

# Does Globalization Hurt ?

## II- Hyperfinance



# SK

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## Global financial system in 2019-20

A few readings:

- ☞ Global Financial development report 2018, World Bank <https://www.cbd.int/financial/2017docs/wb-banking2017.pdf>
- ☞ McKinsey 2018: <https://www.mckinsey.com/mgi/our-research/financial-markets>



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## Decoupling II: Emancipation of **financial** system from underlying **economic** system

1980s-2020

*The toothpaste got out of the tube*



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## The emergence of **Hyperfinance?**

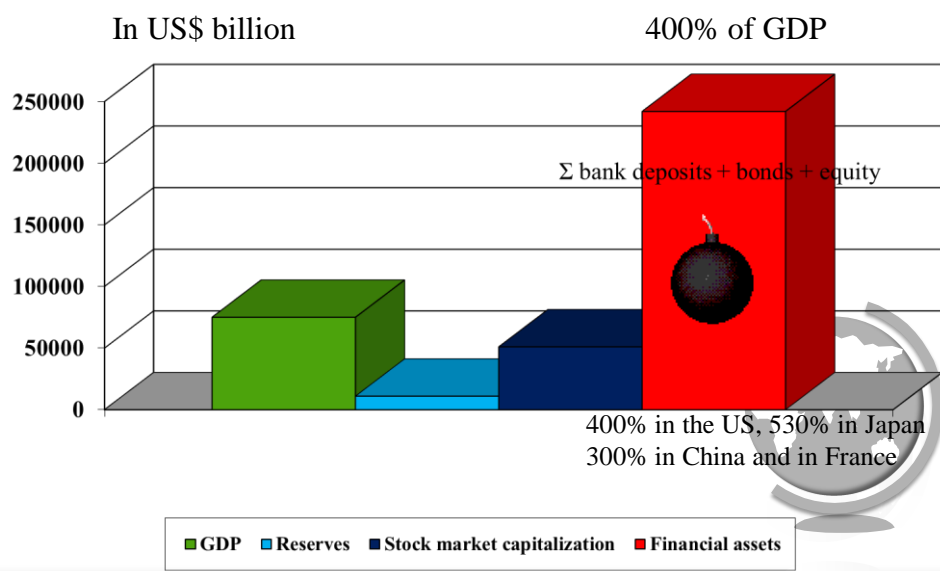
1. Financial market globalization (1990s)
2. Capital market deregulation (1990s)
3. Financial innovations and dematerialization  
(securitization, options, derivatives, flash trading...)
4. NTIC (Internet!)
5. Global banks (« too big to fail »)

= Free-wheel global finance



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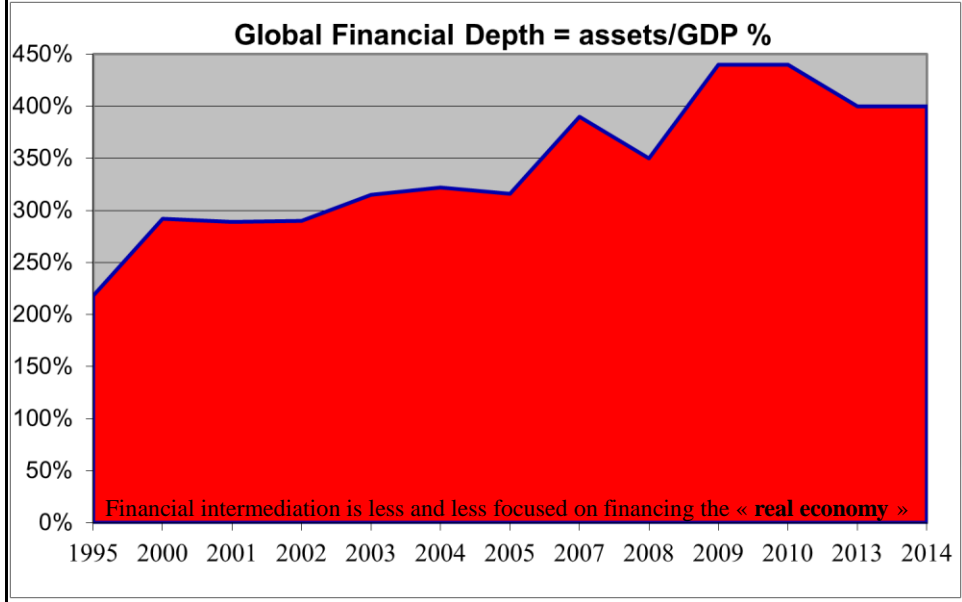
## Financial depth: Overwhelming supremacy of **HyperFinance** (of 'virtual' over 'real')



