An Institutional Perspective of the International Financial Governance:
How much has happened after the crisis. [1]

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This paper studies some institutional trends in international financial regulation after the great crisis. It supports the idea that largest financial corporations are working to have several components for an international self-regulation. The private firms compose the architecture of this global and complicated mechanism backed by governments. Meanwhile all this built up mechanism is based on several assumptions about the origins of the great financial crisis, and also about the capabilities of governments to reach the objectives that it is expected to achieve. We conclude that new financial crisis will development and the "too big to fail" financial corporations are preparing strategies for dissolution and sale as a resolution mechanism.

Key Words: International Financial Regulation; Financial Crisis; Global Governance

JEL Codes: F55, F65, G38

Introduction

The great crisis that started in 2007-2008 has changed the financial markets. Even though we saw the structured finance model go into bankruptcy and the profitability of business around ~~all the~~ credit securitization become fragile, the business of the financial markets continues to be supported by structured finance. One decade after the outbreak of the great financial crisis in 2007, financial markets are fragile and unstable and it is difficult to see in the near future stable perspectives. Successive episodes of financial crises have appeared including countries, financial instruments, curriencies or commodities, although all of them are more linked to credit behavior and less linked to the conditions of each country, or the demand for goods. Such is the case of crises in Greece, Spain, Portugal, the food crisis, or the energy crisis.

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[1] A first draft was presented at AFEE Conference at meeting Chicago, January 6-8, 2017, "*The Vested Interests and the Common People:* Power, Policy and Institutions in the 21st Century." The authors thanks to DGAPA-UNAM.

This financial crisis has been global, large and varied. Also it has been characteristically opaque, leaving many governments with very limited possibilities to contain it. The roads taken for its management, mainly from private corporations, have developed instruments and institutions, which are created in the framework of central banks and domestic supervision authorities, but also through the Bank for International Settlements (BIP) and the International Monetary Fund (IMF). Yet the main financial actors in the crisis and its management have been the same global banks. Indeed, these global financial corporations are the largest competitors in the crisis, and are also the main participants in the creations of new rules and institutional framework for their rescue and an resolution of-the crisis. The return to profitable business has been by segments, regions and markets, and also it is taking new dimensions in conglomerates and markets. Nowadays financialization has built up strong and deeply efficient networks to transfer profits but also losses, useful for concentrating income, but especially in controlling losses. This global financial crisis showed the huge difficulty of state or private managements working with limited information, because of shadow banking and the opacity of the global systemically important banks and financial institutions.

In this framework, this paper attempts to follow how much has happened in the financial markets, reviewing several main trends: special agreements on financial statistics; the weakening of government regulation by giving space for private understandings and supervision; the revision of last-lender-resort mechanisms and central banks functions, with a new global coordination of national treasuries in the redistribution of regional assets, firms and operations; new constraints over shadow banking; and, growing speculation on land and infrastructure.

This is a useful way of knowing how much the financial crisis left behind, or if we are to consider the ways in which the financial crisis continues draining the whole economy.

2. Is it market “governance”?

Since the seventies of the last century the State´s regulation over markets and financial firms has been daily debilitated, opening doors for new competition but also for deals and understanding between corporations.

A noteworthy example of this has been the fact that since, the eighties, the contracts of international loans between banks and loans to the states of developing countries have contained clauses of dispute resolution in New York courts. One recent outcome of this has been the vultures funds ahead by Paul Singer imposing their will over the sovereignty of Argentine bonds.

The consecutive financial crises impose on private firms a cyclical commitment to improve ~~the~~ institutions and market rules, even on its global expansion. But as soon as the main pressures loosen, the commitments to negotiate new agreements are diluted. The crisis appears to be the result of the regulation behind the market, but it

is the deregulation that precedes them. (Correa, 1998) The last mechanism of financial concertation for regulation and supervision has been development by the G20, which created the Financial Stability Board (FSB) in 2009 (Kirton, 2013). Its antecedent is the G7´s Financial Stability Forum born in 1999 in the wake of East Asia and strong credit crunch everywhere. (Porter, 2000)

The FSB has done incredible work in data collection and analysis, and the construction of regulation proposals, bringing together the major financial actors in the global market. Although at the same time these major actors are those who must accept the regulations. In the lobbying process for these objectives for global-national regulations, states have lost much of their sovereign power while at the same time the most important government positions are occupied by former executives of financial conglomerates. In addition, the crisis has opened space for the relaxation of new regulation and the commitment to new regulations.

