October 30, 2008

Globalisation is not our enemy

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A "new Bretton Woods" is the name given to a summit next month of leaders of the world's top economies to map out a response to the global financial crisis.
The New York meeting received this label because it aims to reconsider the structure and the role of international economic institutions such as the G7, the International Monetary Fund and the Financial Stability Forum.
The goal of this meeting should be to redesign the institutions that supervise and regulate international capital flows and world financial markets, not to write new rules for these markets.
One of the lessons learned from the experience of independent central banks is that policies improve when politicians delegate technical decision, such as interest rate setting, or financial supervision, to independent bodies.
When politicians meddle with those decisions or, worse, are captured by financial industry lobbing, things can go wrong. In this particular case, allowing politicians such as French president Nicolas Sarkozy, who some claim are engaged in an anti-market, anti-globalisation drive, to rewrite rules could be disastrous.
The IMF, conceived in 1944 when western leaders met in Bretton Woods and set out a new financial order, the G7, the FSF and even the European Central Bank need to be reformed, and the crisis has provided an opportunity to focus on how such measures should be designed.
The IMF's role, as the watchdog against irresponsible macroeconomic policies and against the possibility that capital flows are mishandled, should be enhanced. The ECB should have a larger role as financial supervisor in Europe, taking over responsibilities from national governments.
As the effects of the crisis reverberate to central Europe and to Latin America, the membership of the FSF appears to be out of step with its mandate, which is to "assess vulnerabilities affecting the international financial system, identify and oversee action needed to address them and improve co-ordination and information exchange among the various authorities responsible for financial stability". The current FSF membership can hardly deal with central Europe and Latin America since it is limited to the G-7 plus Australia, Switzerland, Singapore and Hong Kong.
Meanwhile, some international economic institutions still bear the imprint of the second world war. Why are large countries such as China, India, Mexico and Brazil not members of the G7, while others such as Italy are? Shouldn't the euro area countries have only one, heavyweight representative in international economic summits?
Instead, President Sarkozy, as well as other participants in the meeting, such as Italy's prime minister, Silvio Berlusconi, look at it as an occasion to redesign not the institutions but the rules governing international financial markets with an anti-globalisation bend.
This is a worrisome prospect because some politicians misunderstand the reasons for the crisis.

Take global imbalances. Politicians often suggest that they are the culprit of the crisis. And since global imbalances are the result of globalisation, the latter is our enemy.

This is wrong and it would be dangerous if this view were to inspire the design of new rules.
Global imbalances, the excess of savings in some parts of the world, matched by a lack of savings elsewhere, have been a feature of the world economy for a long time.
At the end of the 19th century Britain ran a current account deficit financed by savings elsewhere in the Commonwealth.
After world war two, negative savings in the US were financed first by excess savings coming from Germany, later from Japan: today is the turn of China. The geographical separation of savings from investment, made possible by free capital movements, is one of the engines of world growth. It allows a country to invest its savings where returns are highest, rather than being constrained to invest at home where returns may be lower.
Failure to understand this could easily result in proposals to limit the international mobility of capital. The consequence on the world economy could be as serious as the mistakes made in the 1930s by US President Hoover, who introduced barriers to trade in goods and by doing this transformed a serious recession into the Great Depression.
Sure, when imbalances are especially large, as they were in the years leading up to the crisis, badly regulated financial markets are especially dangerous. Since global imbalances are likely to persist, regulatory reforms are needed - but not vendettas.
Another dangerous mistake are efforts to outlaw some market activities, such as short selling, or some institutions, such as hedge funds.
These proposals demonstrate a lack of understanding of how markets work. By short-selling a stock or a currency, an investor brings to the market valuable information: he signals that the price of that asset is out of line with its fundamental value.
Outlawing short selling means preventing such information from getting to the market. And hedge funds are the investors who bring it to the market, for instance by building an arbitrage between the shares of two companies belonging to the same industry.
The finance industry has made serious mistakes in the past few years, often because of its intermingling with politicians. But the financial sector has also been an engine of growth. Allowing politicians to redesign rules with a punitive spirit would be a cure worse than the disease.