Source: IMF 2015 & McKinsey

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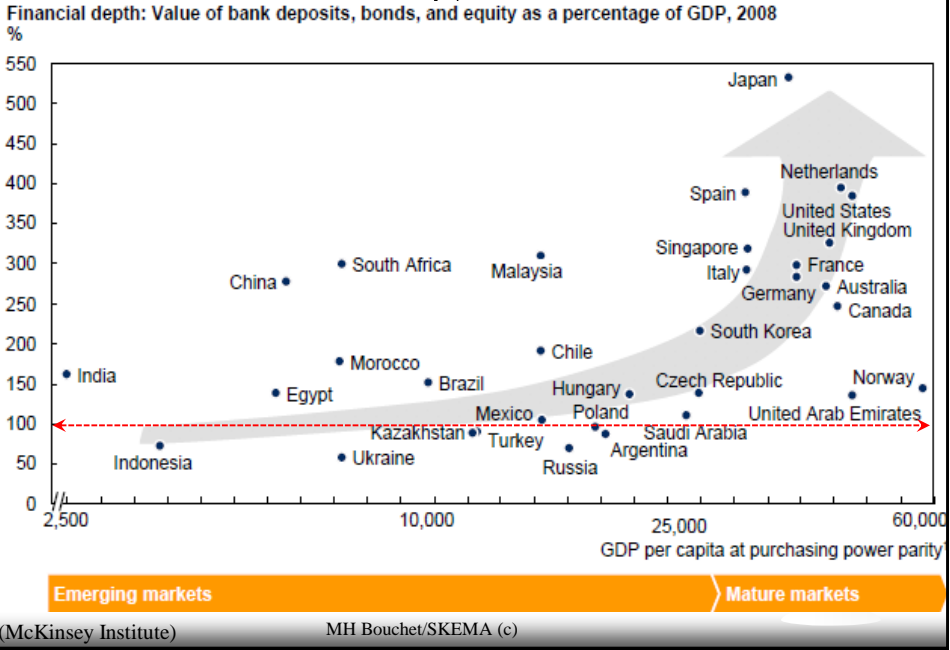
## The financial genie has escaped from the bottle!



