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Labour Markets Trends, Financial Globalization and the Current Crisis in Developing Countries

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1 Introduction

The current wave of globalization starting around 1999-2000 (with the fall of the Berlin wall , with changes in the concepts of development and with the ensuing capital market liberalization following earlier undertaken trade liberalization) has profound effects on the labour market and on the employment situation of workers all over the world. These effects are in many cases accentuated by the current financial and economic crisis. The purpose of this paper is first to review some general labour market trends in this period of globalization and secondly to highlight especially the labour market trend of financial globalization

A major question is of course whether ongoing analyses on employment, inequality, and globalization remain relevant in the current context of the large financial and economic crisis. This paper argues that such analyses remain highly relevant for at least two reasons:

Firstly, several elements of the ongoing process of globalization, especially the unfettered markets, (including the labour market)[2] and the growing inequality (resulting for many households to indebt themselves in order keep up spending on basic needs)[3] have given cause to the current crisis; therefore, the analysis of the structure and nature of current globalization and its impact on employment and inequality as well as policy recommendations to alter current globalization processes are even more relevant in times of the current crisis.

Secondly, there is growing evidence that the employment, human and social effects of the financial and economic crisis will last for a while, especially if no corrective action is taken. Reinhardt and Rogoff (2009) for example foresee that the deceleration or decline in GDP growth will lead to rising unemployment with a much longer duration than the deceleration or decline in GDP itself. Based on a sample of past crises, in the North and the South, they observe an average slump in employment lasting 4.8 years, compared to a deceleration or

[1] I would like to thank Malte Luebker for valuable inputs, especially for sections 3.2-3, and Theo Sparreboom for providing data from ILO KILM data set.

[2] Part of growing inequality can be explained by the policies undertaken during the process of liberalization and adjustment, including policies to make the labour market more efficient. Van der Hoeven and Taylor, 2000,

[3] '…., over the past 30 years particularly, there has been an increase in inequality. In effect, we have been transferring money from the poor to the rich, from people who would spend the money to people who do not need to spend the money, and the result of that is weaker aggregate demand. The United States thought it could solve the problem: Americans who had no money were told to keep spending as if they had it. They enjoyed it for awhile. A massive debt finance bubble enabled them to continue to spend '(Stiglitz, 2009 p7-8)

decline in output growth of only 1.9 years.[4] There is also evidence that indicators for human development exhibit a similar ratchet effect. Arbache and Page (2007) for example show that in Africa child mortality increases during growth decelerations, but hardly falls during growth accelerations. Further, primary school completion rates and life expectancy are and remain substantially lower in countries experiencing growth decelerations.

There are thus are strong reasons to include policies for employment , income inequality and human development as priority issues in designing short term and longer policies to deal with the crisis. But, might there be tradeoffs between these policies for employment, income inequality and human development? A recent study on explanations for growing inequality over the last decade (Angeles-Castro, 2006) concludes that high employment levels reduce inequality and, especially for developing nations, high employment levels in the industrial sector reduce inequality. Targeting for employment and for reduction of income inequality can thus be combined objectives in policy making. In a similar vein Stewart and Ranis (2002) argued that human development and economic growth can be joint and reinforcing targets for policy making. It seems thus more than appropriate to argue for greater attention to employment, income inequality and human development in time of crises.

Stiglitz (2009) argues that the dominant view during the current process of globalization was that unfettered markets were judged sufficient to ensure economic efficiency. The best role for government was a limited one, and somehow the benefits of the growth that this would engender would trickle down to everybody in society. Added to that was the view of a dominant strand of economists arguing that the problem in the market economy was rigid wages, and that if it were not for wage rigidities, the economy would work in the way that classical economics predicted. According to Stiglitz, the implication of the Keynesian rigid-wage theory was very invidious but very pervasive: Get rid of the rigid wages, and let labour markets be more “flexible”. That has been the basis of a whole set of doctrines undermining job protections and labour rights. But as he rightly observes, wages are not rigid: in the Great Depression wages fell by about one-third; the problem that Keynes recognized was that wages can be too flexible. Stiglitz observes that lack of aggregate demand was the problem with the Great Depression, just as lack of aggregate demand is the problem today. Accordingly, imposing more wage flexibility can result in exacerbating the underlying problem of lack of aggregate demand. He puts the nature of the problem that we face today as follows: *The people in the global economy have the same skills as before the crisis, and the machines and real resources are the same as before the crisis. The problem is that there is an organizational failure, a coordination failure, and a macroeconomic failure.*

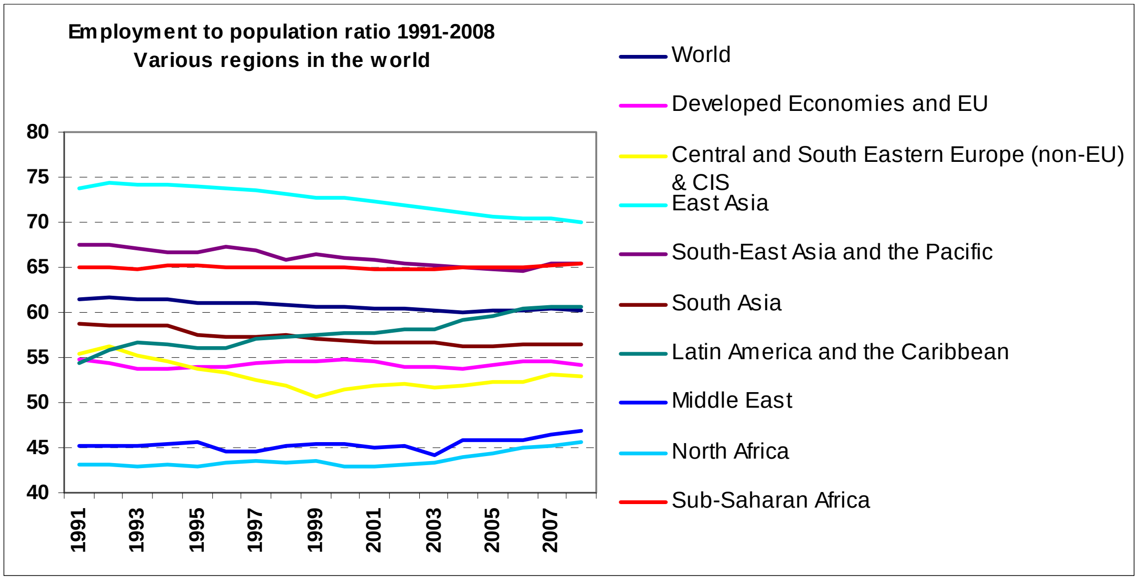
2. Labour market trends

Before we discuss in more detail the consequences of financial globalization on employment we give first a longer term picture of the development of the labour markets in developing regions. We can distinguish a number of general labour market trends over the last two decades.

First we notice a decline in the employment to population rate for most regions in the world.. For the world as a whole the employment to population rate seems to remain rather constant, but there are important regional differences. All three Asian regions, having together with sub-Saharan Africa he highest ratio at the beginning of the 1990’s (73.8, 67.5,58.7) show declines of several percentage points.

[4] Van der Hoeven and Luebker (2007) investigate the behaviour of labour shares in national incomes during recent periods of financial crises and observed a ratchet effect: labour shares decline during crises but in many cases do not return, once the economy has picked up, to their pre-crisis level

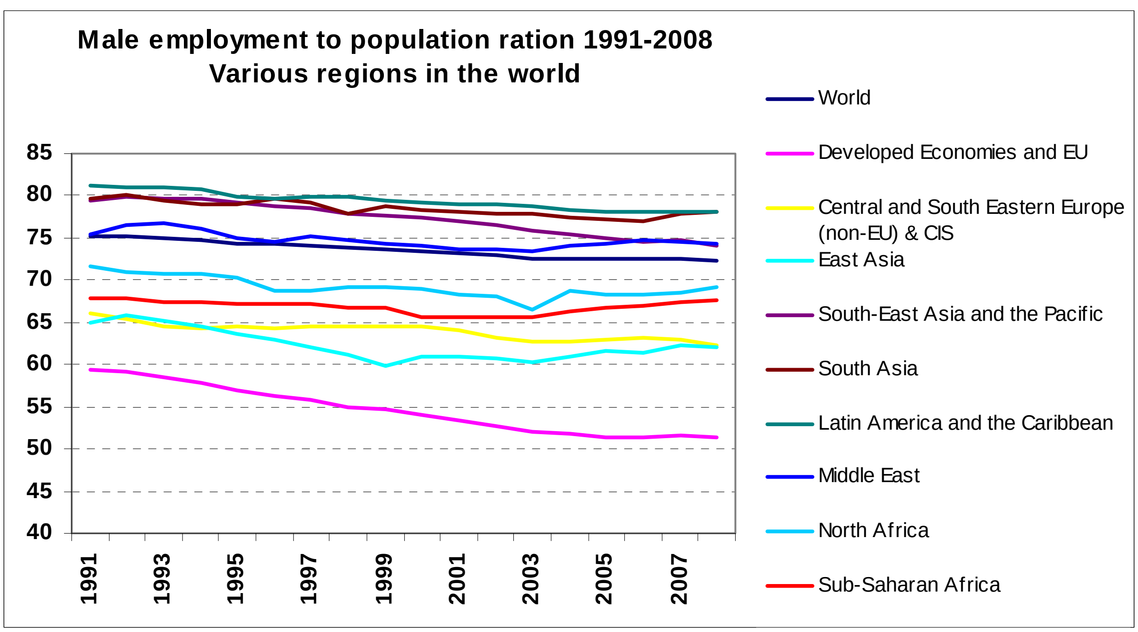
Figure 1



Source: ILO , Trends Econometric Models ,July 2009

In contrast the ratio increases slightly from much lower levels in the middle East, North Africa and Latin America. The lower level in these regions can be explained by very low labour force participation of females at the beginning of the 1990's When deconstructing these global figures we notice two opposite trends namely an increased ratio for female labour force participants and a decline of male participation Figure 2 and appendix table 1. The first trend can to be ascribed to changes in customs and the second one more to the economic effects, which is the major concern and focus of this paper.

Figure 2



Source see figure 1

A second trend is the changing pattern in production. For the world as a whole the percentage of employment in service industry has risen from 33.6 per cent in 1991 to 43.8 per cent in 2008.High percentages prevailed already in developed countries the Middle East and North Africa where we consequently see small increases of around 9.5 , 2.5 percent and 2 percentage points ; However massive in the percentage employment in the service sector took place in east Asia where it almost doubled from 19.5 per cent to 35.7 per cent and South Asia where it increased from 23.6 per cent to 30.1 per cent.

Some analysts interpret the increase of the employment in the service industry as an indication of post industrial society and an important indicator of progress in development. But this fails to recognise that the service industry encompasses wide range of activities this can range from sophisticated it support to hawking and peddling in the street. Therefore a better indication of broad development for developing countries is the size of manufacturing sector. Here we notice different trend over the last 2 decades. At world level the share of employment in industry has hardly changed from 1991 to 2008 at 21.5 per cent. But there are again important regional differences. The most dramatic increase is in South East Asia and the pacific where the share increased from 12.7 per cent in 1991 to 19.4 per cent and in south Asia where it increased from 15.4 to 22.4 almost reaching the share in East Asia which has remained more or less constant over the period (around 23.5 per cent with a dip of 3-4 percentage points around 1998 due to eats Asian crisis). Noticeable are the very low and stagnant share in sub Saharan Africa at around 8.5 per cent and a decline share in North Africa.

It should be noted however that share of empl0oyment in industry can even underestimate the level of progress in industry. As Rada and Taylor, 2006, notice industry often has high productivity(or a low employment Value added elasticity). An important issue is therefore not only the size of employment in industry but also how the surplus generated in the industrial sector is used for reinvestment and how it is distributed in the rest of the economy.

Figure 3

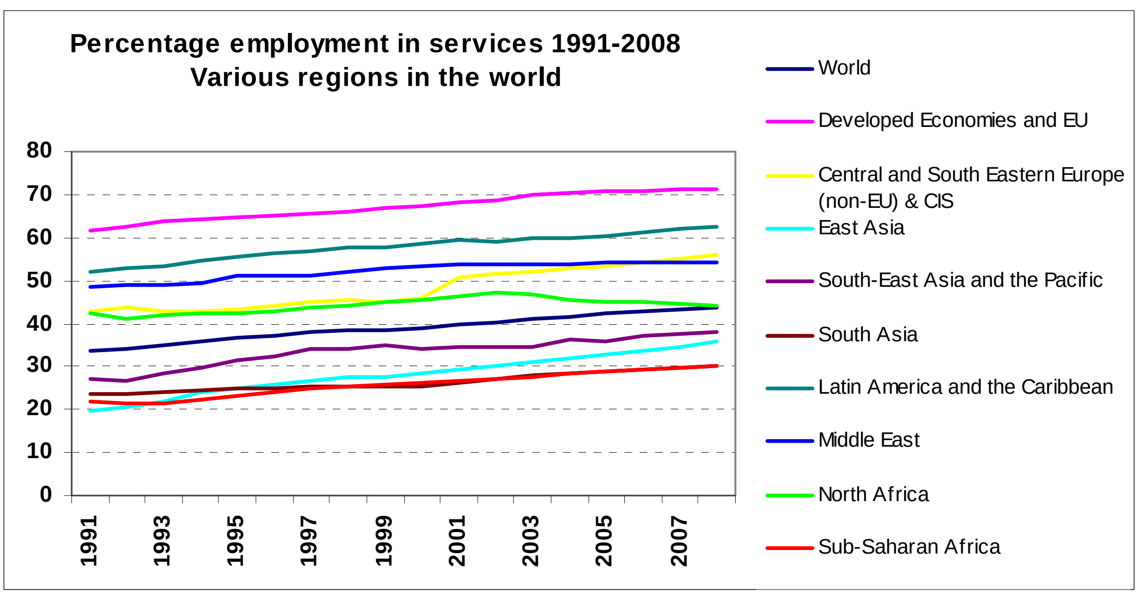


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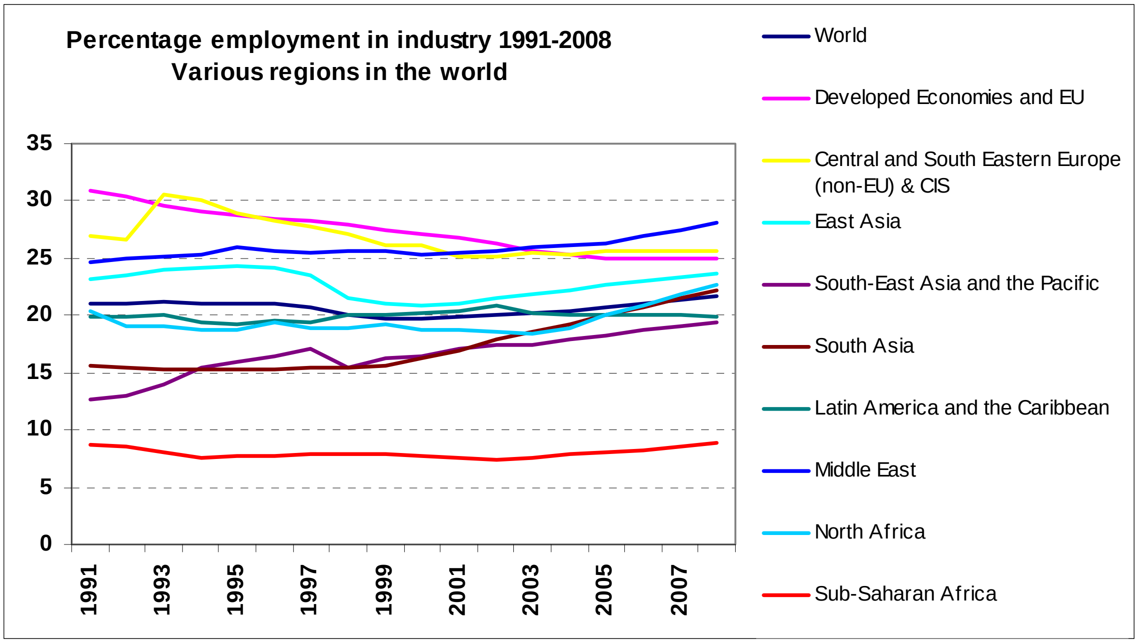
Figure 4



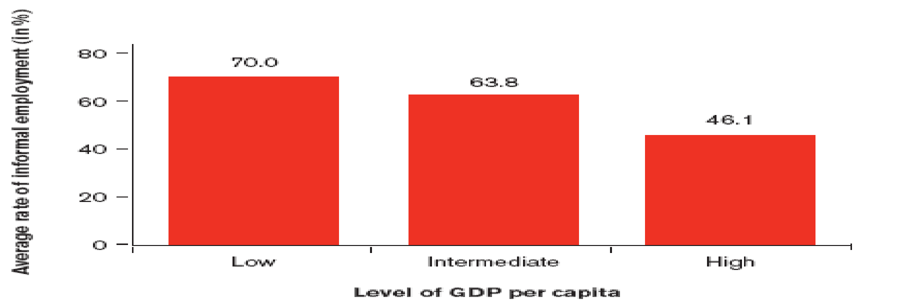
Source see figure 1

A third noticeable trend over the last 20 year is the precarisation of labour or the increase of non standard forms of employment. Contrary to what has been argued by some this is not only the case for workers in developing countries but equally for workers in developed countries. Precarisation of workers in developed countries is manifested by changes in employment status, replacing traditional labour contracts by outsourcing contracts, more flexible work arrangements, part-time work etc. In developing countries the precariousness is most clearly manifested by the existence of a pervasive informal sector or economy[5]. This phenomenon is not restricted to poorer developing countries as figure 5 shows

[5] It has become usuance to speak about the informal economy rather that about the informal sector , as increasingly informal activities take place within established enterprise. It would thus be a misnomer to continue to speak about the informal sector.

Figure 5

Figure 1.8 Informality and economic development



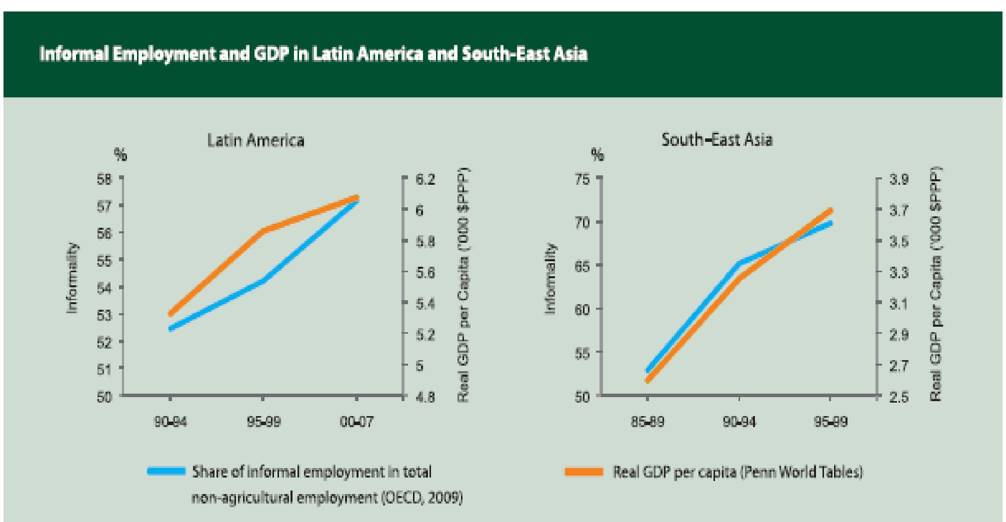
Note: The graph plots deciles of GDP per capita levels (in PPP) against the average size of the informal sector in the informal employment database used for this report.

Source: IILS estimates based on the IILS Informality Database.

Source: ILO ,2009,*Globalization and informal jobs in developing countries* ,Geneva

The existence of the informal economy is partly related to the changes in the structure of employment: Especially for the poorer regions the increase of employment in the service sector reflects also an increase in the share of workers engaged in informal activities. Figure 6 from a recent OECD publication, indicates clearly this pervasiveness of the informal sector in Latin America and South East Asia. Despite increases in per capita incomes in these regions, quite substantial in the case of Asia , the size of the informal sector has not declined but rather increased.

Figure 6 Informal Employment and GDP in Latin America and South East Asia,

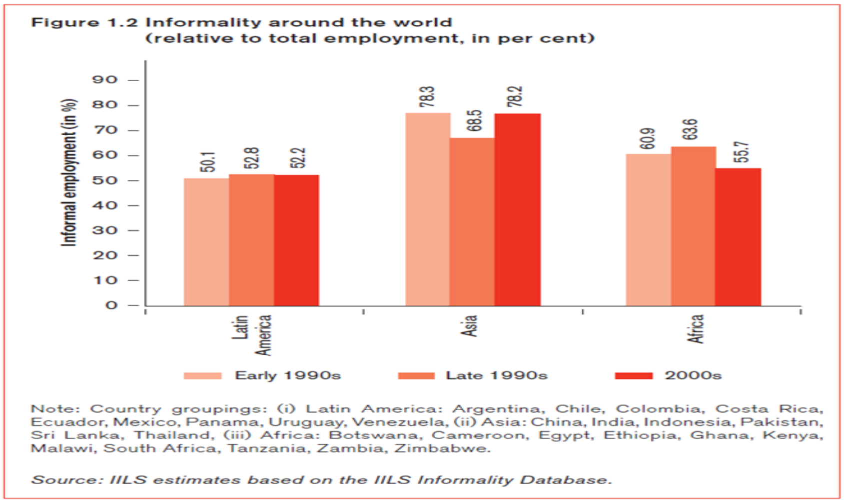


Note: Graphs based on un-weighted averages of countries in 'Informal is Normal? Towards more and better jobs' (OECD, 2009).

Source UNDP,2008, *Poverty in Focus ,Jobs, jobs, Jobs, The Policy Challenge* , p8

Figure 7 shows that with the limited data available we can nevertheless infer an increase in absolute numbers for all developing regions in the world and for two out 3 regions also an increase in the *share* of those working in the informally.

