

Strengthening Financial Markets for Development

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(Outline of remarks for session on strengthening financial markets through enhanced international cooperation for ECOSOC high-level meeting with international financial and trade institutions, 0804141500)

Promotion of financial markets in recent period has involved greater financial liberalization → financial interests more influential
→ deflationary pressures on macro-economic policy
→ reduced growth in last quarter century, except in Asia, with heterodox econ, including financial policies.

Fin. liberalization has undermined earlier financial policies, institutions instruments for development

e.g. to invest in desired economic activities, capacities

(i.e. tension between Wall St vs Main St/City vs High St)

IMF research has found:

both capital flows + macro-economic policies ***pro-cyclical***

→ undermining financial markets' ability to avoid/manage crises.

Financial globalization is not contributed to growth, but has exacerbated volatility and therefore vulnerability/fragility

International financial liberalization has not helped development as much as promised by advocates

Converse of advocates' claims:

1. K flows ***not*** from K rich to K poor except E Asia in early, mid-1990s
2. Cost of funds ***not*** generally lower, but more 'financial rents' in OECD
3. Some old sources of volatility + instability reduced,
but ***new sources*** introduced, e.g. crises since 1990s

Domestic financial liberalization has weakened development finance

Deflationary macroeconomic influences owing to influence of finance

Counter-cyclical financial instruments + institutions weakened

Developmental financial instruments + institutions weakened
Inclusive financial initiatives undermined except foreign-sponsored
‘micro-credit’, but ‘missing middle’ poorly served.

6 major issues in ‘emerging markets’, other developing countries

1. *Fin. crisis prevention* mechanisms + institutions inadequate
2. *Fin. crisis management* mechanisms + institutions inadequate
3. *Development finance* has declined drastically
4. Need more *equitable governance* of IFIs for credibility, legitimacy
5. *National* economic authority, ownership + *policy space*
essential for more effective macro-management + sustainable devt
6. *Regional* monetary + financial *cooperation*

Enhanced capital inflows has mainly led to:

1. asset price bubbles
2. sterilization → ↓ K additionality
3. consumer binge

Current Financial Turmoil

IMF should lead international response

Most inclusive despite ‘democratic deficit’, unlike G7, G20, etc.
Financial Stability Forum, other such fora exclude most emerging mkts
World economy has undoubtedly changed

But ‘decoupling’ claim unwarranted due to greater globalization

Short-term tools needed to contain crisis and stimulate recovery

Monetary → fiscal → other -- all Keynesians again?

Medium-term efforts to strengthen financial markets, system

Improve supervision, regulation

But more even handed, e.g. why sov. wealth funds, but not hedge funds!

Strengthen counter-cyclical stabilizers

All part of efforts to shape markets to serve development + equity

Markets can be good servants, but cruel masters

All important for consideration of systemic challenges for FfD Doha