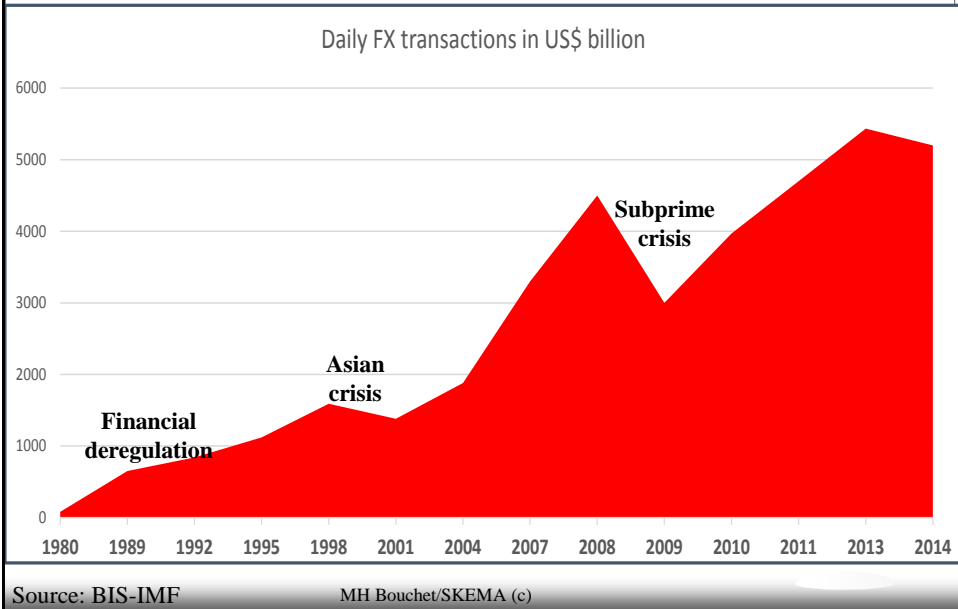
Source: McKinsey/ IMF

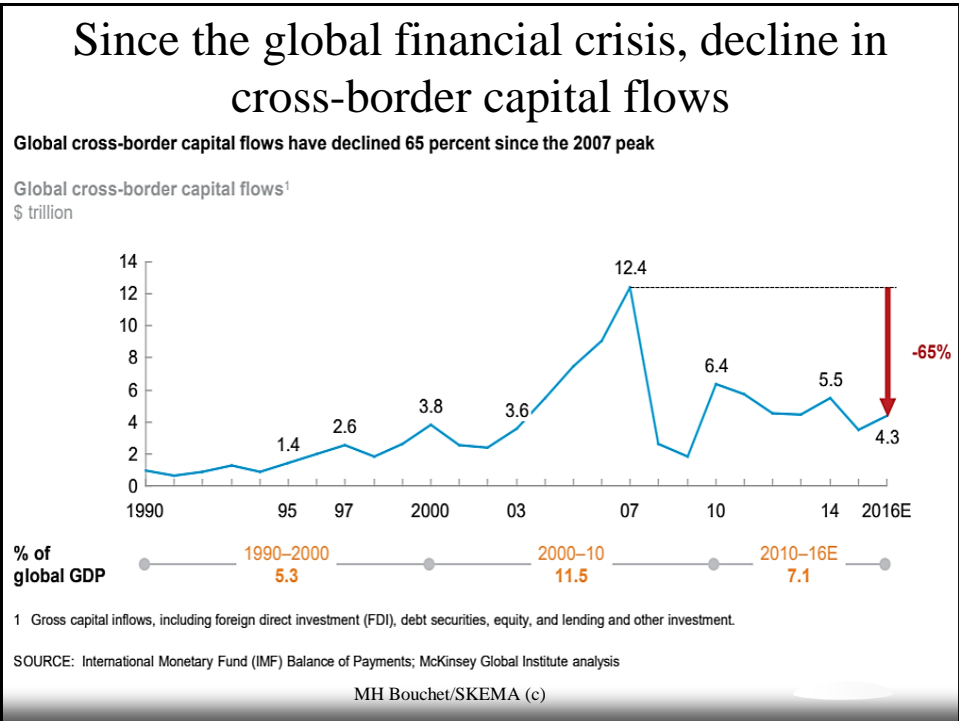
