The impacts of the global financial crisis on the real economy, economic policies and academic debates.

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Abstract

The years preceding the crisis were characterized by strong global growth and relatively stable and low inflation in most countries. Growth was driven by significant increases in productivity in many countries, which, combined with the further integration of developing countries into the global economy and a strong expansion of trade, allowed prices to remain relatively stable for several years. The Article presents a summary of the facts that guided the global financial crisis, affecting the growth of the economy as a whole. Academics are unanimous in stating that the contours of the crisis stem from several combined factors, in the failure to comply with some basic rules, as the crisis can be relatively manageable if assets and liabilities are denominated in the country's currency.

Key Words: ***Finance, Economy, Financial Crisis and Financial Globalization*.**

Origins and causes

Unlike the experience of the 1950s and 1960s, the growth of household consumption was "absorbed" by the evolution of income. It depends more and more on the wealth effect, i.e. the virtual valuation of financial and real estate assets. Between 2003 and 2007, residential construction and strong real estate valuation stimulated and maintained household consumption.

This growth model, combined with poor supervision, ended up generating excessive debts of financial institutions, companies and families, which proved unsustainable. Continuous low interest rates led investors to seek higher returns on stocks, real estate and commodities and financial instruments that increase risk. Asset prices in a wide range of industrialized countries and emerging economies have risen, and many developing countries have benefited from the high cost of commodities. In publications such as the "World Economic Outlook and Trade and Development Report," the United Nations has expressed concern about rising household, public and financial debt in the United States and other parts of the world.

The global demand for higher income has been accompanied by an increase in financial imbalances on an international scale. High savings rates in Asia and oil-exporting countries have financed high consumption rates in the United States and other industrialised countries. When global confidence in over-indebted financial institutions and complicated asset structures began to dissipate in 2008, these imbalances became apparent. In a highly integrated world economy, without proper regulation, a breakdown in one part of the system has huge repercussions in others, as we see today. Belluzzo speaks of little more than a decade of world economic growth that has allowed the consolidation and expansion of an optimistic consensus: the existence of a new phase of development of production, uninterrupted and prolonged, in which the increase in household wealth would be able to sustain consumption and the new technologies would meet the increase in productivity. The crisis allows us to see beyond these appearances. There is growing conviction that this cycle is related to the indebtedness of families and companies, backed by a fictitious valuation of financial and real estate assets; great availability of financial capital, in search of high earnings and with little aversion to risk; deregulation of the financial system; access to cheap products and the existence of extremely high surpluses in the balance of payments of several exporting countries, and the financing of the American imbalance at very attractive interest rates.

Based on a qualitative methodology, based on the historical method, the article has the theoretical rescue of the main currents on international financial crisis, and the historical review of the formation and functioning of the financial system in periods of crisis, were made through the review of literature already existing in books and articles. The analysis shows that the international financial crisis requires a combined effort of several institutions, such as the IMF; the World Bank and regional development banks; the International Clearing House; the Basel Committee on Banking Supervision; the Financial Stability Forum; the International Organization of Securities Commissions on Securities Regulation; the International Association of Insurance Supervisors, and the International Accounting Standards Board. Academics note that better regulated systems can go off the rails during outbreaks of euphoria. Just look at the combination of the so-called subprime crisis and the collapse of securitized loans in the United States.

International Crisis Characterisation

The creation and spread of subprime mortgages was largely the result of the process of intensifying banking and financial competition during the 1990s. More specifically, this decade was marked by the weakening of the boundaries of the areas where banks and non-banking financial institutions operate, and also by the relatively low returns from traditional credit markets (loans to firms, consumers and governments). One of the results of this period was the articulation between financial innovations in mortgage contracts and securitization processes. This articulation, in turn, made possible the expansion of the American real estate financing system towards riskier operations associated with the subprime group.

The term subprime refers to an enormous contingent of borrowers hitherto excluded from the credit market. This group included borrowers with no credit history, borrowers with no proof of income, yet with good payment histories, and even borrowers with defaulters. As mentioned above, mortgages were made possible on the creditors' side by the combination of financial innovations and securitization processes. In this context, the transformation of extremely risky credit operations into well-valued securities by respected rating agencies resulted in a significant increase in credit supply. On the real side of the economy, the demand for new mortgages - which could be securitized, packaged and distributed to non-banking financial institutions - stimulated the growth of the construction sector which, amid the fragility of other autonomous demand components, made it possible to sustain reasonable rates of economic growth. The mechanisms for transforming credit operations were so complex that even the most conservative investors ended up participating in this "current".

