

Banking Crises and Underlying Global Imbalance: Political Economy Perspectives

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Banking Crises, *Politics*, and Underlying Global Imbalance



Domestic Political Responses to Financial Crises

- The Japanese prolonged crisis in the 1990s (so called “The lost decade”) → Brought about Koizumi Administration in 2001 with the Takenaka plans in place.
- The Lehman shock in 2008 → Perhaps partly made Obama Administration and Hatoyama Administration happen.
- In the 1930s, the financial crisis motivated the Japanese policymakers to shift the Japanese economy to a more managed one than ever.

One speculation: Domestic political regime shifts have been likely to happen following financial crises.

Some Domestic Policy Issues

- **Government interventions such as public money injection into bank balance sheets are effective and/or efficient?**
- **Regulatory discipline could motivate banks to keep Zombie borrowers alive?**
- **Market discipline vs. regulatory discipline: Which discipline is more effective in making bank risk taking level reasonable ex-ante?**

International Political Arenas and Proposed New Global Financial Regimes to be Considered

- **G20 (rather than G7)**
- **New more stringent bank regulations proposed by Basel Committee and BIS.**
- **Single Currency, proposed by Prof. Mundell**
- **More Regional Solutions, such as the Asian IMF proposed by Finance Minister Miyazawa and Dr. Sakakibara in the Asian financial crisis, Chiang Mai Initiative, and so on.**

The dilemma here is

Regional oriented solutions

vs.

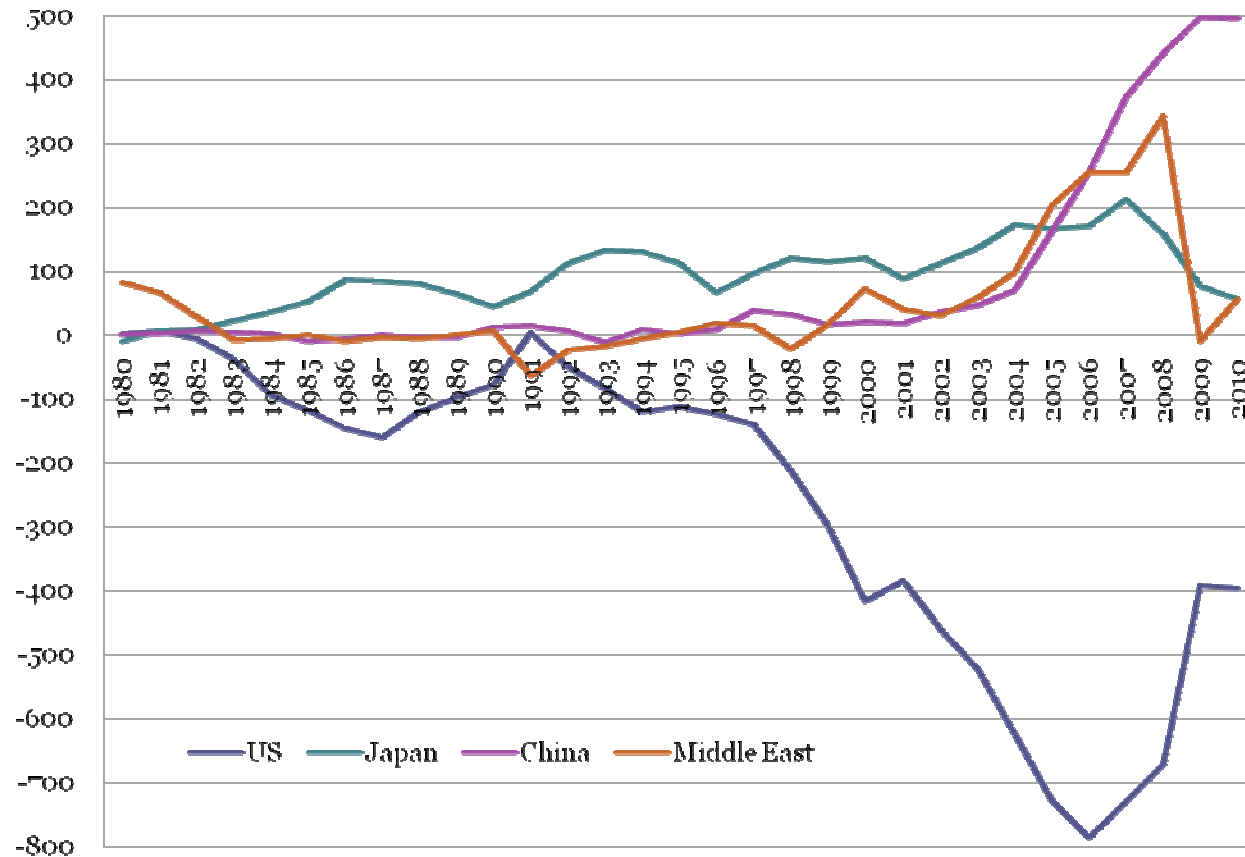
Single reserve currency solutions

Which is more promising?