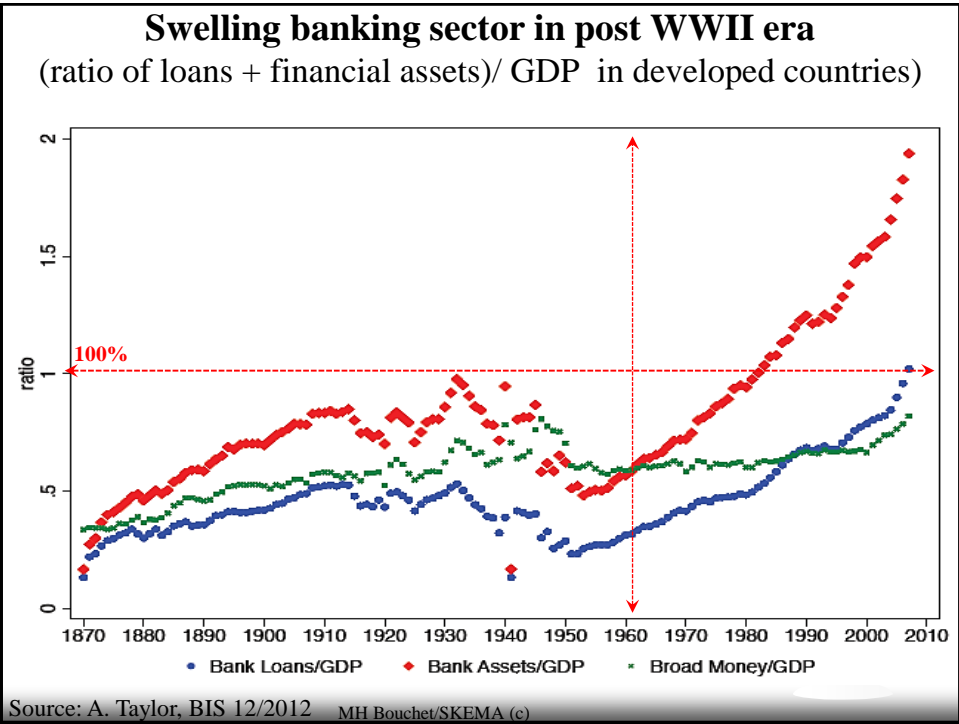
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# Financial globalization

