

FINANCIAL GLOBALISATION

Minica Mirela

Universitatea Eftimie Murgu Resita Facultatea de Stiinte Economice si Administrative Piata Traian vuia nr.1-4, Resita minica_mirela@yahoo.com Tel: 0754582757

Frant Florin

Universitatea Eftimie Murgu Resita Facultatea de Stiinte Economice si Administrative Piata Traian vuia nr.1-4, Resita florin_frant@yahoo.com Tel:0727799387

The paper presents transformations that have occurred in the process of financial globalization on various countries and the role that credit plays in monetary policy.

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During the past twenty-five years, the world economy has undergone profound changes. The adoption par China, India and the former USSR states of the market economy led to the apparition of the *One Unique World*, characterised by powerful global competition. The result is a global economic transformation at an unprecedented rate and with an unprecedented purpose in history. Especially Asia (50% of the world population and 25% of the world GDP), register a remarkable growth and it is expected to continue do develop at a constant rate of at least 6% per year, for another generation to which is added the more and more sophisticated technological capacity.

A liberalisation comparable to that of the markets of goods and services took place on the financial markets. One has eliminated the constraints regarding the credit granting, the regulations concerning the withdrawal of the deposits and one has liberalised the capital movements. These measures have profound consequences both at the microeconomic level (increase of the possibilities or companies' financing, a better remuneration of savings) and macroeconomic (changes among the transition channels of the monetary policy).

The development of the international financial markets was firmly supported around the 1980s, when Margaret Thatcher and Ronald Regan came to power, and they imposed a programme aiming at the elimination of the State from the economy, enabling the market mechanism to play its role. This meant imposing a strict monetary discipline, which resulted initially in the world's plunging into recession and the acceleration of the crisis's start, because of the external debt in 1982. The world economy needed several years to recover – in Latin America this period is called *the lost decade* -, but the recovery took place. Beginning with 1983, the global economy benefited from a long, almost uninterrupted period, of expansion, reaching a point where they can be considered really global markets. The evolution of the exchange rates, of the interest rates and of the prices of financial titles form different countries are strongly inter-correlated.

The financial globalisation started at the end of the '50s, with the creation of the Euro-dollars market. The passage to a system of oscillating exchanges between 1971 and 1973 marks the end of the Bretton Woods system. It is the first step towards financial liberalisation. This liberalisation is justified through a better distribution of economies at the planetary level. The increasing liberty of the capital movement enables the institutional investors, especial insurance companies and pension funds, to rapidly move large amount of money and the possibility to influence the economic policies of the States.

Between 1988 and 1998, the percentage of the capital flow (investments of portfolios, short-term financing and direct investments in circulation – entries – exits) double in the world GDP, evolving from 7 to 15%. Thus, the financial flow increased form 5 to 11% form the world GDP. But the phenomenon evolves, limited only to the developed countries that represent 86% of the

GDP beginning with 1988, and especially the purely financial flows, predominant, which increased from 7 to 17% of the GDP. The main beneficiary: the USA that succeeded thus to drain the world savings-resources in order to finance the own consumption, but also the investments and innovations of the “new economy”.

The financial globalisation, under its present dominant form, of market finance, underwent its expansion during the ‘70s, following the explosion of the Bretton Woods system and of the shaking of the exchange rates stability. The prospect appeared thus the substantial gains through the speculation of the currencies, while the industrial and commercial operators had to protect themselves against the exchange risks. And thus the exchange markets appeared, suddenly very dynamic, and with them the first proposals of limitation of the speculation scope (The famous tax on monetary transactions, proposed by the Nobel prize laureate for economy, James Tobin, was reactivated in 1978).

The financial globalisation - through the private financing of development - through the financial markets – did not reach its goal, that of taking over the relay of a public and banking financing, which dramatically diminished as a result of the crisis of debts, at the beginning of the ‘80s (although the public assistance in view of development was resumed): on the contrary, the phenomenon of mondialisation brought its contribution in worsening persistent difficulties, offering the Southern elites the possibility to invest much more easily in the North the riches that the powerful internal inequalities allow, in general, to accumulate. And in general it is much simpler to speculate the Nasdaq coefficient, than to invest in Brazil, Nigeria, Russia or India.

Among the developed countries, Japan has become one of the most inaccessible countries in terms of commercial flows, and its multinationals stopped their development in the most serious manner more than 10 years ago. But the things are not the same in the finances field. Owning 20% of the GDP, the Japanese capital flows trebled in 10 ears. Japan owns 15% of the percentage of the purely financial flows: it is the country feeding to the maximum the financial mondialisation.

