A L'ATTENTION DES CANDIDATS

- *Ne pas écrire sur le texte, ne pas surligner ou souligner*
- *Rendre l'article à l'examinateur avant de quitter la salle*

LV 2 Ang 17

(17.30 juin)

Rana Foroohar

The End of Easy Money

It's getting tougher for capital to move around the world. That's dangerous for everyone

IT'S NOT THE SORT OF THING MOST people would lose sleep over. But for the past couple of years, many economic observers—including me—have been fretting about the risk of financial protectionism, in which banks and other lenders hunker down inside national borders and capital can't flow where it's needed around the world.

That scenario is coming to pass. Tiny, debt-riddled Cyprus has put limits on how much money its panicked citizens can take out of the country, thwarting the founding principles of the unified currency and destabilizing the euro zone. The IMF, which once scorned such capital controls as anathema to free trade, now says they might be necessary to stem financial panic and overly speculative money flows around the world. And the McKinsey Global Institute has come out with a powerful new study showing just how balkanized the global financial system has become. Cross-border money flows, which tanked after the financial crisis of 2008, are still 60% below their peak. After nearly four decades of coming closer together, global markets and banking systems are pulling apart. As Susan Lund, director of research for MGI, sums it up, "Financial globalization has stalled."

THAT'S BIG NEWS. GLOBALIZATION IS THE FREE movement of goods, people and capital; of the three, it's the money that's had the most significant effect on our lives recently, for both good and ill. The banking industry was at the forefront of globalization. It parceled out the capital that helped create high-growth emerging markets in the late 1980s and '90s, knitted much of Europe into one financial community after the founding of the euro zone in 1999 and acted as kerosene for global growth, which reached its highest levels from 2003 to 2007. Americans enjoyed some of the benefits in more geographically diversified retirement plans.

But the globalized financial system also came with big downsides. Research shows that there have been far more bubbles and financial crises in the decades following the 1980s than in those right before. That's why some commentators, like economist Paul Krugman, argue that less financial globalization could be a good thing. Why not try to limit exploding securities that ricochet from Iceland to the U.S. housing market or prevent countries like Cyprus from using Russian tax evaders' money to create a banking sector that's 716% the size of the national economy and threatens to create financial panic across southern Europe?

Neither of those outcomes is welcome. But financial balkanization comes with its own drawbacks. In the U.S., for example, banks that are unwinding some of their global holdings and increasing their capital levels to meet new regulatory requirements inside and outside the country have also been less likely to lend to average borrowers at home. That's one reason the U.S. housing boom has so far been driven by property investors rather than single-family buyers, many of whom still can't get credit because of standards that have become too tight in the wake of the crisis.

IN EUROPE, BANKS AREN'T LENDING ACROSS BORDERS anymore, period. Why would a German banker want to take a bet on Spain or Italy when there is still no common way of insuring deposits or winding down too-big-to-fail banks? Europe is in danger of returning to what it was before the creation of the European Union: a collection of states, some weaker, some stronger, with varying interests but all with a slower-growth future. Greeks and Italians won't be able to get loans, but they won't have any money to buy German goods either.

Emerging markets are likewise at risk from financial protectionism. China used the financial crisis of 2008 as a reason to put the brakes on opening up its banking system. But state-owned banks have lent out mom-and-pop depositors' money at minimal rates to overzealous property developers, creating a real estate bubble of epic proportions: Chinese loans have grown by 20% a year since 2007 and are up to a whopping $10.2 trillion. While it's impossible to know for sure, some financial experts estimate that as much as $3 trillion worth of that may go bad.

It's sad that some of that capital couldn't be lent to fund a cross-border project like fixing Amtrak rather than building empty condos in western China. Middle Kingdom investors would get a decent return and U.S. commuters a decent ride. It would also provide an example of the sort of financial system we should be striving for—one in which money is allowed to travel as far as it needs to in order to lubricate the real economy but is not allowed to fly above regulators and average citizens. Finance needs to be both global and down to earth. Four years on from the crisis, we still have a long way to go toward that goal.

BREAKING THE GLOBAL BANK

1.9%

TRUST DEFICIT

The rate at which cross-border capital flows are growing annually, compared with 7.9% before the financial crisis. The majority of the pullback reflects the euro-zone debt crisis.

BAD LOANS

China has $10.2 trillion on the books, and up to 30% of it may go bad.

SOURCE: MCKINSEY GLOBAL INSTITUTE

32