Figure 7 Informality in different regions, 1990's -2000's



Source: ILO ,2009,*Globalization and informal jobs in developing countries* ,Geneva

There are however rather contradictory explanations of the pervasiveness of the informal sector. Some (Maloney ,2004) argue that the size of the informal sector is determined by the degree of labour market inflexibility. According to them the more inflexible the labour market, the greater the avoidance of employers and workers to be act in informal manners. Others (Kucera, 2008) argue that the major cause of the informal sector activities is the lack of sufficient formal jobs. This interpretation has gained ground in ILO, OECD, and other UN organisations.

There is evidence of a clear link between the increased non standard work and income inequality (Rani 2008), mainly due to widening wage differentials between standard and non standard jobs. Some would explain this by the low education level of those engaged in the informal sector. as statistics show. But it is most likely the type of job rather than the educational attainment which drives inequality. An increase in education levels will result in better educated workers in the informal economy without a major decline in wage inequality in the absence of new created formal jobs.

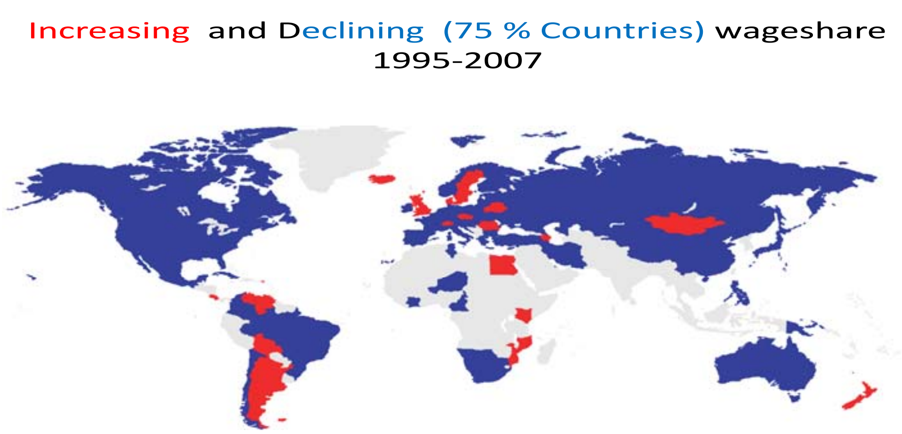
A fourth trend which is partly related to the changing sectoral patterns of employment and the large informalisation is the declining wage share and the growing wage inequality which one notices in several regions in the world.

ILO 2008 reports that the wage share declined over the period 1995 -2007 in two thirds of the developing countries, including the major countries. The only exception was the Latin American region which also has some countries with an increasing wageshare. The ILO report attributes the declining wage share to increasing trade and globalization and confirms earlier research findings that contrary to the conventional wisdom that sees the labour share in GDP as relatively constant, research by Diwan (2001) and Harrison (2002) shows that the proportion of GDP that goes into wages and other labour income is variable over time. Using a data set from 1960 to 1997, Harrison (2002) splits her sample of over 100 countries into two even groups (based on GDP per capita in 1985). Her data show that, in the group of poorer countries, labour's share in national income fell on average by 0.1 percentage points per year from 1960 to 1993. The decline in the labour share accelerated after 1993, to an average decline of 0.3 percentage points per year. In the richer sub-group, the labour share grew by 0.2 percentage points prior to 1993, but then fell by 0.4 percentage points per year. These means indicate a trend reversal for the richer countries post-1993, and an acceleration of an already downward trend for the poorer sub-group.

Harrison (2002) tested for factors that could explain changes in labour shares, combining detailed national accounts data from the United Nations with measures of trade openness, capital account restrictions and capital flows. Overall, the results suggest that changes in factor shares are primarily linked to changes in capital/labour ratios. However, measures of globalization (such as capital controls or direct investment flows) also play a role. Harrison found that exchange rate crises lead to declining labour shares, suggesting that labour pays a disproportionately high price when there are large swings in exchange rates (i.e., wages are more severely affected than GDP). Capital controls are associated with an increase in the labour share, an effect that Harrison attributes to the weaker bargaining position of capital vis-à-vis labour if the cost of relocating production increases with capital controls. Foreign investment inflows are also associated with a fall in the labour share. The weak bargaining position of labour under open capital accounts is also a causal mechanism explored by Lee and Jayadev (2005). They find that financial openness exerts a downward pressure on the labour share both in developed and developing countries for the period from 1973-1995. Harrison also finds that increasing trade is associated with a fall in the labour share. This result is robust across specifications. These results point to a systematic negative relationship between various measures of globalization and the labour share.

Diwan (2001) reports, based on a large sample of countries, an average drop in the labour share of GDP per crisis of 5.0 percentage points, and a modest catch-up thereafter. In the three years after the crisis, labour shares were still 2.6 percentage points below their pre-crisis average. Given the fact that most countries have undergone more than one crisis, the cumulative drop in the wage share over the last 30 years is estimated at 4.1 percent of GDP, and is especially large for Latin America, where the figure reached 6.7 percent of GDP over the period from the 1970s to the 1990s. The overall decline in the labour share is partly explained by what some call the ratchet effect: After an economic shock or a financial crisis the labour share in gross national income decreases (van der Hoeven and Saget 2004).

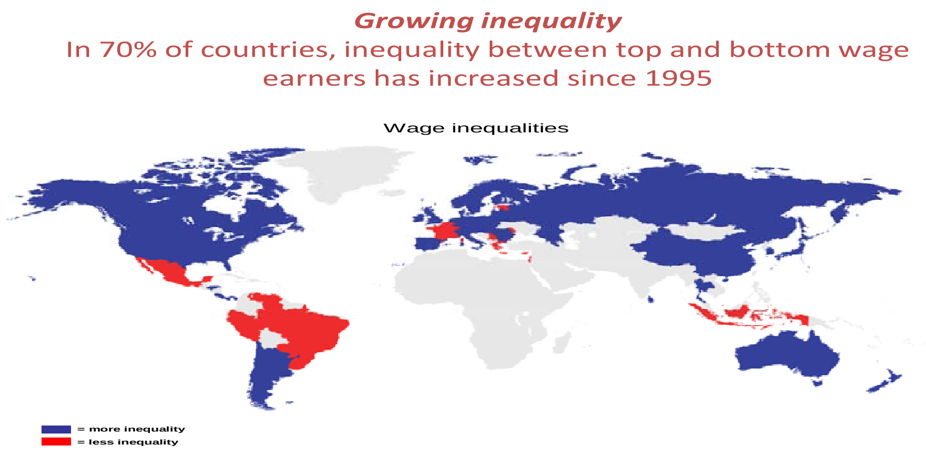
Figure 8



Source: ILO,2008, *Global Wage Report 2008/9*,Geneva

However not only the inequality between wages and other components of gross domestic product has increased but also the distribution among wage earners (as measured by the ratio of the average wage of the top percent earners in relation to the bottom 10 per cent) shows in seventy percent of the countries an increase. Here one notice the same regional differences, an almost uniform pattern for most regions , but a mixed pattern for Latin America.

Figure 9

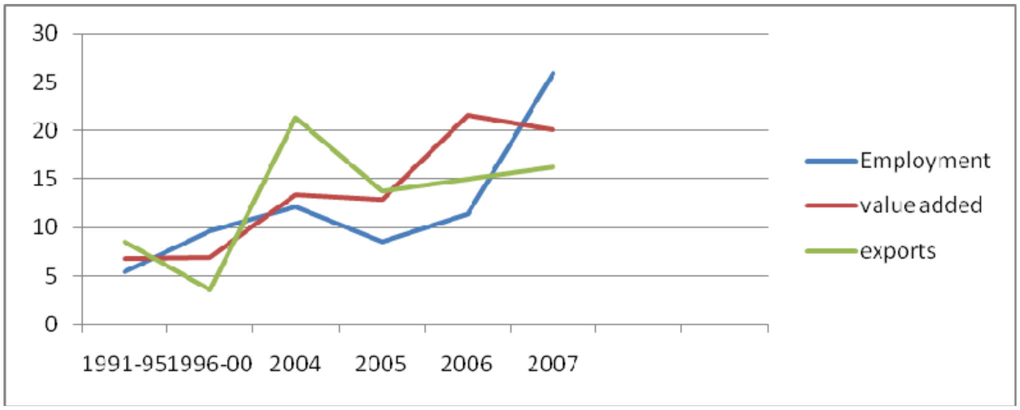


Source: ILO,2008, *Global Wage Report 2008/9*,Geneva

A fifth noticeable trend of the last two decades has been the internationalization of the production process. Today there are some 82000 trans national Corporations with 81000 affiliates in the world. These companies play a major role in the world economy. For instance exports form foreign affiliates of TNC’s are estimated to have grown from about a quarter of total world exports of goods and services in 1982 to one third in 2007. And the number of people employed by these corporations has increased fourfold since 1982 amounted to about 77 million in 2008. A rate much faster that then the rate of growth of the labour force. These TNC are dominated by a number of large firms. The largest 100 TNCs account for 11 percent of all employment in TNC and to about 4 percent of world GDP. Over the last 15 years the largest TNC,s have undergone a rapid process of internationalization. There has also been a progressive increase in the proportion of companies operating in the service sector and of firms based in developing countries.[6]

[6] Source: UNCTAD 2009, World Investment report , Geneva, p17-18

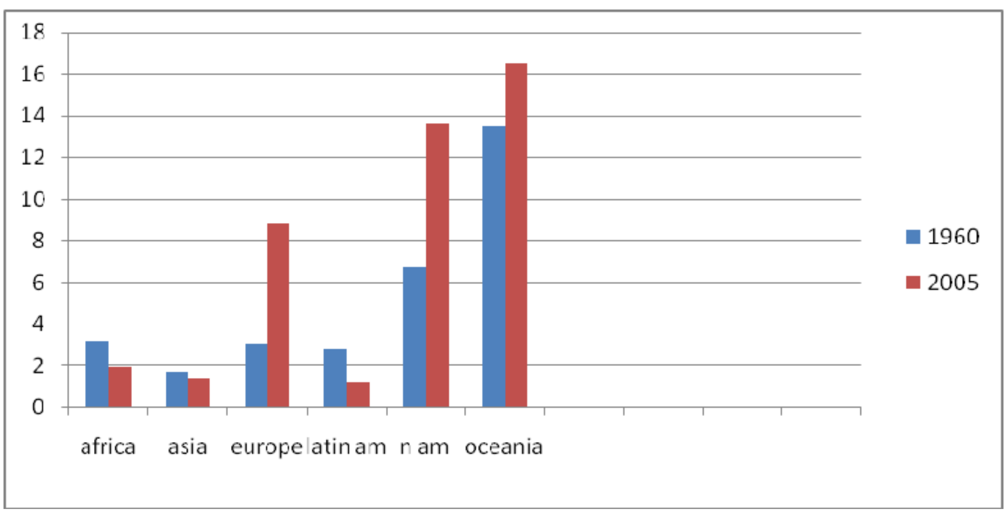
Figure 10 ***Annual*** Growth of Employment, Value added and Exports, Transnational Enterprises, 1986-2007



Source Figures drawn from UNCTAD ,2009,World Investment Report , Table 1.6

A sixth noticeable trend is the international migration. Global figures of migration does do not show a substantial change: In 1960 the stock of total migrants in the world population [7]was 2.7 per cent and in 2005 this percentage had not changed. This has lead some commentators argue that globalization is characterized by increased capital flows and increased trade and services flows but not increased labour flows. However this characterization is over charged. If looks at more disaggregated regional figures one clearly sees a growing trend in some regions. In Europe the stock of migrants as part of the population increased from 3.0 % in 1960 to 8.8% in 2005 , in Northern America from 6.7% to 13.6%, in Oceania from 13.5 % to 16.4% and the Gulf states from 4.9% to 37.1%. Migration ratios declined in Africa, Asia and Latin America as a whole. The increase in migration rates in the high income countries is substantive, despite the severe restriction most countries have put on inward migration (exceptions are the Gulf states and Oceania)

Figure 11 Migrants as Percentage of Population.