With a capital flow of 47% of the GDP, the Untied Kingdom constitutes the most internationalised nation among the great developed countries. It owns 11% of the capital flow and 9 % of the purely financial flows. But Germany doubled it: the German flows of capital represent 12% of the world flow, is not within the sphere of the great powers of financial mondialisation. In the USA, the capital flows represent only 10% of the GDP (3 percents more than 10 years ago) and 15% of the world flows of capital, but with only 11% of the purely financial flows. In the financial plane, like in the other domains, the world power of the Americans is based first of all on the scope of the own internal markets. This situation does not prevent the USA to be by far the first beneficiaries of the financial globalisation. An essential part of the capital flows obviously compensates the colossal deficit of the American balance of payments. Quasi permanently during 20 years, this deficit phenomenon underwent a fantastic acceleration during these past 10 years: 2 billion dollars excess in 1980. 79 billion dollars deficit in 1990, 341 billion in 1999 and 1845 billion in 2008! And this situation has not raised, up to now, any feeling of anxiety as regards “Uncle Sam’s” solvability, as the insolent health of the dollar proves it, especially in comparison with the Euro. These flows / fluctuations are fed by Japan (at the level of 107 billion dollars in excess last year) and Europe (42 billion), but no less by the Southern countries. The ensemble of the developed countries propelled, according to the O.C.D.E. estimations, 209 billion dollars of the savings – towards the rest of the word., precisely last year; the amount of which a significant part circulated under the form of a recycling of dirty money (come from corruption, drugs, Russian mob). Thus one witnesses an extraordinary concentration of the financial patrimony in the North: the capitalisation of the stock and titles markets of the USA, Europe and Japan represented 92% of the world’s total in 2008.

The Credit

In the United States, the monetary policy seems to influence much more the credit contracting than the investments at the level of households. The contraction rate of households' bank loans fluctuates proportionally with the level of the interest rates, unlike the investment behaviour that depends too little on the interest rates fluctuations. This phenomenon confirms the importance of the credit's transmission channel. The economy stabilisation during the past years was based mostly on the household credits. According Brender and Pisani (2006), two mechanisms played a remarkable role: the refinancing of the older loans and the distribution of the new loans., the existence of the advance payment option, anticipating a progression of incomes, saved the families with debts already contracted from a difficult situation in the context of the economic stagnation.

What happens in Europe? The interests at which banks grant credits slowly adapt themselves to the fluctuations of the short-term interest. There are asymmetries in the increase or decrease of interest, in the sense that loan interests increase more rapidly than they decrease. Moreover, there is a rather accented heterogeneity in the European countries' reactions to similar fluctuations of the short-term interest.

The relation between the short-term and long-term interests seems to have recently changed: whereas in the 1980s the fluctuations of the long-term interest slowly followed those of the short-term interests, these relations became weaker in the 1990s. a recent study underlines that the effect of a variation of the interests of the Central Bank on the market interests becomes more and more uncertain and ambiguous along the increase of the due date. In other words the variation of the reference inters will be transmitted rapidly and almost totally of the short-term interests, but its effect on long-term interests will be less clear.

Another finding of recent studies is their closer and closer connection between the American and European long-term interests. The calculus of correlation clearly indicates it: quasi-null at the beginning of the 1960s, the correlation continually increased and consolidated beginning with the model of the 1990s. The reduced size of the European title markets could explain the engine role of the American market. Researchers ask themselves if maybe the European Central Bank lost any influence on the inters curve, its fluctuations being more and more influenced by the fluctuations of the American curve. Nevertheless, the variation cannot be guided only by the American interests; at least on a short term., the market arbitrations give birth to recoil forces anchored in the anticipations of future reference interests. Then, the European long-term interests seem to react more systematically than in the past at the European conjectural signals. At least, at the middle of the 1990s. the long-term interest tend, like in the USA; to contract when the activity is intensified and to expand when it decreased, which was not the case in the 1970s and 1980s. This modification of behaviour is related to a better mastering of inflation. We must remark however that this process is less manifest than on the other shore of the Atlantic, the European interest fluctuate less systematically as reaction to the conjectural indicators than the American interests. A paradox would be the reaction of interests of the Euro area more powerful at the conjectural indicators than the European ones (Goldberg and Leonard, 2003).

As regards the structure of credits, we remark a lack of homogeneity in Europe. In Austria, for instance, the percentage of the consumption credits from the total of the credit granted to household was around 40% in 2002, compared to less than 5% in the Netherlands. In the Euro zone as a whole, the mortgage credit is predominant, representing, like in the USA, almost 75% of the credit to households in Spain or in Ireland, the mortgage credit is exclusively on the variable interests, in Germany and in France, the credit has a fixed interest. The manner the risks inherent to the long-term loans are assumed will play an important part in the role of credit as transmission channel for the monetary policy. If households borrow at variable rates, there is the risk of a possible increase of the future interests. If the loan is made at a fixed interest, there is the

risk,. If the economic activity slows down, to witness a progression of income below expectations (they will have to face then a debt surplus, above the expected one).