As a rule, the contract for the sale of mortgages masked the conditions for their repayment, which made it easier to attract buyers. Commonly, loans were of the 2/28 or 3/27 type, i.e. in thirty years of contract the first two or three years had stable and relatively low instalments and interest rates, while in the remaining years both instalments and interest rates were high and readjusted according to some indexation criterion. In turn, the continuous growth of property prices allowed for debt to roll over after the end of the affordable interest and principal period. To this end, debtors took out a new loan on the same conditions as before, but with a higher value. Thus, the rise in real estate market prices made it possible to pay off the previous loan and, eventually, to transform the "asset value of their homes into purchasing power through credit" (Freitas and Cintra, 2008; p.417).

Financial crisis in the age of globalisation

Dynamics of crises.

Martin Wolf considers that the liberalisation of the repressed introspective financial systems of the 1950s and 1960s led to excesses and not infrequently to serious crises. Moreover, these crises have been externally exacerbated by the iteration of financial systems with central features of macro-economic policy, in particular exchange rate regimes and monetary and fiscal policies. Most major crises and all those that were less manageable by domestic authorities occurred in emerging economies and became intractable, mainly because they involved large foreign currency liabilities.

For Wolf, 2009, P.58-59. The unfolding of the crises was due to the sudden cessation of capital flows, which forced current account deficits to fall, currencies to collapse and credit to shrink. A deep recession followed. In emerging economies hit by the crisis, devaluations often resulted in concentration of the economy rather than a reverse expansion of what occurred in many high-income countries. One explanation for this difference is the low credibility of monetary policy in many emerging economies. The devaluations are seen as predictions of inflation. As a result, monetary policy must be tightened rather than loosened. Another more important reason is the prevalence of mismatched exchange rate positions in the economy. Currency devaluation directly threatens insolvency for any debtor with foreign currency denominated debts whose resources were used to finance assets in the domestic market.

Why is there so much fear of current account deficits today? After all, it is perfectly possible to have mismatched currency positions in countries with balanced current accounts, there are several reasons:

More importantly, the current account deficit, at the end of the day, always generates mismatched exchange positions in the balance sheet of any country that depends on loans (or the demand for direct investments) to cover its external deficit and is unable to borrow in its own currency. Large current account deficits seem to be one of the triggers of capital outflows. The correction of large deficits requires devaluation of the real exchange rate-perhaps very large-having serious problems for the domestic economy if there are mismatched exchange positions in the aggregate balance sheet. Awareness of this fact is a good reason for capital outflows that trigger currency depreciation. It also tends to reduce the maturity of loans which, as a result, become increasingly risky as lenders try to increase the liquidity of their positions. Finally, the rapid correction of current account deficits is always painful and should be avoided as much as possible.

Therefore, the lesson learned by many emerging economists, both those directly affected by crises and those who have remained in an observant position, is not to tolerate current account deficits. This strategy offers another, perhaps more important, advantage: if the current account position is strong and if the pressure on the currency is to appreciate, there is no risk of the IMF intervening and imposing politically unacceptable demands. This fear is not exclusive to those who have already suffered crises. The Chinese government has certainly observed what happened to its neighbours in 1997-1998 and concluded that it would never allow something similar to happen to China.

The Financial Crisis, Social Impacts and the Role of the State

Belluzzo believes that few analysts have been able to resist the euphoria that has accompanied the last two growth cycles of the North American and world economy. The "optimistic consensus" prevented a realistic assessment of the forces driving the expansionary cycle. The flawed diagnosis, incidentally, led to the prediction that the downturn would be quick and right around the corner the recovery will be on the horizon. WOLF.(2009, p.58-59).