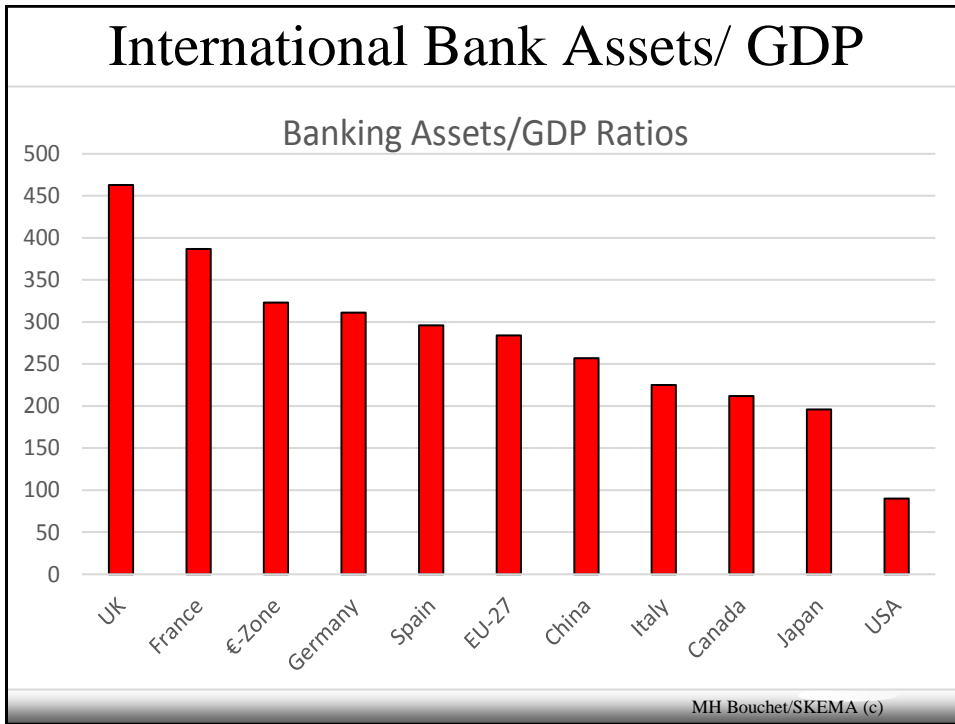


## Deregulation, trade openness, exchange rate volatility and financial derivatives= surging FX transactions

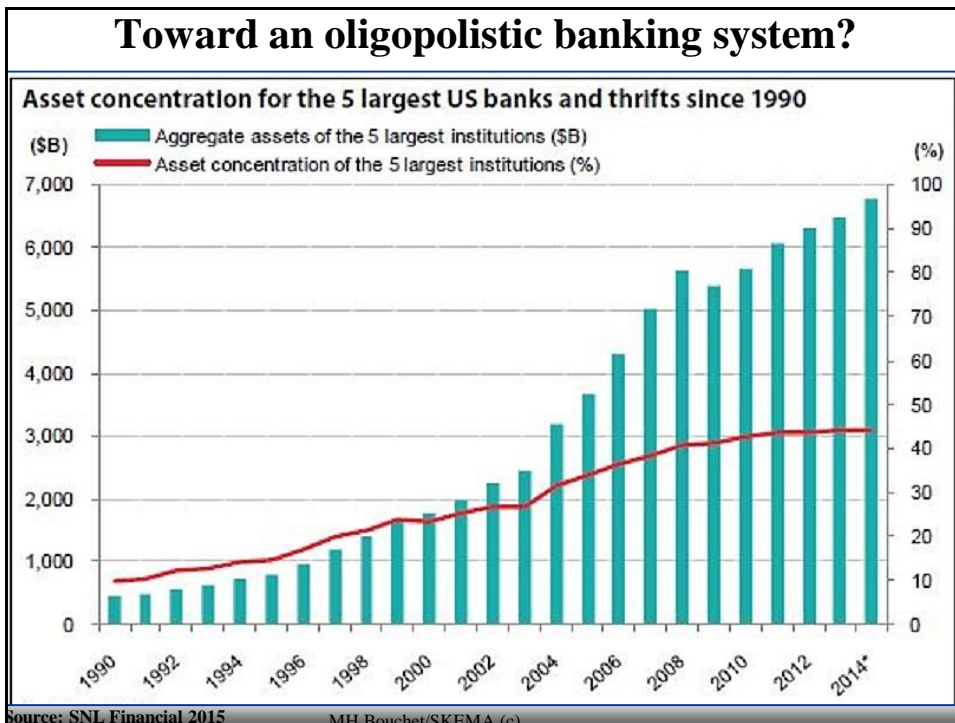




# International Bank Assets/ GDP



# Toward an oligopolistic banking system?



# Lobbying, arm twisting and financial globalization

☞ « **When a country turns to financial services and away from making things, especially manufacturing, look what happens to the middle class and the long-term prosperity of the nation!** »

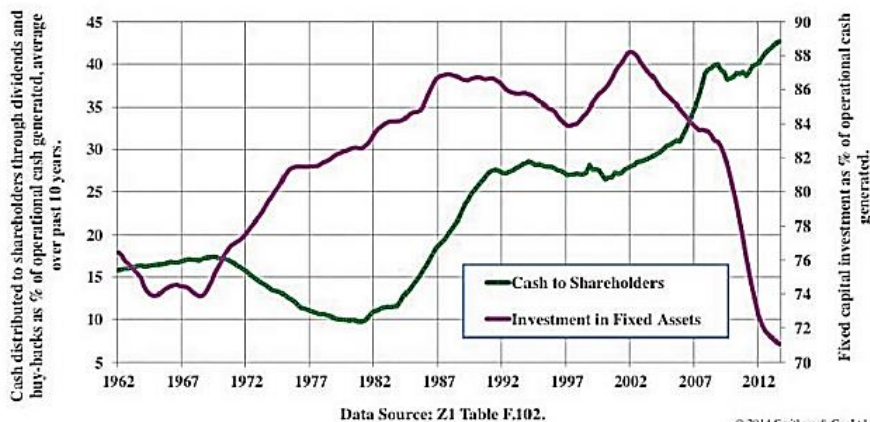


US Senator Sherrod Brown, Democratic party- Ohio FT August 2013

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The emergence of Hyperfinance in the 1980s leads to rising dividends and stock buybacks at the expense of capital investment