The specialists' opinions are divided when it comes to the effects of changes on the financial markets., according to some, the financial liberalisation was one of the determining factors of the world high growth rates. According to others, the financial liberalisation provoked the financial crises in Asia, Mexico, Russian, Argentina, which led to the reduction of growth.

The recent researches reading the economic growth imperatively underline the necessity of structural reforms for the increase of the credit markets flexibility, of goods and services, as well as of the labour market flexibility. These reforms allow a more efficient allotment of resources and a more intense use of manufacture factors. They generate more powerful stimuli in the favour o innovation that stimulates the long-term economic growth.

As regards the credit market, in an economy there the companies are subjected to certain credit constraints, a higher macroeconomic volatility (for instance as a result of certain productivity shocks or a high increase of demand), tends to reduce the efficiency of the investment in innovation and consequently the stimulus to innovate. The wider the scope of the macroeconomic shock and the narrower the companies' cash flow in the recession period, the more risky the investment in innovation. Hence the negative effect of the macro volatility on the investment in innovation and thus on the medium economic growth. Obviously the more rigid the credit constraint facing the entrepreneurs, the more negative the effect of macroeconomic volatility on growth. The stricter the credit constraints, the weaker the firms' capacity to overcome the liquidities shocks in the recession periods, and consequently the weaker the motivation to invest in research-development.

The effect of a counter-cyclic budgetary policy is to reduce the negative impact of a recession on the company' s capacity to contract loans and to invest, for instance by increasing the foreign demand of products or making more liquidities available in the firms' benefit. Thus., the stricter the credit constraint, the more positive the effects of a counter-cyclic policy on the medium economic growth. The representatives of the endogenous growth talk about the capacity of substitution between the financial development and the budgetary counter-cyclic (anti-cyclic).

The anti-cyclic budgetary policies allow the action of the automatic stabilisers. The effects of these policies are different depending on the phases of the economic cycle. In the recession phase one stimulates the resuming of the economic growth by reducing taxes and increasing budgetary expenditure. On a short term the budgetary deficit will increase. In the expansion phase the aggregated demand is braked, in order to diminish the effects of the economy's overheating by increasing taxes reduction of the budgetary expenditure.

By comparison with the USA, the Euro zone countries are characterised by a more reduced financial development, especially as regards the stock market and the private titles market. The bank loan is obviously more elaborated in Germany but, on the contrary, the social and private tittles market is less developed. Moreover, the American economy perfected a very complete system of innovation financing, system still deficitary in the continental Europe..

Form the theoretical studies regarding the relation between the financial development and economic growth, three prediction follow:

- The weaker an economy from the financial development viewpoint (in other words, the stricter the credit constrains), the more negative the effect of the macroeconomic volatility in the long-term growth ;
- The weaker an economy form the financial development viewpoint, the more positive the effect of the counter-cyclic policies in the long-term growth;
- The liberalisation of the product market or the labour market tend to intensify the positive effect of a counter-cyclic budgetary policy on the long-term growth, especially in an economy where the firms are subjected to certain credit constraints..

Aghion, Angeletos, Banerjee and Manova (2004) tested the first prediction listed above based on certain time data for several countries. First, they effect a regression in transversal section across 70 countries for the period 1960-1995 and show that the figure of increase of GDP per capita are negatively correlated with the macroeconomic volatility (measured through the variation of the increase figure during this period). These authors reach also the conclusion that the effect of the shocks of the raw materials prices on growth is more powerful as the level of financial development is weaker.

Aghion, Barro and Marinescu (2005) analyse the effect of the budgetary effect on the long-term growth, based on certain time data among the OCDE countries. Their first results confirm the second and third prediction. In these studies, the financial development is estimated through the the ratio of the private credit, i.e. the value of credits awarded by financial intermediaries to the private sector, and the GDP of the respective country.

The role of the financial market in the development of a country and of a region is beneficial as long as there is a natural macroeconomic correlation between the capital flows and the macroeconomic indicators and the speculative impulses are kept under control.

Many opinions are expressed on the sense of blaming the present financial system for the contemporary global crisis, accusing especially the banks for a abusive and corporatist shareholders policy.

The exceptional performances of the world economy cannot make us forget two fundamentally new phenomena appeared in these years: the increase of disbalances, of an unprecedented scope, and a world new economic and financial structure, very different from that which existed in the 1970s.

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