For Belluzo,(2009), Urban and Orbi Credit has shown an impressive and unprecedented post-war evolution. In the two episodes of demand stimulation (1994-2000) and (2003-2007), firms and households significantly increased spending above current income. The accumulation of debt, especially from 1996 onwards, occurred at a rate much higher than the growth of labour wages and capital profits. It is the optimistic assessments of future profits and income - still driven by spectacular stock market performance and the myth of the new economy - that have led private spending to exceed current income. This difference reached 6% of GDP in the last quarter of 2000. Today more people are willing to recognize that American growth in the second half of the 1990s and the first decade of the third millennium was promoted by high deficits in the private sector, supported by credit expansion. In the first cycle, between 1994 and 2000, the remarkable capacity for innovation of the American economy materialised in the rapid accumulation of new productive capacity, especially in the information technology sector. At the same time, household consumption was on the rise and personal savings were breaking negative records. In the last ten years - between the 1st quarter of 1998 and the same period in 2008 - the GDP of the United States grew by 31%, or 2.7% per year. Household consumption grew by 3.4% per year and increased its share of GDP from 67.1% to 71.6%. It is not necessary to be clever to conclude that the 'adjustment' took place by reducing household savings from 4.7% to 0.2% of GDP. US household spending grew well above disposable income, "leveraged" by the accelerated expansion of indebtedness.

External savings" (the surplus of Asians and Germany) financed the current account deficit in the balance of payments. It was the counterpart to the private sector deficits. Over the past ten years, American households - despite modest growth in income and employment - have enjoyed the benefits of the productivity gains of Asian workers. On the one hand, the real income gains of American consumers have been provided by lower prices from Asian manufacturers; on the other, emerging "exporters" have shifted accumulated reserves to finance the current account deficit and the fiscal deficit of "consumer" partners. BELLUZO (2009). In the author's view, the expansion cycles of the world economy, led by the United States (1996-2000) and (2003-2007), have been buoyed by optimistic expectations about the duration and vigour of expansion.

Complacency spread among banks, businesses and consumers. Financial deregulation incited "animal spirits" who, it must be said, were more eager for enrichment than in past cycles. Such circumstances have led to a natural relaxation of risk assessment criteria. The gearing that combined high growth and very low interest rates instigated the multiplication of dangerous financial innovations, among them, the over-leveraging of positions and the spread of credit derivatives. Commercial and investment banks, pension fund managers, mutual funds, private equity funds, not to mention sophisticated hedge funds, all consolidated the conviction that they were shielded from market, liquidity and payment risks.

The valuation of assets causes a global financial crisis. Over the last 30 years, deregulation and liberalisation of finances have broken down the barriers imposed by the reforms of the 1930s. In 1999, the Gramm-Leach-Bliley Act created the financial holdings. The current financial crisis has been embedded from the outset in the structure of finance based on "originate, distribute, leverage and protect" methods. Economists have diverged, as always, on the depth and scope of the problems created in the mortgage markets and their derivatives. Pessimists bet on the combination of adverse factors that can lead to a longer recession due to non-virtuous "adjustments" between wealth, income and indebtedness. Otherwise, the high leverage of households combined with the reduction in income caused a strong and unexpected growth in their debts, both in relation to current monetary flows and in relation to their assets.

Global Financial Crisis: Banks' losses and credit contraction

Given the integration of the different market segments, the crisis that started in the subprime market spread rapidly to the various segments of both the American and global financial markets. In a scenario of high uncertainty regarding counterparty risk, banks began to exercise a preference for liquidity by borrowing in the interbank market. They also reduced lending to customers, even those with excellent risk

In the view of Freitas and Cintra , (2008,) banks' losses and credit crunch Given the integration of the different market segments, the crisis that began in the subprime market spread rapidly to the various segments of both the American and global financial markets. In a scenario of high uncertainty regarding counterparty risk, banks began to exercise a preference for liquidity by borrowing in the interbank market. They also reduced lending to customers, even those with excellent risk. With the deterioration of subprime loans, rating agencies downgraded the rating of hundreds of securities related to subprime mortgages, contributing to increased uncertainty about structured financial products.