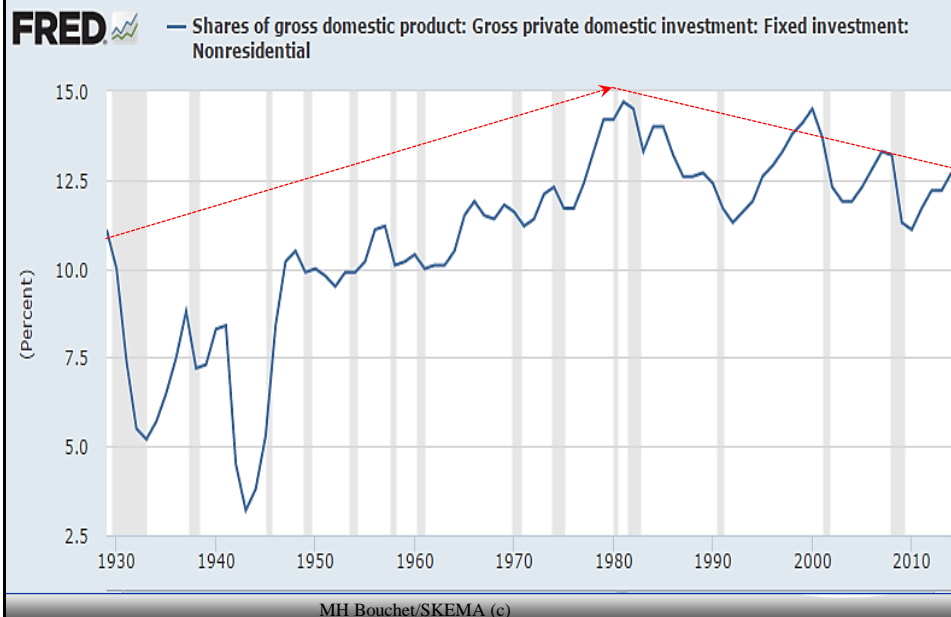
Shares of profits used to fund **dividends and stock buybacks** compared to **fixed capital investment**



Source: Andrews Smithers, "Remuneration—it's Broke, So Fix It," *Executive Compensation Briefing*, March 2014.

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## Share of fixed capital investment as % of US GDP 1929-2014



## Financial Globalization is expected to stimulate Economic Growth?

It would equalize marginal returns to capital around the world, transfer savings from rich to poor, and enhance risk sharing, growth and convergence.

### 1- Fischer, C. Harvey, L. Summers, Kose...

- ☞ Openness to global capital flows = higher capital efficiency North-South + technology spillover + FDI
- ➡  $\Delta$  GDP

### 2 - Stiglitz, Krugman, Rodrik, Lane...

- ☞ Financial liberalization = capital flow volatility + financial crises
- ➡ capital controls + Tobin tax



See: Prasad-Rogoff IMF-Harvard 2006 and P. Lane, BIS Dec. 2012

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## Empirical evidence?

