A New Order Arises: Post-Crisis Changes in the Global Economy

Joseph P. Joyce
Department of Economics
Wellesley College
November 2, 2009
Crisis Performance

IMF Data Mapper

Real GDP growth (Annual percent change)

Crisis Performance

IMF Data Mapper

Real GDP growth (Annual percent change)

Consequences

• International Economic Governance

• Global Imbalances

• International Reserve Currency

• Monetary and Financial Policies
International Economic Governance

- Out: G7 (Canada, France, Germany, Italy, Japan, U.K., U.S.)

- In: G20 (G7, Argentina, Australia, Brazil, China, India, Indonesia, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, EU)
International Economic Governance

• Out: European and U.S. Dominance of IMF

• Voting Shares: Belgium 2.9%, Brazil 1.38%, Netherlands 2.34%, India 1.89%, U.K. 4.85%, China 3.66%

• U.S.: 16.77%; Supermajority vote: 85%

• In: Voice of Emerging Markets
International Economic Governance

- Out: Financial Stability Forum (G7, Australia, Hong Kong, Netherlands, Singapore, Switzerland)

- In: Financial Stability Board (G20, Hong Kong, Netherlands, Singapore, Spain, Switzerland)
International Economic Governance


- Basel Hub: FSB, Bank for International Settlements, Basel Committee for Banking Supervision
Global Imbalances

IMF Data Mapper

Current account balance (percent of GDP) (Percent of GDP)

Global Imbalances

- Out: “Global Imbalances”
- In: “Balanced Growth”
- In: “Mutual Assessment” of Policies by G20
- In: Multilateral Surveillance by IMF
Global Imbalances

Today we agreed:

13. To launch a framework that lays out the policies and the way we act together to generate strong, sustainable and balanced global growth. We need a durable recovery that creates the good jobs our people need.

14. We need to shift from public to private sources of demand, establish a pattern of growth across countries that is more sustainable and balanced, and reduce development imbalances. We pledge to avoid destabilizing booms and busts in asset and credit prices and adopt macroeconomic policies, consistent with price stability, that promote adequate and balanced global demand. We will also make decisive progress on structural reforms that foster private demand and strengthen long-run growth potential.

G20 Leaders’ Statement, Pittsburgh, September 24-25, 2009
Global Imbalances

Source: The Economist
International Reserve Currency

• Out: $$$$$

• “The outbreak of the crisis and its spillover to the entire world reflect the inherent vulnerabilities and systemic risks in the existing international monetary system.” Zhou Xiaochuan, 2009

• "The one reserve currency has become a danger to the world economy: that is now obvious to everybody.” Vladimir Putin, 2009
International Reserve Currency

• “The United States is not capable of balancing its budget. It allows itself to have enormous debts. Since the dollar is the reference currency everywhere, it can cause others to suffer the effects of its poor management. This is not acceptable. This cannot last.”

Charles de Gaulle
International Reserve Currency

- In: Euro?
- In: Renminbi?
- In: Special Drawing Rights (SDRs)?
Macroeconomic and Financial Policies

• Out: Alan Greenspan

• In: Jean-Claude Trichet of European Central Bank

• Ben Bernanke?
Macroeconomic and Financial Policies

- Out: Efficient Markets
- In: Fighting Asset Bubbles
- Out: Inflation Targeting
- In: Quantitative Easing
Macroeconomic and Financial Policies

- Out: Market-Based Finance
- Out: Iceland
- In: Macroprudential Regulation
- In: Bank for International Settlements
Macroeconomic and Financial Policies

Financial Trilemma (Schoenmaker):
Country can have 2 of

1. Stable Financial System
2. Integrated Financial System
Want to Learn More?

- Kindleberger and Aliber, *Manias, Panics and Crashes* (5th ed.)

- Reinhart and Rogoff, *This Time is Different: Eight Centuries of Financial Folly*

- Sorkin, *Too Big to Fail*

- James, *The Creation and Destruction of Value*

- Joyce (forthcoming!), *The IMF and Global Financial Crises*