Nowadays, the largest steps of the FSB have been in collecting data and financial disclosure, resolution regimes with advances in domestic laws, standarization of key concepts and methodologies for banking assessment, and liquidity and risks ratios. It is useful to identify the financial institutions that are the main target of regulation, and these are global systemically important banks (G-SIBs) and insurance companies (G-SIIs). But the steps on shadow banking and OTC derivatives and also too-big-to-fail have not really advanced (FSB Report, 2016) Even if we believe in the direction of the program of regulation reform, these reforms advance very slowy or not at all. The report underlines the trend: "Implementation progress remains steady but uneven across the four core areas of the reform program…some major advanced economies have not addressed deviations in their rules from the Basel framework. " (FSB Report, 2016:1)

Moreover, proposals to end the too-big-to-fail problem have taken the approach of building resolution regimes for the global systemically important banks and insurance companies. Even if the resolution regimes were completed, they have not be tested, and a global crisis again will confront them with a credit crunch and liquidity demands on treasuries. Right now, "…substantial work remains to build effective resolution regimes and to operationalise resolution plans for cross-border firms" . (FSB, 2016:1) The same can be said of the other two fundamental points of the reform agenda: the OTC market and shadow banking.

All these processes have been consulted and agreed upon by the largest global financial actors. We can see, for example, the consultive documents for "Proposed Policy Recommendations to Address Structutal Vulnerabilities from Asset Managementt Activities", which were responded to by several well know financial actors, like Axa Investment Management, BlackRock, Deutsche Bank, Fidelity, State Street and Vanguard.

Another line of financial regulations constructed by financial actors has been the International Agreements. UNCTAD (2015) reports more than 2 600 International Treaties signed between 1990-2007, many of them with a national treatment clause, which create aa "spaguetti bowl" or interconected agrements, that ~~gives~~ place the support for the demand of local liquidity on domestic treasuries and Central Banks in the case of extraordinary liquidity requirements of headquarter banks. All these are remodeling the role of Central Banks, not only because they were exposed in the last crisis to be incapable of funding the liquidity demanded, but also because the treasuries will be the support for funding subsidiaries of major global banks.

Almost all of the International Treaties signed after NAFTA (1992) include, among others, the Investor-state dispute settlement (ISDS) clause whereby investors can sue for redress of problems in their contracts with governments. These Treaties commit signatory governments and their budgets (and contributors) to private contracts that they themselves did not sign.

2. How much has happened?

The great crisis erupted in 2007 precisely ~~at~~ in the heart of the global financial world. However, the deep interconnection of the markets, built to decentralize risks and concentrate profitability, spread the crisis widely. Although the international prices of raw materials and energy grew quickly, began to raise international prices, very early trends in slow growth and even stagnation were present, and high levels of speculation in these products as underlying assets of different securities led to a huge drop in prices in the most important exports of developing economies. The great crisis depressed the economies and they continue on a path of slow growth and stagnation. (IMF, 2016, BIS, 2015) Austerity policies prevent an exit to the crisis that manages to expand the markets through the expansion of consumption and investment.

Considering some figures that illustrate this global stagnation, the global per capita product rose from $ 5,100 to $ 5,900 (in constant 2005 prices) between 2007 and 2014. Foreign Direct Investment reached $ 3 trillion in 2007; in 2014 it fell to $ 1.6 trillion. World merchandise exports amounted to $ 16 trillion in both 2007 and 2015. The total global employed population barely increased by 200,000 people from 2007 to 2015 as the working population declined in relation to the total population. Domestic credit to the private sector in the same period rose from 129 to 137% of GDP. (World Bank, 2016) In the same post-crisis years, there is a trend towards a global stagnation of real wages, especially in developed economies and in Latin America. (International Labor Organization, 2014).