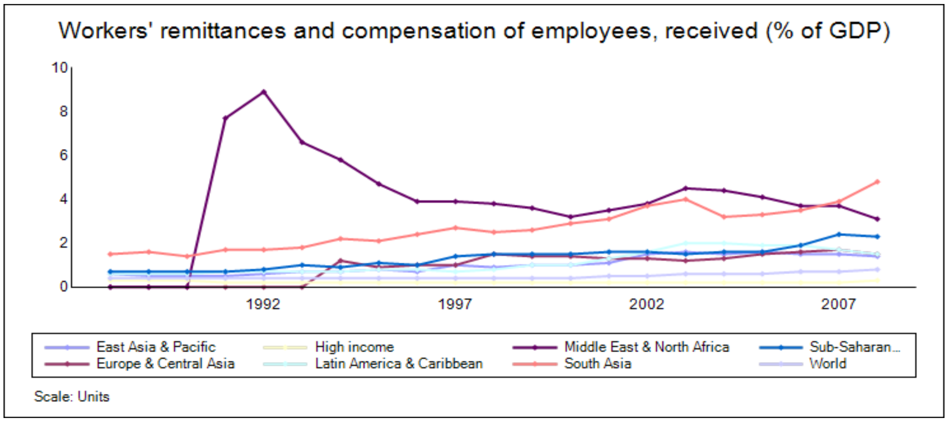


Source: UNDP *Human development Report 2009* ,Statistical annex table 1

[7] This figure excludes the former soviet union as after the independence of the former soviet republics remaining soviet citizens are counted as migrants.

This increased level of migration is leading to tensions in the country of destination but is providing a increasing source of foreign revenue of the sending countries. Figure 12 indicates the fast growing flow of remittances often of greater dimension than traditional development assistance. For example in per capita us dollars of inflow of remittances in 2007 was in East Asia and the pacific 34$ compared to 5$ in ODA flows, and for Latin America and the Caribbean 114$ compared to 10$, In south Asia 33$ compared to 6$. Only in Sub-Saharan African the inflow of remittances of 26$ was lower that that of ODA inflows of 39$.

Figure 12 Workers Remittances as % GDP , Various regions ,1988-2007



Source World Bank, 2009, WDI

Using a broad definition, the World Bank estimates that remittances to developing countries amounted to 166.9 billion US$ in 2005, compared to 85.6 billion US$ in 2000 and 31.2 billion US$ in 1990 (World Bank 2005a: 88). Remittances are not only a rapidly growing source of external finance, but they are generally continuous over the years and not prone to sudden reversals of direction (Ratha 2005). They tend to be countercyclical for crises in developing countries (i.e. migrants send more money home to support their families) and hence help to smoothen consumption volatility. However, the current financial and economic crisis engendered by the sub-prime mortgage crisis in the United States is leading to greater job loses than ever, in particular in industries such as construction that have a disproportionate share of migrant workers, will have a negative impact on remittances.

The six labour market trends which we have ascribed above: declining employment population ratio, the increase in service employment , the continuing high share of workers in the informal economy, the declining wageshare and greater income inequality, growing importance of multinational enterprises and the growing number of migrant workers in Industrialised countries give a general a picture of increased precarisation of many workers and their families , which can be partly ascribed to the ongoing process of globalization , including financial globalization. Freeman 2004 has even argued that financial globalization affects employment and incomes of workers in developing countries more than trade liberalization.

The next section therefore reviews in more detail the consequences of financial globalization (including the resultant) for labour.

3 Financial globalization and labour

3.1 Introduction

The current wave of globalization is characterized by widespread adoption of policies for financial openness.[8] Over the past two decades, many countries have liberalized their capital accounts (see Lee and Jayadev 2005) and almost all policy measures related to foreign direct investment favoured a more open regime. These measures have been adopted autonomously by some countries, and also as conditions of adjustment loans. The major expected result from financial openness was that it would allow developing countries to better utilize resources and to increase capital formation by stimulating foreign direct investment (FDI) and other international capital flows such as private portfolios investment. A more open national financial system was seen as a necessary complement to the lifting of impediments to international capital flows.

Capital has become more globally mobile as a result of these policy changes, especially since the mid-1990s. Worldwide gross private capital flows (the sum of the absolute values of foreign direct, portfolio, and other investment in- and outflows) have exceeded 20 percent of world GDP every year since 1998 and reached a new record of 32.3 percent of GDP in 2005 – compared to less than 10 percent of world GDP before 1990. Worldwide FDI flows, a sub-category of private capital flows, also rose substantially during the 1990s. They peaked at 4.9 percent of world GDP in 2000 and declined when with the downturn of the early 2000s, but strongly rebound before the current global financial and economic crisis. On average, global FDI flows doubled between the 1980s and the 1990s, and again in the years from 2000 to 2007.

In spite of this substantial increase in capital flows, the expected benefits have not materialized for many countries. During the surge in foreign capital flows since the mid-1990s, actual investment into new infrastructure and productive capacity stagnated. This can in part be attributed to the fact that much FDI was spent on mergers and acquisitions, rather than on investment into new factories or equipment that would have added productive capacity.[9] Gross fixed capital formation (the most commonly used measure for physical investment) averaged 21.6 percent of GDP in the 1990s and 21.0 percent in the years from 2000 to 2006. Hence, it fell well short of the level reached in the 1970s and 1980s). In fact, figure 13 below shows an overall declining trend in capital formation since the early 1970s. It is thus not surprising that world GDP growth, too, was slower in the 1990s and the 2000s than in previous decades (see figure 14 below).

Moreover, despite much excitement about the promise of ‘emerging markets’, cross-border capital flows are still largely a phenomenon of developed countries. In 2005, gross private capital flows equalled 37.2 percent of GDP in high-income countries, but only 12.7 percent of GDP in low- and middle-income countries (WID 2009). While there was a positive balance between in- and outflows for developing countries as a group, these flows by-and-large bypassed the poorest countries since the early 1990s as middle income countries accounted for more than 90 percent of the total. FDI, as well, is highly concentrated among industrialized countries and a small group of middle-income countries.

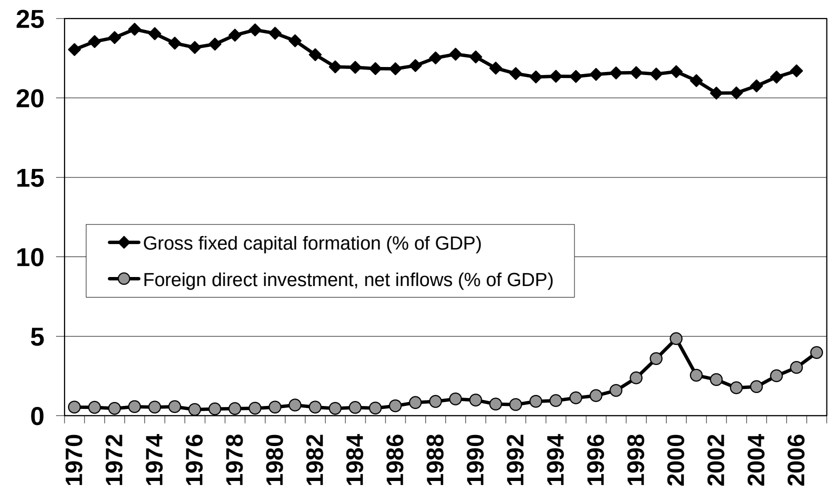
[8] Financial openness is used here as an umbrella term that includes both financial integration and financial liberalization. Financial liberalization in turn incorporates the liberalization of the capital and financial account. Congruent with the literature, we henceforth use “capital account liberalization” as shorthand for the liberalization of the capital and financial account (while acknowledging that, strictly speaking, the relaxation of rules that refer to direct investment and portfolio flows should be called “financial account liberalization”; for the standard presentation of the Balance of Payments see IMF, 2004. We also include other elements such as less or different supervision and regulation of the banking sector and often a liberalization of the foreign exchange rate regime.

[9] UNCTAD data show that the FDI boom was in part driven by mergers and acquisitions (M&A). In 2007, the value of worldwide M&As was US$1,637 billion – some 21 percent higher than during its previous peak in 2000. This compares to global FDI inflows of US$1,833 billion in the same year. See UNCTAD, *World Investment Report 2008*.

Low-income countries, to a large extent, still draw their foreign resources from remittances and official development assistance which decreased over the 1990s and only rebound in the past few years.[10]

Meanwhile, international capital movements and their sometimes sharp reversals have led to greater economic volatility, a trend that has been well documented (Diwan 2001; Prasad and others 2003 and 2004; Cerra and Saxena 2005). That volatility has lead to more frequent financial and economic crises, predominantly in developing countries (see Easterly, Islam and Stiglitz 2001; Singh 2003). While the current financial crisis had its origins in the industrialized world, the initial hope that developing countries had effectively ‘de-coupled’ proved to be an illusion when the upheaval in capital markets and the economic downturn spread around the globe within months. Such crises have negative effects on growth, investment and incomes, not only in the short term, but also in the long run (Diwan 1999 and 2001; Cerra and Saxena 2005).

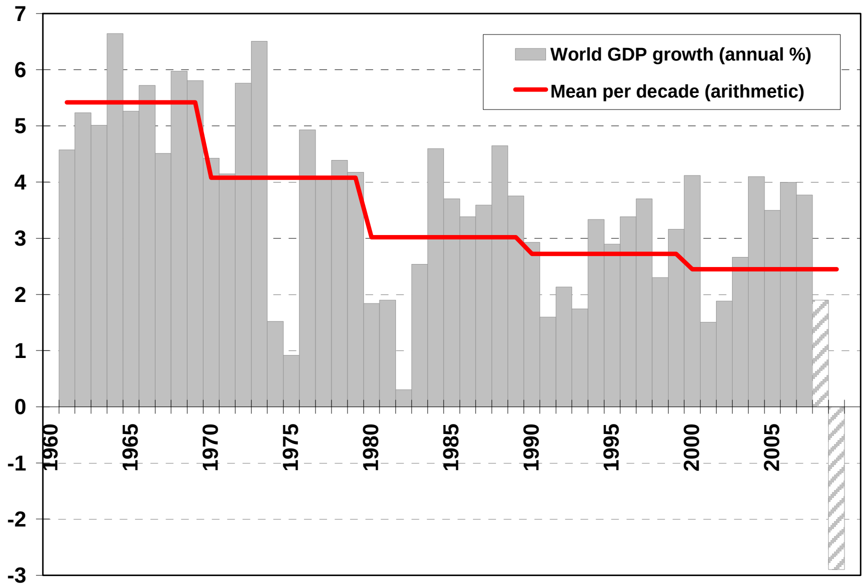
Figure 13: FDI and Investment as Share of GDP, World (1970-2007)



Source: World Bank, World Development Indicators, online database, as of May 2009.