With the crisis, the rating methods of these agencies began to be questioned by European and American authorities. This is mainly because there is a clear conflict of interest involved in risk ratings, since almost 50% of the agencies' revenues come from rating these complex structured finance instruments underwritten by banks. André Cunha believes that throughout 2008, especially in the second half of the year, the global nature of the financial crisis originating in the US was made explicit. The breakdown of credit channels occurred amidst the bankruptcy and/or restructuring, with strong state intervention, of important financial institutions, mainly in the US and Europe. All segments of the financial markets, in virtually all national economies, were strongly affected, with substantial falls in the prices of financial assets. The spiral

Deflationary in financial markets takes the form of what has been called "complex deleveraging", in that it involves the disruption of financial positions previously assumed in a context of high asset leverage (BIS, 2011; IMF, 2011; Unctad, 2011). In addition to the significant reduction in the national value of financial wealth, the crisis has affected the real side, reversing, extremely quickly, the previous stable growth environment. Thus called "great moderation" (Bernanke, 2004) and the thesis of the "take-off" of emerging markets gave rise to a widespread perception that the real dimension of the crisis would reach everyone.

The first Uzan contraction (Reinventing Bretton Woods Committee, 2008) organised a seminar in October 2008, turned into a book, with contributions from the most significant experts on international financial issues. The Institute for Internation Finance (the most influential class entity in the international financial sector) also published a document with its reform proposals (IIF, 2009). Critical economists have long improved Keynes' original proposals, adapting them to contemporary conditions, as evidenced, for example, by the work of Davidson (2002), Ferrari Filho and Paula (2004), Arestis and Paula (2008), and Ocampo and Stiglitz (2008).

The crisis would be more intense in mature economies, due to the strong prior indebtedness of the private sector and, even more so, the impacts of national strategies to respond to the crisis and rescue financial systems. These have created a serious fiscal problem and potentially new speculative bubbles (Unctad, 2011), apud André Cunha, (2013).

From the exceptionally favourable environment to the Global Financial Crisis It is important to realise at the outset that between 2003 and 2008 (first half), the world economy experienced an exceptionally favourable cycle of expansion.

This "exceptional" character was due to the confluence of some factors, mainly: high growth - with average rates of change in global GDP of around 4% - associated with low inflation (at least until mid-2007); a resumption of dynamism in regions that, in the 1980s and 1990s, showed low levels of income expansion, such as Latin America, Africa and Eastern Europe, or in mature economies such as Japan and Germany; substantial improvement in the external accounts and public finance performance of developing economies previously characterized by high levels of external vulnerability and fiscal fragility (BIS, 2007, 2008; ECLAC, 2008; IMF, 2011; Toloui, 2007), apud, André Cunha (2013). For Cunha, these characteristics emerged at a time when the structure of the economy was revealing a new reality: emerging economies such as China, India, Russia, Brazil, among others, began to have a weight on world income, trade flows and the determination of the general pace of expansion equivalent to or higher than that of central economies. According to IMF estimates (IMF, 2008), in 2007 and 2008 more than half of global GDP, measured in purchasing power parity, was generated in developing countries. The central axis of this new global order revolved around the US and China (BIS, 2011; Ferguson; Schularick, 2007; Unctad, 2011).

In short, Nozaki (2011) argues that national actions are essential not only to prevent crises, but also to minimise them. The central state has a large bank (the act of the last central bank acting as lender of last resort and market maker) and a large government (a government acting through anti-cyclical fiscal, credit, sectoral and social policies). However, as far as the United States is concerned, the first form of action can be considered the main one, as there is no doubt that the state and central banks play a key role in maintaining a structurally unstable economy. If so, it is important to note that there are also differences in the intensity of actions by the monetary authorities of central countries.

Although the Federal Reserve's intervention is more sensitive, the European Central Bank's performance has been relatively timid. On the one hand, concerns about the limitations of the exception policy are reasonable and on the other hand, as the national fiscal deficits of the United States and Europe themselves increase and domestic public debt expands, they cannot become premature concerns. In view of the above counter-cyclical measures, the debt of the private financial system has been replaced to some extent by public sector debt. Unfortunately, during the transition from 2009 to 2010, this trigger provided a basis for opposition to discussions on the need for reforms and regulations in the international financial system to support the revival of tight and rigid monetary and fiscal policy defences. Similarly, state intervention and public spending are once again seen as the source of the crisis, when in fact they are rather the consequence of the safeguard operations carried out by the state so that the financial market could reactivate its functioning, which, it is worth noting, will only happen for a longer period of time if state action continues. (Nozaki, 2011).