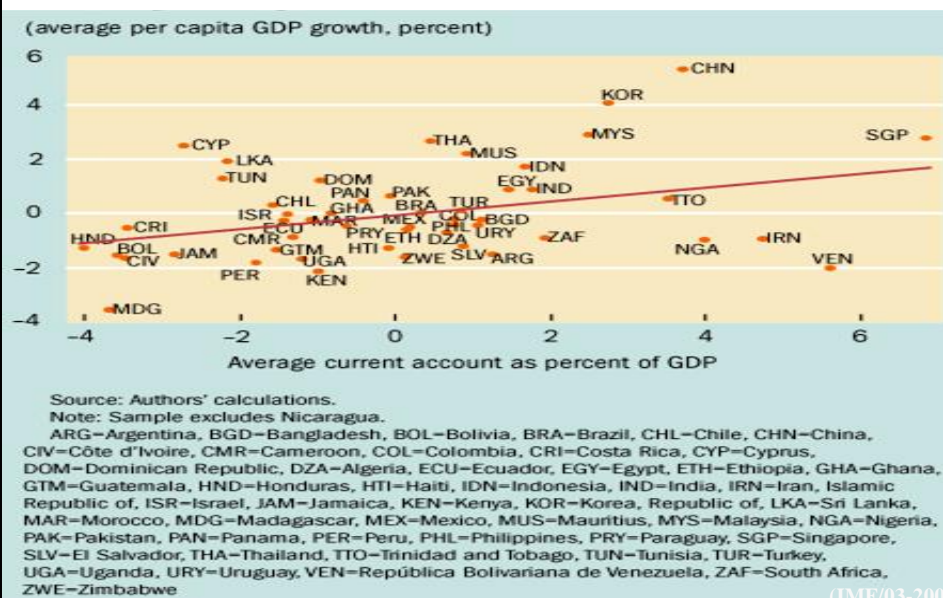
1. No clear evidence that financial globalization improves institutional quality and macroeconomic discipline
2. Strong evidence that financial integration promotes overall financial sector development and corporate governance
3. Strong evidence that financial sector development increases FDI and portfolio equity flows, domestic investment and growth
4. **BUT** premature financial liberalization leads to capital flow volatility and financial crisis



Source: Prasad, Kose & Rogoff, 2006

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## Developing countries that have relied **less** on foreign capital have grown faster! (source: IMF)



## Combination of capital account liberalization + fiscal consolidation: rising income inequality

### Does openness hurt?

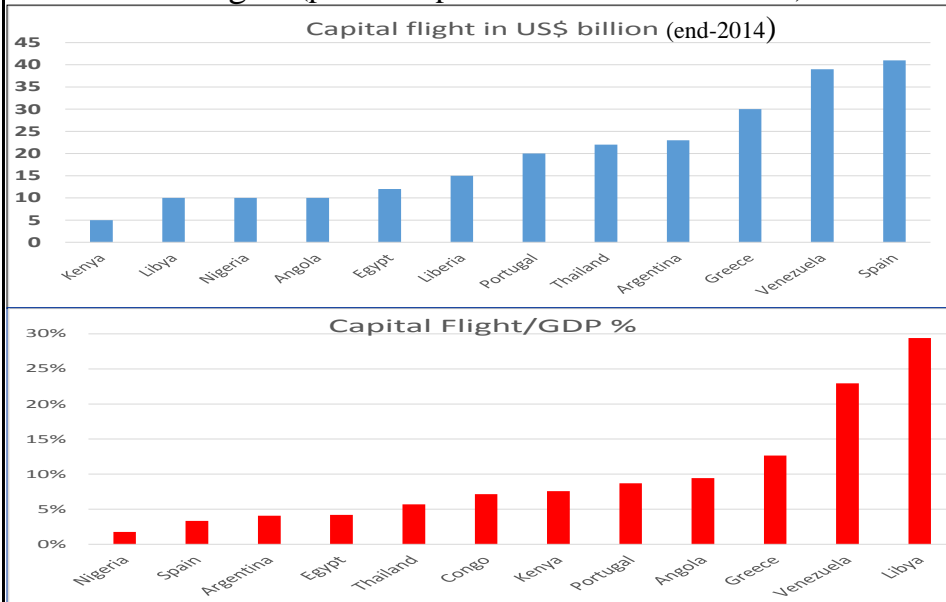
Capital account liberalization and inequality in advanced economies have increased at a similar pace over the past two decades.



Sources: Chinn-Ito (2008) for capital account openness; Solt (2010) for Gini coefficient.  
 Note: Average across 17 economies: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Netherlands, Portugal, Spain, Sweden, United Kingdom, and United States.

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## Financial liberalization goes hand in hand with « expatriated savings » (private deposits in international banks)



Source: Bouchet/ BIS 2015

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## Conclusion

**Beyond the global crisis: the way forward for the globalized market economy?**



- **Can a different form of globalization be planned?**
- **With what goals and what mechanisms of regulation and governance?**
- **How to boost development beyond GDP growth?**



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