[10] Official development assistance and official aid (ODA/OA) to all low- and middle-income countries actually declined through most of the 1990s, falling from 63.7 billion current US$ in 1991 to a low of 51.7 billion US$ in 1997. The recovery thereafter brought it back to 64.7 billion US$ in 2002 and to 105.1 billion US$ in 2007. However, the increase is far smaller when adjusted for inflation. While it amounted to 1.7 percent of GNI in recipient countries in 1991, the ratio fell to 0.7 percent in 2007. See World Bank, World Development Indicators (2009); based on series “Official development assistance and official aid (current US$)” and “Aid (% of GNI)”.

Figure 14: World GDP Growth, 1961-2009 (annual change in percent)



Note: Figures for 2008 and 2009 (striped bars) are a World Bank estimate / forecast.

Source: World Bank, World Development Indicators, online database (as of April 2009) and World Bank, Global Development Finance 2009 (June 22, 2009).

How does financial openness affect labour? There are several potential channels of influence. First is the potential effect of openness on growth. In addition to the potential direct positive effect of capital flows on growth (as countries gain additional resources that can be invested), there can also be an indirect negative effect on growth when financial liberalization forces countries to hold a larger foreign reserves, which reduces consumption and/or investment and hence growth potential. If financial flows have, on balance, a positive impact on growth, this would be generally beneficial for labour, while slow growth is usually disadvantageous for labour. However, even in the case of fast or steady growth, the distributional impact of financial openness on different categories of labour needs to be taken into account. Labour might benefit less than necessary for long term institutional and human capital development and for growth of domestic consumption.

3.2 Financial Globalization, Growth and Employment

It has proven difficult to establish a robust causal relationship between financial globalization and growth.[11] A recent study by IMF researchers (Prasad and others 2004) has confirmed the main findings of earlier studies, such as those undertaken in UNCTAD (2001), that find that growth depends more on the quality of domestic institutions and careful macro-economic management than on financial liberalization. Edison and others (2004) argue in the same direction and demonstrate that the findings of

[11] The conflicting results could in part be caused by differences in country coverage, but also by differences between the indicators employed in the literature. There is a crucial difference between "de jure" or "de facto" measures of financial openness. "De jure" openness includes abolishment or changes in rules and regulations concerning foreign capital, as it is often required as part of the conditionality for financial support by the international financial institutions. Many countries in Latin America fall under this category. By contrast, "de facto" openness relates to increases in a financial openness indicator, irrespective of whether rules have changed or not (India, China, and some other Asian countries fall into this category). In the latter case, the causal relationship between financial openness and growth is more difficult to establish. Did openness lead to higher growth, or did higher growth induce financial flows and integration? Rodrik (2003) and Singh (2003) argue that the latter is the case especially for India and China where growth induced greater financial integration.

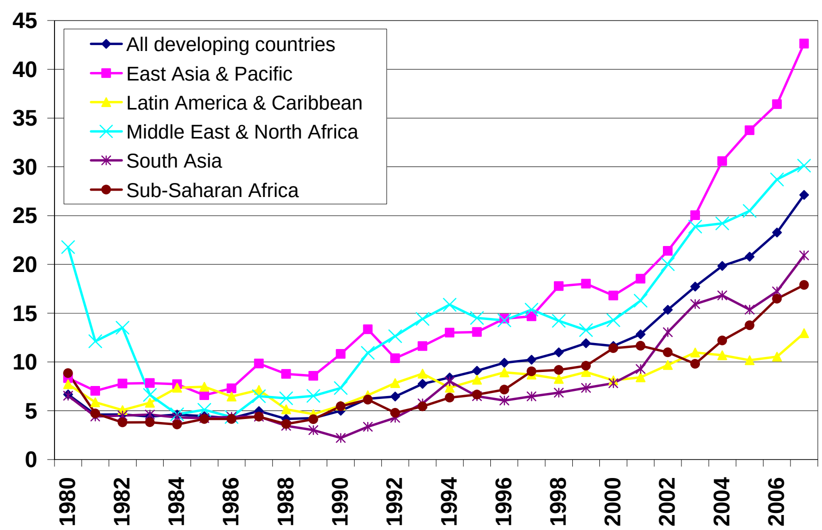
previous research (that found a positive association between capital account openness and growth) crucially depended on the country coverage, the choice of time periods and the indicator for capital account openness. They also find evidence for a suggestion that was first made by Rodrik (1998), namely that conventional indicators for capital account openness closely proxy the reputation of a country's government. If governance is controlled for, capital account openness has no significant effect on economic performance (Edison and others 2004: 243ff.).

Indirect growth effects through increased reserve holdings

The repeated financial crises of recent years have led many developing countries to build up foreign reserves. For some countries these reserves were created by surplus on the current account, while others built up reserves through capital inflows which were not spent on foreign goods. Rodrik (2006) estimates the cost of increased reserve holdings to be 1 percent of GDP on average for developing countries. While imposing costs on developing countries, increased reserve holdings are an indirect subsidy to the countries in whose currencies the reserves are held (see Stiglitz 2000).

The trend has accelerated in recent years to a somewhat alarming level (see Figure 15). Overall, reserves held by low- and middle-income countries were equal to 27.1 percent of their GNI in 2007, compared to 6.8 percent in the first half of the 1990s – a fourfold increase.[12] The increase took place in low- and middle-income developing countries alike, and across regions. Even a poor region like sub-Saharan Africa now holds foreign reserves equal to 17.9 percent of its GNI, more than three times the ratio in the early 1990s. The trend is particularly strong in South Asia, East Asia and the Pacific. Even when China (the developing country with the largest foreign reserves) is excluded, there remains a substantial increase from an already high 15.0 percent of GNI (1990-94) to 27.6 percent in 2007 for the rest of the region (see Annex Table 4).

Figure 15: Reserve Holdings by Developing Countries, 1970-2007 (in % of GNI)



Source: World Bank (2009), *Global Development Finance,* online database (Washington, DC, as of May 2009); based on series 'International Reserves (US$)' and 'Gross National Income (US$)'.

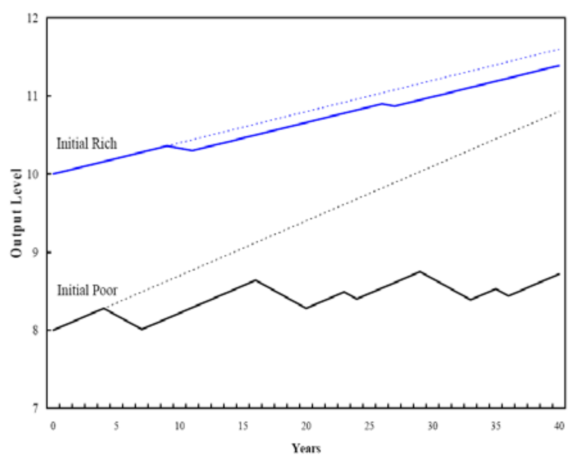
[12] By contrast, foreign reserves have remained at under 5 percent of GDP in industrialized countries (Rodrik 2006: 15).

3.3 Financial Globalization, Volatility, Crises and Employment

Financial liberalization in developing countries is associated with increased GDP volatility and higher consumption volatility (Prasad and others 2004; Kose, Prasad and Terrones 2003; Levchenko 2005). Kaminsky, Reinhart and Végh (2004) pointed out that the absence of sound financial regulation, both at the national and international levels, makes developing countries much more vulnerable to negative impacts of capital flows. When institutions with the ability to manage greater volatility are absent or not fully effective, the generally procyclical nature of international capital flows ("when it rains it pours"-syndrome) adds to the effects of fiscal policies, and, to a certain extent, also macroeconomic polices, that tend to be procyclical in most developing countries. Such behaviour deepens and prolongs a crisis.

Financial crises typically have a large impact on the real economy. In the five countries most affected by the East Asian crisis of 1997/98, GDP per capita fell between 2.6 percent (Philippines) and 14.8 percent (Indonesia). In Latin America, the Mexican crisis of 1994/95 led to a decline in incomes of 7.9 percent, and the Argentinean crisis of 2001/02 reduced the country's per capita incomes by 16.5 percent. A recent study by Hutchison and Noy (2006) documents that so-called "sudden stop" crises (a reversal in capital flows and a simultaneous currency crisis) have a particularly harmful effect on output – over and above that of 'normal' currency crises. On average, they cause a cumulative output loss of 13 to 15 percent of GDP over a three-year period.

Figure 16: Typical Growth Path after a Financial Crisis in Rich and Poor Countries



Source: Cerra and Saxena (2005: 24)

The view that crises pose only a temporary set-back is challenged by Cerra and Saxena (2005), who deconstruct what they call the 'myth of recovery' by using panel data for broad datasets of countries. They document that recessions are typically not followed by high-growth recovery phases, either immediately following the trough, over several years of the subsequent expansion, or even over the complete subsequent expansion that follows a recession (Figure 16). When output drops, it tends to remain well below its previous trend. Cerra and Saxena also find that frequent crises and instabilities interfere with convergence between rich and poor countries:

"Countries that experience many negative shocks to output tend to get left behind and their long-term growth suffers. Thus, while standard growth theory may work well in explaining expansion, a fruitful direction for future research would be to explain the proclivity to wars, crises, and other negative shocks." (Cerra and Saxena 2005: 24)[13]

[13] This is related to the point Rodrik (2003) makes, namely that policies for stimulating growth are different from policies to sustain growth and that frequent crises require frequent policy regime switches.

Financial crises generally provoke both economic decline and social costs. These are most prominently felt in terms of rising open unemployment, falling employment-to-population ratios, falling real wages, or a combination of the above (see e.g. Lee 1998). Moreover, the social costs are usually felt longer than the economic impact: Even when GDP per capita has recovered to pre-crisis level, the other indicators usually lack behind (see World Commission on the Social Dimension of Globalization 2004: 40f.). This pattern can be observed in a majority of countries that were most affected by the financial crises of the past decade. We compare the situation before to that after a financial crisis for some of the most salient examples.

