind all these dazzling figures are real people for whom the consequences are dreadful. The World Bank reckons that between 200,000 and 400,000 more children will die every year between now and 2015 than would have perished without the crisis.⁸ This reality contrasts sharply with the image of God's economy that I mentioned earlier. Interestingly, protesters at the April 2009 G20 meeting on the financial crisis drew on biblical imagery to 'protest against a system they said had robbed the poor to benefit the rich'.⁹ Large figures portraying the four horsemen of the apocalypse (Rev.6) were near the beginning of the march. They represented financial crimes, war, climate change, and homelessness. In a pastoral message concerning the global financial crisis, the Lutheran World Federation observed that it is painful to note how quickly massive financial resources could be mobilised to prop up the financial markets and institutions in this moment of crisis, when in much better economic times a fraction of those resources could not be found to eliminate extreme poverty around the world.¹⁰

Governments and Governance

In the West, governments reacted to the crisis through anti-cyclical, Keynesian (fiscal) stimulus packages. Several larger developing countries – such as China, Brazil and South Africa - have begun to deploy similar packages. However, as you will appreciate, most Least Developed Countries simply have no means and cannot afford to engage in such policies. They are also left with fewer instruments to be deployed as most poor countries – in order to obtain IMF and World Bank support - had to follow economic reform programmes which have severely reduced government involvement in the economy. UNCTAD found that, as a result, many poor countries have undergone deindustrialisation.¹¹ It evokes cynicism to see how the rich countries which pushed the poor countries into deregulation and privatisation policies were the first to turn to

6 *World Development Report 2006: Equity and Development* (World Bank Group, 2005), p. 16.

7 According to the Institute for Fiscal Studies, the Gini coefficient (measuring inequality) rose from 0.25 in 1979 to 0.35 in 2006 (*The Economist*, 2 April 2009). See also *Financial Times*, 22 October 2008.

8 Commission on the Status of Women (Press Release), *Governments Must Focus on Women as Economic Agents during Global Financial Crisis if their Disproportionate Suffering is to be Adverted*, 5 March 2009, <http://www.un.org/News/Press/docs/2009/wom1721.doc.htm>, pp. 1,8.

9 William Maclean and Michael Holden, *G20 Protestors Smash Windows, Clash with Police*, Reuters.com, 1 April 2009.

10 *Pastoral Message Concerning the Global Financial Crisis* (LWF Executive Committee, 24-26 October 2008, Helsinki, Finland).

11 UNCTAD, *The Least Developed Countries Report 2009: Overview by the Secretary-General* (United Nations, 2009), p.5.

massive government support to their ailing industries when the economic crisis began. The banking sector in the North and the automobile industry in the USA constitute cases in point.

The current crisis exposes a deeper, long-term development problem. Despite record rates of GDP growth over the last five years, coinciding with the commodity boom, poverty reduction has been slow in most of the poor countries, and most of them remain off-track to meet the Millennium Development Goals. In my opinion, it is, therefore, necessary to reconsider the role of states and markets. In this, we must move beyond unhelpful and false dichotomies. Governments do not, usually, face a stark choice of good versus evil, the 'vice' of state dirigisme versus the 'virtue' of markets, i.e. privatisation and deregulation. This is a false caricature and the 'choice' between the market and the state is a false dichotomy. The challenge is to find an effective mix between the two with the objective to reduce and, eventually, eradicate poverty, safeguard God's creation, and promote human dignity, people's participation and social justice. Notions like these are, in my opinion, the most important litmus tests of any political-economic system. At the same time, these notions are, in my view, also necessary ingredients of what constitutes 'good governance'. Obviously, there is no unique optimal model which is applicable to all countries. Like theology, which in my view is and should be contextual, political-economic policies and models should also be rooted in local histories, cultures and contexts. However, the litmus tests I mentioned apply to all contexts.

From the observation that political economies should be contextual, follows the conviction that countries have the right to determine their own path towards 'development' - again mindful of the touchstones I mentioned. From this, it follows that governments should have ownership of economic governance and should dispose of the necessary policy space to exercise that ownership.

Of course this is easier said than done as globalisation undermines the roles of governments and of states. Markets are globalising but global governance is not following suit. Nation-states are increasingly unable to effectively control economic forces. The classical correspondence between state, power and territory is being disrupted. In compromising the principle of self-governance, globalisation strikes at the essence of democracy and people's participation. This is not to glorify the concept of the nation-state or to elevate that model as the only possible way for effective democracy but it has to be recognised that this undermines the participation of citizens in decision-making processes that directly affect their daily lives. Democracy operates on 'one person – one vote' while the logic of the market is 'one dollar – one vote'. This does show the urgency of finding new and effective ways and institutions for people's participation which reflect the reality of a globalising world.

Global issues like terrorism, climate change, tax dodging and the financial crisis require cross-border cooperation. The European Union is perhaps the best example. At the same time, this approach is not without flaws. The White Paper on European Governance published by the European Commission (on 25 July 2001) states that political leaders throughout Europe are facing a real paradox. On the one hand, Europeans want them to find solutions to the major problems confronting their societies. On the other hand, people increasingly distrust institutions and politics or are simply not interested in them. This problem is particularly acute at the level of the European Union. Many people are losing confidence that a poorly understood and complex system will deliver the policies that they want. The Union is often seen as remote and at the same time too intrusive.