The 2008 financial crisis - Crisis and recovery of confidence

The financial crisis in the world is serious. says Luiz Bresser. Nothing is comparable to it since 1929. It is a deep crisis of confidence resulting from a chain of loans originally based on insolvent debtors who, by leading economic agents to prefer liquidity and thus liquidate their claims, are leading banks and other financial firms to the downturn even if they themselves are solvent. However, given the prompt and generally competent reaction of the governments of all countries, which have understood the seriousness of the problem and have little hesitation before taking measures to increase solvency and ensure liquidity in the markets, there is no reason for pessimism.

I am sure that soon reason will return to the markets, the stock markets will recover part of their losses, exchange rates will stabilize again, and the recession - inevitable - will have nothing like the 1929 crisis, said Bresser (2009), considering that there are a number of facts that are clear today about this financial crisis. First, we know that it is a banking crisis at the heart of capitalism, not a balance of payments crisis - common among developing countries that were trying until the 1990s to grow with external savings, i.e. with current account deficits and external debt. The large current account deficits that marked the US economy in this decade, combined with large public deficits, are, however, no stranger to the banking crisis. The lack of confidence is not only in banks and the market, it is also in the US economy as a whole, seriously weakened by these irresponsible policies.

On this second point, the author points out that the direct cause of the crisis was the irresponsible granting of mortgage loans to creditors who were unable to pay or who would not have it from the moment the interest rate began to rise as in fact it did. And we also know that this fact would not have been so serious if the financial agents had not resorted to irresponsible "financial innovations" to securitize the rotten bonds into AAA bonds by the work and grace not of the Holy Spirit, but of risk agencies interested in pleasing their clients. On the third point, Bresser (2009) argues that all this can happen because national financial systems have been systematically deregulated since the neoliberal or market fundamentalist ideological wave began to form in the mid-1970s. For her, markets are always efficient, or at least more efficient than any corrective intervention by the state, and can therefore perfectly well be self-regulated.

For this ideology, which since the Reagan administration has become the instrument of American soft power, this was the most efficient economic system - the only way for other countries - since the alternatives would be forms of European "social democratic socialism", "populism" in the Third World, and "disguised statism" in Russia and China which would be much inferior. In the fourth scenario he believes that this ultra-liberal ideology was legitimised in the United States by neoclassical economic theory - a school of thought which was dominant between 1870 and 1930, which went into crisis and was replaced by Keynesian macroeconomic theory, which became dominant in universities until the mid-1970s, and has since returned to the dominant condition for essentially ideological reasons. Economists such as Friedman , James Buchanam, Mancur Olson, Robert Lucas, Kydland and Prescott pointed out their weapons against the state and took it upon themselves to demonstrate mathematically, "scientifically", with the help of the assumptions of homo economicus, "rational expectations" and "rational choice" that the neoliberal creed was correct.

For the fifth Bresser stage (2009), he understands that we know that this type of economic theory has not been used by policymakers in governments as much as by macroeconomic analysts in companies and in specialized newspapers and publications. They were not used because the neoclassical assumption of efficient markets dispenses with any economic policy other than fiscal adjustment; the rest should be liberalized, deregulated, since markets would be self-regulated. As governments and analysts needed to guide their monetary policy, they continued to use Keynesian instruments in a pragmatic way. Neoclassical macroeconomic experiments were reserved for developing countries. Since, however, the rich countries led by the United States did not escape the deregulatory prescription, they acted as the "scorpion that bites its own tail". On the sixth point, he concludes that now, when we see the state appearing in each country as the only lifeline, as the only possible safe haven, the absurdity of the opposition between market and state proposed by neoliberals and neoclassics becomes evident.

A liberal may oppose coordination of the market with that of the state, but he cannot, as the liberals have set themselves, stand against the state, seeking to diminish and weaken it. The state is much bigger than the market. It is the constitutional-legal system and the organization that guarantees it; it is the instrument par excellence of collective action by the nation. It is the State that regulates and guarantees the market and, as we now see, serves as the lender of last resort. All this is very clear. What is not clear is why the markets are resisting confidence-building despite the strong measures governments are taking around the world. I have no sure answer to this question, but I believe that two factors contribute to the depth of distrust: on the one hand, the weakening of American hegemony in the 2000s not only because of twin deficits but also because of the Iraq war, human rights abuses, and the instrumentation of democracy as a form of domination.