Impact of financial crises on employment in Latin America and Turkey

Latin American countries experienced several periods of financial turbulence in recent years. The most prominent examples are the Mexican "Tequila crisis" during 1994/95 and the currency crisis in several South American countries in the aftermath of the East Asian and Russian crises. Following extensive liberalization policies in Mexico, financial inflows expanded rapidly in the early 1990s, but reversed in 1994. The peso devaluation of December 1994 (see Ibarra 1999) brought the recently privatized, already fragile banking system into considerable difficulty as the peso value of foreign denominated debt soared. Similarly, the balance sheet positions of companies which had accumulated debt in US dollars deteriorated rapidly (see Carstens and Schwartz 1998; Mishkin 1999), which in turn led to a sharp fall in investment (Aguiar 2005). Taken together, this can explain how a currency crisis rapidly turned into a crisis of the real economy and provoked a recession with an eight percent drop in per capita income in 1995. Unemployment, relatively stable at around three percent before the crisis, started to increase during 1994 and reached 5.8 percent in 1995, almost twice the pre-crisis rate. However, these figures mask the actual loss of jobs, since the share of informal employment rose from 30 percent in 1993 to 35 percent in 1995 (ILO 2005). By 1997 Mexico had achieved its pre-crisis income level, with the unemployment rate lagging the economic recovery by one year. However the share of informal employment remained above the pre-crisis level.

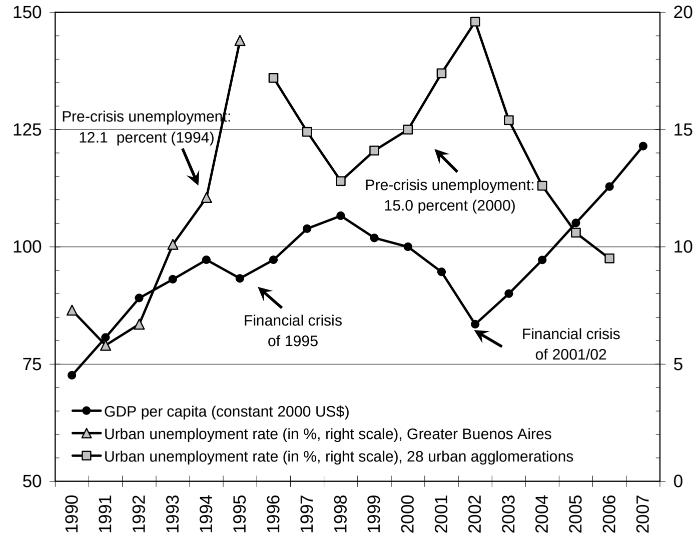
Brazil experienced large foreign capital inflows from 1994 onwards, when the Real Plan had introduced a new stable currency (see Cinquetti 2000). When investor sentiment swung suddenly after the Russian debt default of August 1998, Brazil responded by tightening its monetary policy in an effort to defend the exchange rate. Even though interest rates reached 40 percent in late 1998, the capital outflows from Brazil were massive and the Central Bank allowed the Real to devalue. The currency crisis, in combination with the recessionary impact of high real interest rates, led to a relatively modest decline of per capita incomes that was accompanied by an increase in unemployment from 7.7 percent in 1997 to 9.6 percent in 1999 (see Figure 17). Despite the subsequent economic recovery, unemployment rates have hardly recovered and remained close to nine percent in 2004

Like other emerging economies, Chile received large international capital inflows in the beginning of the 1990s. But unlike most other countries, Chile imposed controls on capital inflows in the form of an unremunerated reserve requirement (URR).[14] Although it is uncertain whether this affected the overall amount of inflows, it reduced speculative capital inflows: the share of short-term debt in total external debt fell from an already low level of 19.4 percent in 1990 to 4.8 percent in 1997 – at a time when other countries increasingly relied on short-term financing (de Gregorio, Edwards and Valdés 2000: 70f.). At the onset of the Asian crisis, Chile was thus considerably less exposed to international volatility. The peso was also at the lower (appreciated) end of the exchange rate band at the time, leaving room for a relatively large devaluation within the band. However, the Central Bank feared that a depreciation could endanger the inflation target. Therefore, it defended the peso against growing pressure with a mix of monetary tightening and interventions on the foreign exchange market, before finally allowing the peso to float in September 1999 (Morandé and Tapia 2002: 5).

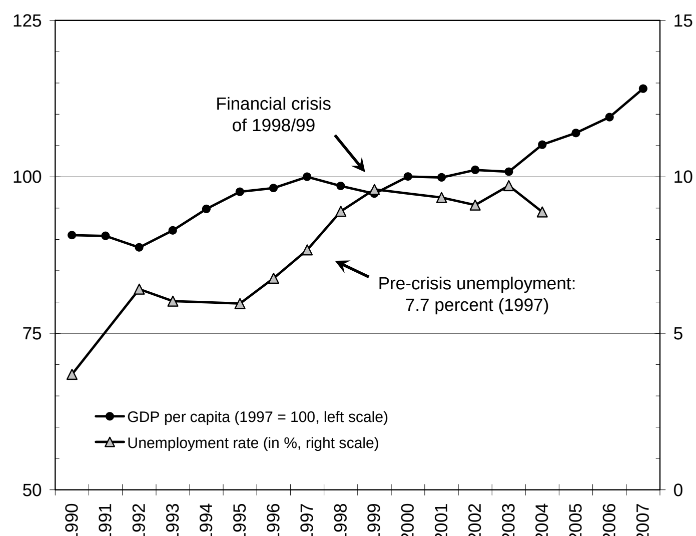
[14] The URR was introduced in June 1991 and in place until June 1998. It acted like a tax on inflows and allowed for a differential between world interest rates and those in Chile, while keeping inflows under control (see de Gregorio, Edwards and Valdés 2000).

Figure 17: Medium-Term Effects of Financial Crises on Unemployment in Latin American Countries

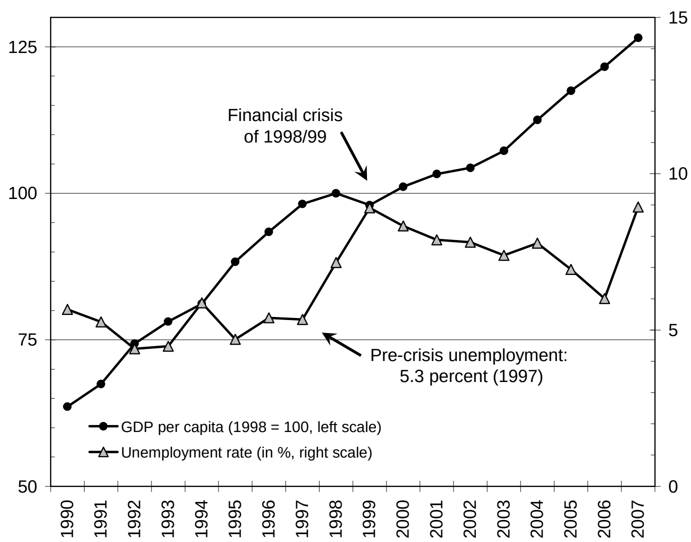
Argentina



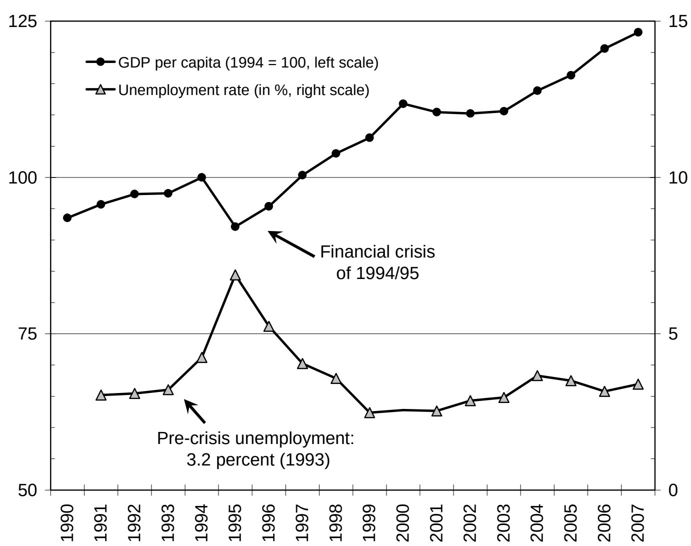
Brazil



Chile



Mexico



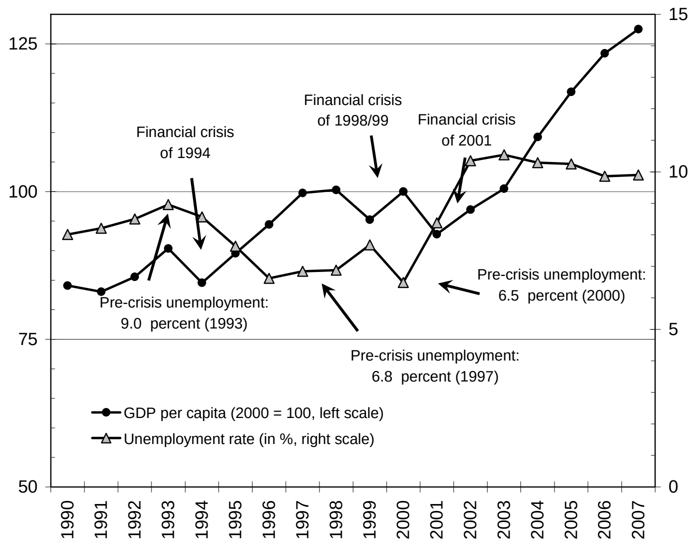
Note: Unemployment data for Brazil exclude the rural population of Rondônia, Acre, Amazonas, Roraima, Pará and Amapá. Unemployment data for Argentina refer to Greater Buenos Aires (SIAL series) or to 28 urban agglomerations (LABORSTA series).

Source: World Bank, World Development Indicators, online database as of May 2009, series "GDP per capita (constant 2000 USD)"; International Labour Office, Key Indicators of the Labour Market, 5th edition (2009)

Solimano and Larraín (2002: 17f.) argue that the Central Bank effectively prioritized "[l]ower inflation over higher growth and employment" (ibid.). The high interest rates had a recessionary impact, and unemployment increased from 5.3 percent in 1997 to 8.9 percent in 1999. While GDP per capita regained its 1998 level in 2000, unemployment only fell slowly and reached 6.0 percent only in 2006. Solimano and Larraín (2002) discuss several hypotheses that could explain the sluggish employment performance, among them firm-restructuring, continued job losses in small and medium enterprises (SMEs) and the noticeably slower rate of GDP growth after the crisis. They warn that unemployment could become a structural problem in Chile unless capital formation accelerates (ibid.: 28f.).

The case of Argentina stands out, for the country went through two financial crises, in 1995 (when investors withdrew capital following the Tequila crisis in Mexico) and again in 2001/02, leading to the collapse of a fixed exchange rate system (see Daseking and others 2004). The first crisis caused only a relatively mild downturn, and, with considerable foreign support, pre-crisis income levels were again reached in 1996 (see Damill, Frankel and Maurizio 2002: 9ff.). As in other countries, the unemployment rate (that covers only urban areas in the case of Argentina) was still far above the pre-crisis level at this point, but it was approaching its 1994 level by 1998.[15] A recession that year sent unemployment up again. Argentina therefore went into the 2001/02 crisis with an already high level of (urban) unemployment (15.0 percent in 2000), that rose to almost 20 percent by 2002. More recent data indicate that a partial recovery had occurred by 2006, when unemployment fell below 10 percent for the first time. Economic turbulence and the cumulative effects of two financial crises have thus caused a substantial unemployment problem in a country where unemployment rates had fluctuated around five percent for most of the 1980s (ILO 2005).