Global Imbalance

- **Much more serious and much newer phenomenon than we imagine..... let's take a look at the following two exhibits.**

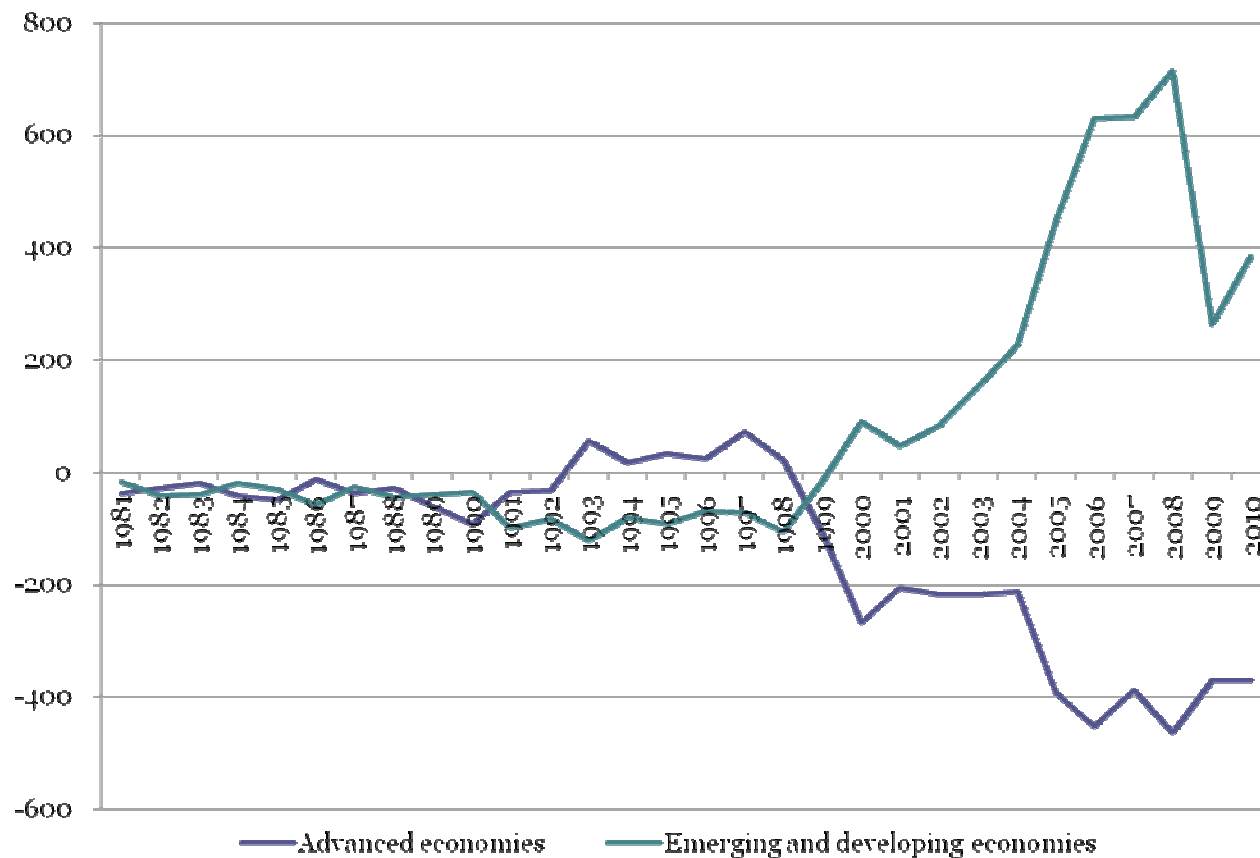
Current Account Balance (in Billion US dollars)



Source: IMF, World Economic Outlook, April 2009

Note: 2009, 2010 are estimated numbers.

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Global Imbalance

- **Much more serious and much newer phenomenon than we imagine.**
- **In the last slide, China is counted as one of “Advanced economies”**
- **Probably we have underestimated the magnitude of the reemerging Asian economic influence.**

Global Imbalance

- We would not like to imagine what would happen if Chinese financial markets bubbled and went burst somehow in the near future.
- Perhaps we are *not* well prepared for that case.
- The current recycled dollar system (so called “Bretton Woods II) could not deal with that case.

What We Want:

