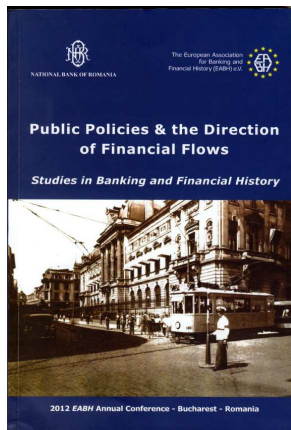


Public Policies & the Direction of Financial Flows



Many times in history, public authorities have decided to pursue economic policies (mainly development policies) by directing the financial flows of the economy. The central idea of *EABH's* annual conference in Bucharest was to study this phenomenon using a comparative approach. The basic question to be addressed was therefore: Why and how did non-market forces (states, local authorities, international authorities, technical bodies) manage to direct financial flows so as to achieve specific goals, mainly related to economic development.

The case for public policy intervention in financial flows is fundamentally concerned with a response to market failures. Markets may not properly assess the value of public goods such as security. National security has often been the major justification for policies that build up a particular sector, notably in defence goods, and wars have been the most common cause of a rapid expansion of public credit and of public debt. But public policy also may aim at providing insurance against risks, and in this way create welfare improvements. Students do not necessarily know how their individual future earnings are affected by studies that in the aggregate raise skill levels; individuals cannot always make judgments about their future health. Both education and health have consequently been key areas in which even liberal states have tried to direct the volume and shape of lending.