Figure 18: Medium-Term Effects of the Turkish Financial Crises on Unemployment
Turkey



Source: World Bank, World Development Indicators, online database as of May 2009, series "GDP per capita (constant 2000 USD)"; International Labour Office, Key Indicators of the Labour Market, 5th edition (2009)

In Turkey, the frequency of crises was even higher than in Argentina. The country had liberalized its economy throughout the 1980s, but embarked on full capital account liberalization only in August 1989. Since then, capital flows have been highly volatile and have contributed to the repeated crises that affected the country in 1994, 1998/99 and 2001. As Demir (2004) argues, the country went into a vicious cycle of crises, where the loss in output reduced public revenues and increased public borrowing through short-term treasury bills that were bought by domestic banks, which re-financed themselves through short-term loans from abroad – building up currency risks and setting the stage for the next crisis. Resulting high real interest rates reduced investment and prospects for long-term growth (see also Akyüz and Boratav 2003). Whereas recovery from the first crisis in 1994 was relatively smooth – both in terms of GDP and employment –, the second and especially the third crisis proved to be more severe. Their combined effect meant that per capita incomes were still at their 1997/98 level in 2003 (see Figure 18). Unemployment peaked briefly during 1999 and was back at its previous level of around 6.5 percent in 2000 – before the next crisis set in. The third crisis led to a dramatic rise in unemployment to 10.4 percent in 2002 and has remained close to ten percent since. While employment

[15] Unfortunately, due to the expansion of geographical coverage from Greater Buenos Aires (until 1995) to 28 urban agglomerations (from 1996 onwards) the unemployment data are not directly comparable.

had recovered largely in line with GDP during the first crises, unemployment has not fallen significantly after the last, most severe crisis – despite a strong rebound in GDP.

The employment impact of the East Asian crisis

That financial crises typically translate into crises of the real economy is also clearly evident from the experience of East Asia. Here, both output and capacity utilization fell sharply during the 1997/98 crisis. In a survey of firms in Korea, Thailand, Indonesia and Malaysia, entrepreneurs list the drop in domestic demand, rising costs for imported inputs, and the high interest rates as the most important reasons (see Dwor-Frécaut, Colaco and Hallward-Driemeier 2000: Ch. 1). The declining capacity utilization had adverse impacts on the average profitability and liquidity of firms, and many companies abandoned or scaled down planned investments (ibid.: passim). Interest rate and currency shocks also forced many companies into bankruptcy as they found themselves unable to service their debt, much of which was denominated in foreign currency (Kawai, Lieberman and Mako 2000: 77ff.). Data from the five countries worst affected by the East Asian crisis show that many of the surviving firms reduced their workforce in 1998, while only a small fraction hired more staff (see Dwor-Frécaut, Colaco and Hallward-Driemeier 2000: 4f.). Unemployment increased throughout the region, and incomes fell – in some cases dramatically, pushing many people below the poverty line. According to ILO estimates, the number of working poor in South East Asia (using the threshold of 1 US$ per day) rose from its pre-crisis level of 33.7 million in 1996 to 50.6 million at the height of the financial crisis in 1998 – an increase of almost 17 million (see Kapsos 2004: 14f.).

A more detailed look at the country level shows that in 1996, the year before the East Asian financial crisis, some countries had virtually achieved full employment with unemployment rates of 1.1 percent in Thailand, 2.0 percent in Korea and 2.5 percent in Malaysia (Figure 19). By 1998, the combination of production cut-backs and lay-offs through bankruptcies had brought unemployment to 3.4 percent in Thailand, or 1.1 million (up from 0.3 million). In addition, about 0.2 million workers left the labour force despite strong growth of the working age population.[16] Many workers had to find a new source of income in the informal economy which grew significantly during the crisis. This development is mirrored by a rise in the number of self-employed by 0.8 million. Hidden unemployment in the form of underemployment also increased almost two-fold (from 2.3 million to 4.4 million). A further effect of the crisis was a decline in real wages by 4 percent within a year (see Mahmood and Aryah 2001: 266ff.)[17].

The Korean labour market suffered severely from the wave of redundancies that accompanied the bankruptcies of thirteen large conglomerates during 1997, and the reduction in the work force of surviving companies. Delays in payments by the large corporations dragged many small and medium enterprises (SMEs) into the crisis; 8,200 of them failed in 1997 and a further 10,500 in 1998 (see Kawai, Lieberman and Mako 2000: 77ff). Open unemployment rose to 7.0 percent or 1.5 million (up from 0.6 million), a level not seen in decades. Among the hardest-hit groups were manual production workers and those in clerical grades. By the first quarter of 1999, total employment had fallen to 19 million, down by 2.1 million from the fourth quarter of 1997 (see Kang and others 2001: 98f.). The disparity between the growth in unemployment and the far larger decline in employment can be attributed to the fact that around 350,000 workers (in particular women) left the labour force altogether, resulting in a decline of the labour force participation rate by almost two percentage points ([ILO 2009a).

The increase in unemployment was less dramatic in Malaysia, where the rate rose by less than a percentage point. Nonetheless, around 250,000 formal sector jobs were lost in 1998 (see Jomo 2001: 34 and Table 26). Many of the retrenched workers were foreign migrant workers, which cushioned the effect on the domestic labour market (see Mansor and others 2001: 144f.) but dispersed some of the

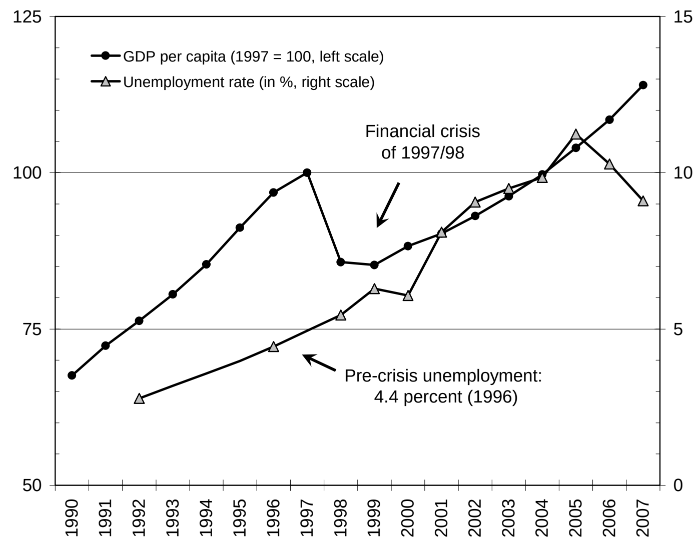
[16] See ILO (2009), Key Indicators of the Labour market, 5th edition.

[17] Women in urban areas suffered a disproportionate wage loss (-10.5 percent), and workers in manufacturing (-13 percent) and constriction (-24 percent) were also badly affected (Mahmood and Aryah 2001: 267).

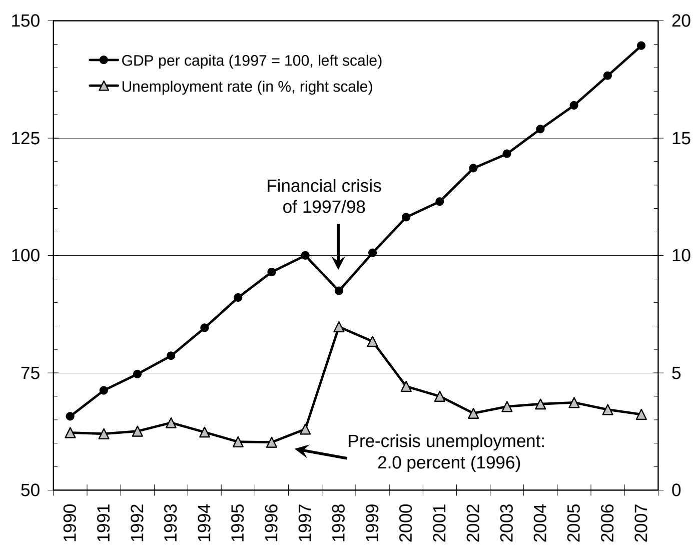
negative impact to other countries. ILO data also show that agricultural employment expanded by 135,000 in 1998. The absorption of labour by the primary sector helped to contain the rise in open unemployment, but contributed to falling labour productivity in agriculture (ILO 2009a and World Bank 2009a).

Figure 19: Medium-Term Effects of the East Asian Financial Crises on Unemployment

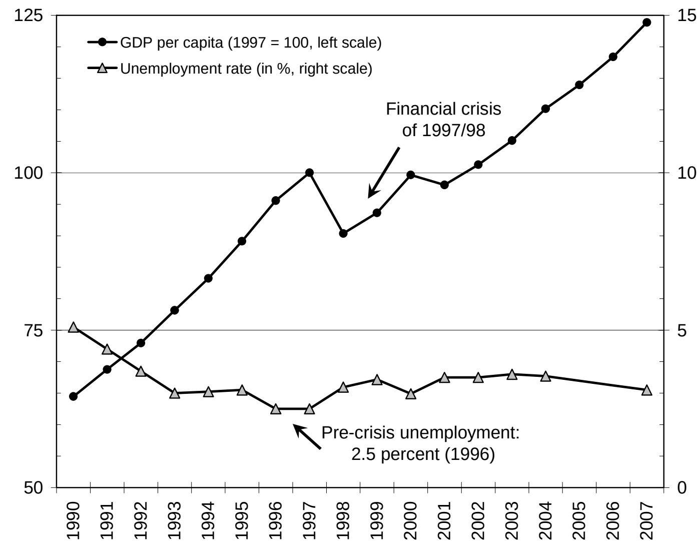
Indonesia



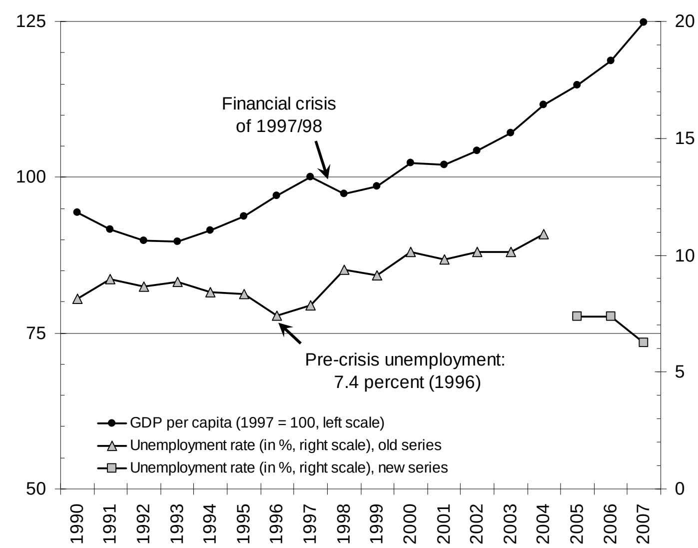
Korea



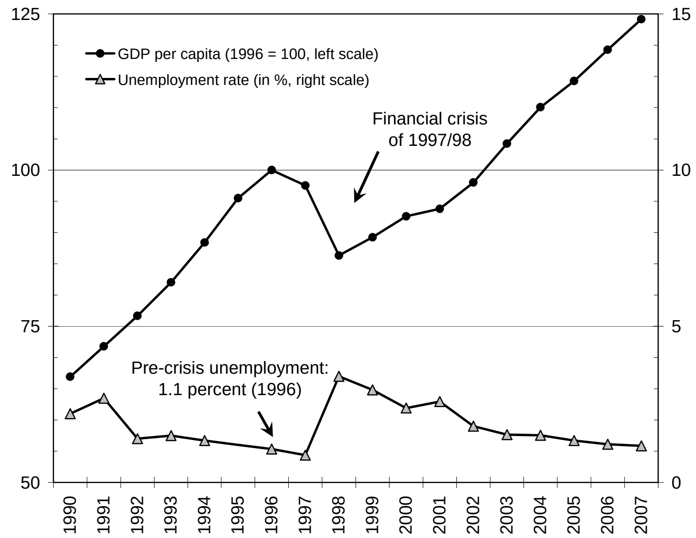
Malaysia



Philippines



Thailand



Note: For the Philippines, unemployment data from 2005 onwards are not comparable to earlier figures due to a series break.