The same developments which are undermining territorial democracy have, however, also inspired and given rise to new energies and the emergence of citizens' networks such as the World Social Forum, the Beijing Women's Forum, Jubilee 2000, the Anti-Landmines campaign and, in the ecumenical movement, the Ecumenical Advocacy Alliance. The number of NGOs and civil society organisations has risen dramatically during the past decades. This explosion of 'citizen diplomacy' constitutes the rudiments of a transnational civil society. Of course this movement is not without flaws either since not all civil society organisations could be called 'civil'. However, it shows that we may be experiencing a paradigmatic shift from government to governance in which the state plays a strategic but not necessarily a dominant role. In this context, the most critical questions are: governance of what, by whom, in whose interests, for what purposes, and guided by which ethical convictions?

III. Interpreting the Signs of the Times (Romans 8:31)

I would like to end with a few observations on how to go forward. In this, I am acutely aware of the fact that today's extremely complex situation does not allow for simple answers. This implies that we should try to resist the temptation to find scapegoats. In our interdependent world, we are all responsible although some are more responsible than others.... Thirdly, we should approach these issues with some modesty as we have learnt, I hope, that problems are no monopoly of the South and solutions are no monopoly of the North.

An obvious lesson to learn from the economic and financial crisis is the need for more and better regulation of financial markets. The case for regulation, in a nutshell, is that financiers made mistakes and everyone else has to pay for them. More regulation is absolutely necessary but, given the baffling complexity of the international financial system and its fallibility, regulation is bound to be fallible as well. Bernie Madoff and 'Sir' Allen Stanford are cases in point.

International financial regulation is also necessary in view of tax evasion. Recent research has shown that poor countries lose some \$160 billion in tax revenue each year because transnational companies are evading tax. This is far more than the estimated \$100 billion the world gives in aid every year.¹²

Yet the question 'what is this a crisis of?' necessitates us to look beyond the issue of regulation. At an international conference last year in Paris, Tony Blair said: 'This crisis is a financial crisis.' In my view, this was a missed opportunity. Regulation and supervision are overestimated problem-solvers in the financial markets. They will not be sufficient unless they are supplemented by changes in moral values. The world at large needs to rebalance modesty versus greed, long-term versus short-term, stakeholders versus shareholders, public interests versus private interests, and fair shares versus excessive remunerations. The world is familiar with the poverty line of one dollar a day. Should we not also think about a 'greed line'? Of course we will never be able to establish a clear and unequivocal 'greed line' but reflecting about it may be valuable in itself.

The present crisis started with a 'credit crunch'. The word credit comes from the Latin *credere*, to trust. Every financial system is based on trust. Financial transactions are a series of promises: you hand money to the bank which promises to give it back when you ask, you sign a cheque, promising that you will pay a bill, etc. Trust is even more important now than ever before because of the incredibly complex financial system that has emerged during the past few

12 Figures from Eurodad in Jean-Michel Debrat and Simon Maxwell, *The Developing World: the Recession's Storm Holds a Silver Lining for Development cooperation* (ODI, Spring 2009).

decades. Even senior managers in banks had to admit that they often lack the timely and detailed information they need to control and rein in their own traders. One of the results is that financial transactions have started to live lives of themselves; the financial sphere and the real sphere are becoming detached from each other. In this context, Julian Gough refers to the emergence of 'Incredible Hulk Capitalism': a grotesque financial system that can expand the muscle of its credit so swiftly that its clothing of real world assets cannot stretch fast enough to contain it.¹³ The unregulated expansion into sub-prime mortgages was one of the results. One of the biggest challenges is whether we can recover a sense of connection between money and goods and services, between the monetary and financial sphere, and the 'real economy'.

'Like a wall, cracked and bulging' is the title of a statement by the Council of the Evangelical Church in Germany on the global financial and economic crisis.¹⁴ The text is from Isaiah chapter 30, where the prophet clothes his message about his people's destiny in the image of a break that is hardly visible at first, creeping into a high wall until the mortar holding the bricks together trickles down and the wall bulges and finally collapses. From the prophetic perspective, the collapse is unavoidable because the people relied on false assumptions and did not follow the life-enhancing commands of God. To apply the image of Isaiah to the international economic and financial system, there must be an ethical foundation supporting the wall, and the mortar of trust to hold the bricks together. Society as a whole is challenged to participate in laying this foundation and churches have a special responsibility. The essential foundation of the social market economy is responsible freedom. The present crisis shows that only responsible freedom is true freedom. This applies as much to business and politics as it does to personal behaviour and lifestyles. If we have learnt this from the crisis, at least something good came out of it.

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Discussion Following the Presentations by Simon Braid and Rob van Drimmelen

Amongst the points raised in discussion were the following:

The ideal society is not based on complete egalitarianism; a certain inequality is actually healthy from an economic point of view. This perception can be seen borne out in the parables of Jesus. Indeed, many parables make sense only if they are understood in terms of good economics.

When Denmark moved from absolute monarchy to democracy in 1849 the king's financial adviser said that his ideal society would be one in which 'nobody had too little and few people had too much'.

Nevertheless, the healthiest societies are those in which there is a relatively small gap between the poor and the rich. The crucial point is that this is good not only for the poor but for the rich as well. The richest have been found to be much less happy in societies where the gap is widest.

13 Julian Gough, *The Sacred Mystery of Capital* (Prospect, July 2008), pp. 40-42.

14 *Wie ein Riss in einer hohen Mauer: Wort des Rates der Evangelischen Kirche in Deutschland zur globalen Finanzmarkt und Wirtschaftskrise* (EKD-Text 100, EKD, Hannover, Germany).

For the European Union, there is potential for it in the future to show how in moving away from the nation-state pattern of *government* the way is open for a new type of international system of *governance* where all kinds of different agencies have power at various levels. This is a form of 'subsidiarity'.