These trends and the reactions of governments have created very different business modalities in each of the national states where they were implemented. For example, Forbes (2016a) in its 2016 list features public companies from 63 countries that together amass $35 trillion in revenue, $2.4 trillion in profit, $162

trillion of assets, and have a combined market value of $44 trillion. More that 300 sites or 15% of the 2000 listed companies are global banks and financial institutions, also between the 25 largest banks are: 9 from China; 4 from the U.S.; Canada, Japan and Australia each have two banks; and United Kingdom, Spain, Switzerland, France and the Netherlands have one each. Germany doesn't have a bank ranked in the top 25. Commerzbank, the highest-ranking, occupies the 62nd place and Deutsche Bank the 76th among banks. (Forbes, 2016b)

The deep economic interrelationships between the largest companies has been documented by Vitali, S., J.B. Glattfelder, and S. Battiston (2011: 6), studying 47 thousand public listed companies database of 2007, ...

> "We find that, despite its small size, the core holds collectively a large fraction of the total network control. In detail, nearly 4/10 of the control over the economic value of TNCs in the world is held, via a complicated network of ownership relations, by a group of 147 TNCs in the core, which have almost full control over itself. The top holders within the core can thus be thought of as an economic "super-entity" in the global network of corporations. A relevant additional fact at this point is that 3/4 of the core are financial intermediaries."

The largest global financial actors have changed positions in the ten years post-crisis, and the most notorious is the case of Chinese banks. The assets of Chinese financial institutions grew from 4 to almost 40 trillion dollars, between 2002-2014. But it has also been the case of Brazil, growing from 0.4 to 4.8 trillion dollars, Australia, 1.3 to 5.6 trillion dollars, and also Canada from 2.4 to 5.9 trillion dollars.

In the same sense, there were changes in the institutional investors. The investment funds with remarkable growth were those located in Luxemburg, Canada and the United States (the OECD don't present data from China and the United Kingdom). At the same time, the assets of the insurance corporations and pension funds after the fall in 2008-2009, have not seen spectacular growth (OECD, 2015).

Banks´ return on equity is not back to the pre-crisis level in Europe and North America, but is for the Asia-Pacific banks. (IMF, 2016) Also the shadow banking continues growing in UK, but are flat in US and Euro-area countries. As the IMF reports, shadow banking represents 180% of~~-~~banking assets in the US. In the UK, it is 350% of the GDP, and in the Euro-area and US almost 200% of GDP. The lending of the shadow banking is more than 50% of ~~the~~ private credit, and for the Euro-area, almost 30%.

One of the most remarkable post-crisis financial processes has been the tremendous growth of agricultural property prices. These have increased~~,~~ further than the prices of commodities and even in recent years above gold prices. These price~~s~~ increases were especially notable in Central Europe and Latin America. (Savills World Research, 2016)

3. Brief conclusions

The crisis and the post-crisis processes shows us the high level of addiction of the financial markets to securitization growth, and the return to profit by the financial markets is going hand by hand with the new markets: financial instruments; privatization of state owned assets; large agriculture and mineral land sales as underlying assets of financial instruments and new borrowers in the process of deepening banking services. This is the core of the explanation of the renewed interest in the financial and non-financial corporation in developing economies. Even if financial profits fell in the last few years after the financial crisis, the profitability of the whole of economic sectors remains lower and the most dynamic markets are not enough to support strong economic growth in many countries. Austerity policies continue to be the determining factor in maintaining economic stagnation.

The utopia of creating formulas of international government, able to resolve differences in markets and competition and provide rules of general compliance, makes it possible for corporations to be driven by the economic transformations that have been advancing. While it may be possible to curb some of the most pernicious effects of financial crises by selling organized corporations too big to be rescued, it does not mean that many other issues of global competition are not still falling short of governance and stability. But in turn, it has been generating concentration, marginalization, poverty, and increasing expropriation of people's livelihoods and survival.

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