Source: World Bank, World Development Indicators, online database as of May 2009, series "GDP per capita (constant 2000 USD)"; International Labour Office, Key Indicators of the Labour Market, 5th edition (2009)

Indonesia (4.4 percent unemployment in 1996) and the Philippines (7.4 percent) went into the financial crisis with considerably higher unemployment. From that higher base, about 2.5 million workers lost their jobs in Indonesia in 1997/1998, among them 1 million in manufacturing alone (see Islam and others 2001: 50ff.). The fall in industry and services employment was offset by an expansion of agriculture employment, so that open unemployment grew only modestly during 1998 despite strong labour force growth. However, unemployment continued to rise in subsequent years and reached 11.2 percent in 2005. Real earnings also fell by about 40 percent during the crisis and were still about 10 percent below their pre-crisis level in 2000 (Dhanani and Islam 2004: 29f.). In the Philippines, where the crisis had a comparatively mild economic impact, unemployment rose to 9.4 percent in 1998 (+2 percentage points) and has, much like in Indonesia, continued on an upward path during the early 2000s.[18]

The East Asian experience shows that progress in returning to pre-crisis unemployment is generally far slower than the pace of economic recovery. Although all five countries returned to positive growth in 1999 or 2000, unemployment rates continued to increase in Indonesia, Korea, Malaysia and the Philippines and peaked only four or five years after the return to positive growth. This explains while the recovery of the labour market lagged far behind the economic recovery. Although all five countries have regained their pre-crisis GDP level – Korea as early as 1999, Indonesia only in 2005 –, only Thailand had returned to pre-crisis levels of unemployment in 2007, a decade after the East Asian Crisis.[19] Thus, while countries have largely managed to recover from the economic impact of the crisis, the devastating labour market effect seems to be much more long-lived.

[18] Due to a series break in the data from the Philippines, unemployment rates from 2005 onwards are not directly comparable to the earlier series.

[19] No conclusive assessment is possible for the Philippines, where a change in survey methodology led to a series break in 2005.

3.4 Financial Globalization and Labour: Main Findings

On balance, the capital account liberalization that many developing countries embarked upon in the 1990s has delivered disappointing results[20].

The preceding discussion has shown that capital account liberalization fell not only far short of expectations, but did serious harm to some countries and had a disproportionately negative effect on labour. Six main conclusions emerge:

(1.) In the absence of adequate institutions, capital account liberalization has little direct benefit for growth. This is especially true for poor countries where the institutional gap is greatest, but also for middle-income countries where capital inflows were not used to fill unmet investment needs.

(2.) Even if capital account liberalization is managed prudently, it has cost to developing countries. In order to cushion the effects of sudden outflows, developing countries have sterilized inflows and built up large reserves. Since these are mainly held in low-yield treasury bonds issued by industrialized countries, the opportunity cost is large.

(3.) Capital account liberalization has left developing countries vulnerable to crisis. These are often not triggered by a deterioration of a country's fundamental economic status, but by forces in the international financial system. The output losses associated with such crises are large, and even a subsequent recovery is usually insufficient to bring a country back onto its old growth path.

(4.) The negative effects of financial crises on the labour market can be detected in a number of indicators. Open unemployment typically rises substantially during a crisis, real wages often fall, underemployment rises, and workers shift from the formal sector to the informal economy and agriculture.

(5.) Labour markets typically lag the economic recovery by several years. Even when GDP per capita has reached its pre-crisis level, the consequences of the crisis are normally still evident in higher unemployment compared to pre-crisis levels. This lag means that labour pays a disproportionate cost.

(6.) Tracking the evolution of the labour share in national income also shows that financial openness and financial crises diminish labour's share. Financial openness is associated with stronger bargaining power for capital vis-à-vis labour. Financial crises have a negative and persistent effect on the share of labour compensation in GDP.

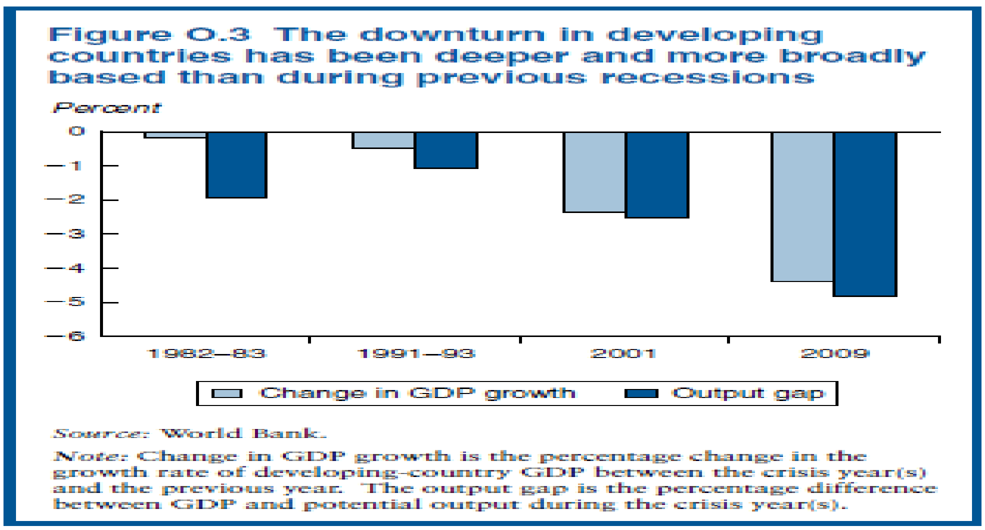
4 The effect of the current crisis on labour and possible policy responses.

The above analysis on the effects on labour in previous crises, provides a useful indicator for an analysis of the current crises, where information on employment and labour issues is only to surface now.

[20] This disappointment is well summarized in a recent World Bank report that reviews the growth performance of the 1990s: "Contrary to expectations, financial liberalization did not add much to growth, and it appears to have augmented the number of crises. As expected, deposits and capital inflows rose sharply as a result of liberalization. But, other than in a few East Asian and South Asian countries, capital markets did not provide resources for new firms. Numbers of stock market listings declined, even in the newly created markets in the transition countries that were some times used for privatizations. Also, although relevant time-series data on access are weak, and contrary to expectations, it appears that access to financial services did not improve substantially after liberalization." (World Bank 2005b: 21)

A first important point to observe in this context is that the current recession c.q.crisis affects developing countries more than previous crises did. The recent World Bank‘s Global Economic Prospects for 2010 argues that the severity of this recession is far larger than of earlier recessions(see figure 20). These observations are at variance with earlier assessments on the effects of the current recession on developing countries. The IMF 2008 World Economic Outlook , for example , argued that greater delinking was taken place between industrialised and developing economies and that developing countries would be less affected by a crisis which had started in the developed world.. However the decline in trade volumes and values, the substantial shrinking of foreign direct investment as well as a reversal in fast growing trend of increasing remittances, which some have labelled as de-globalization, have all had in various ways, substantial consequences for developing countries and especially on the poorer segment of the population. (See UN WESS 2010 and WB GEP 2010).

Figure 20 A comparison of downturn in developing countries during several recessions



Source World Bank, Global Economic perspectives 2010, Washington

One could argue that such de-globalization might be beneficial for developing countries as it reversed the trend of increasing globalization. Indeed , the current crisis has led to somewhat greater influence in economic decision making of the larger developing countries for example in the reborn G20 which is replacing the G7; but this is far from a necessary change in global governance to avoid future crises as Stiglitz 2009b has argued.

Furthermore the decline in trade, FDI and remittance was not the consequence of any agreed change in internationally policy attitudes towards globalization, but the outcome of serious downturn in GDP in industrialised countries, with rising tendencies of protectionism and a deterioration of attitudes to foreign workers.

The position of labour in the current crisis is actually extremely worrying: the trends over the last two decades (reported above) indicate that the economic bubble, as a consequence of financial globalization, in the second half of the first decade of the 21th century did not favour most participants in the labourmarket. Only a small minority has really been profiting from this. But now that the bubble has busted, we notice an asymmetric trend: Most workers did not profit from the bubble (as a.o. the low employment elasticities, the growing inequality and the persistent informalization attest to), but after the bubble many workers suffer from consequence of the bursting of the bubble. (See ILO Global Employment Trends, 2010) And while business as usual, including the highly skewed remuneration packages, seems to be on the cards for financial institutions, this is not the case for many in the labour market. Ravaillion 2009 for example reports a substantial increase of households in poverty as a consequence of the crisis. And earlier we noticed already the lag in employment recovery after a financial crisis, which according to the latest estimate is manifesting it self again during this crises (ILO, 2010)

To state briefly: *current globalization has made labour more precarious, a trend which has been magnified by the current crisis. This picture is consistent with the policy reaction in many countries to the crisis, to the effect that* ***the governments have (rightly) acted as a banker of last resort*** *to avoid the collapse of the financial system, but that governments, despite stimulus plans a monetary easing and some labour market policies,* ***have not really acted as an employer of last resort.***

It seems thus important to frame policies favouring labour in the current context on two essential elements.

First by introducing or by strengthening those national and international policies, which try to undo the trends of precariousness and increasing inequality as a consequence of (financial) globalization. Examples of such policies can be found in van der Hoeven and Luebker 2007, UN DESA 2007 and World Commission on the Social Dimension of Globalisation 2004.

Secondly, in addition to the policies above, by applying special policies to deal with the outfall of the current crisis, such as employment policy schemes (Wray, 2009), special labourmarket policies (Cazes et al 2009), cash transfers (Standing 2007) etc. The costs of these policies are often a fraction of the support the financial institutions and large industries have received recently .They can be in first instance financed as part of the current stimulus packages and, once the economy has picked up, from increased tax revenues or from reimbursements to the governments by bailed out financial institutions.

It is important to base policy interventions simultaneously on policies dealing with the structural problems, which financial globalization has caused, and on policies assisting those who fall into poverty or experience poor working conditions as a consequence of the crisis; the current crisis is clearly the outcome of a longer trend of financial globalization, which , if not arrested in its current form, may lead well to a new crisis.

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