Impacts of the African Financial Crisis

In recent years, the economies of African countries have maintained strong growth, especially in the process of strengthening their balance sheets. However, the increase in food and fuel prices in 2007 and 2008, which led to the global financial crisis, has weakened the external position of net importers of food and fuel. This leads to an increase in inflation and a reduction in economic growth prospects (Fernandes, 2012, p.12).

For Fernandes (2012), The performance of African countries' financial systems shows that domestic resource mobilisation is limited; their productive investment channels (savings mobilisation) have been very slow and loans to the private sector are also problematic, especially for small lenders. One of the good news is the reduction of inflationary pressures. The food crisis has improved; despite the shrinking Asian economies, China continues to provide support; compared to a few years ago, the maturity and strength of the sub-Saharan African economy also faces such a situation.

OYA (2012) argues that in the face of the 2008 crisis and the much anticipated global recession of 2009, which in some OECD economies (read the Eurozone, for example) has deepened to the present day, there were different expectations about how Africa would be affected. While many felt that the effects were not so devastating because of the low exposure of the region's financial systems to 'toxic' assets, others said that the very economic openness of most of the region's economies and their dependence on OECD markets changed conditions enough for a painful transmission of the recession in the industrialized world and the behaviour of sub-Saharan economies (Lawrence 2010). Fosu (2010) makes an empirical distinction between the shock through trade ("trade shock") and the financial shock ("financial shock").

The latter includes not only the exposure of the financial system to the international crisis, but also, mainly, the effects on financing flows relevant to African growth processes. In general, therefore, three "real" transmission channels were anticipated: (a) a fall in demand for commodities and thus in the value of exports (through quantity and prices), one of the key drivers of growth in 2000-07; (b) a reduction in emigrant remittances; and (c) stagnation or reduction in foreign direct investment (FDI). The 2008 and 2009 data confirm that these were the key transmission mechanisms of the international crisis in the initial phase, mainly the effect of international trade, whose impact on GDP is greater than FDI or remittances. (Lawrence 2010; IMF 2010) For its part, Arieff, W Weiss e Jones (2009), apud Fernandes (2012).

They argue that African economies are the most exposed and vulnerable in the global financial system and their banks do not have the strength to help them mitigate the effects of the crisis. They also argue that the financial crisis affects African economies in several ways: (i) the contraction of global trade, including the reduction of export demands for African commodities, (ii) the broad interconnection of financial conditions across the sea, and (iii) the slope of foreign direct investment and other capital inflows.

One might think that this impact of the global crisis on African economies, apparently less significant than anticipated, was due to their relative marginalisation from the global capitalist economic system, Oya believes that quite the opposite is true, as the economies of the region are very integrated into the global capitalist economy; their degree of openness in terms of international trade is very high and their exposure to fluctuations in international markets is evident, such as changing the impact of the 2007-08 food crisis. Moreover, a relatively unfavourable and vulnerable integration of African economies in the international arena partly increases their structural weakness in the face of capitalist cycles, although, compared to other regional areas, the transmission mechanisms of the crisis alternate due to different characteristics. In fact, official data from 2008 and 2009 have shown that Africa is not unrelated to the fluctuations of the global economy. (OYA,2012)

The crisis and challenges for the new international financial architecture

Maryse et al (2009), analyses the consequences of the 2008 crisis, saying that the international financial crisis, which originated in mid-2007 in the US subprime mortgage market, has taken on such proportions that it turned into a systemic crisis after the collapse of the Lehman Brothers investment bank. The unfolding of the crisis put the international financial architecture in jeopardy, as it explained the limitations of the basic principles of the banking and financial regulation and supervision system currently in place, as well as the survival of a specific profile of financial institutions. For Maryse, it is important to outline some of the main factors that transformed a classical credit crisis into a financial and banking crisis of immense proportions. In a classical credit crisis, the sum of the potential losses (corresponding to loans granted with low collateral) and their distribution would already be known, while in the current configuration of financial systems, credit derivatives and structured products backed by real estate credit have replicated and multiplied such losses by an unknown factor and globally redistributed the risks arising from them to a wide variety of financial institutions.

Uncertainties about the actual state of the balance sheets of these institutions have led to a freeze on the interbank markets, expressed in extremely high spreads. Since the massive liquidity injections by the monetary authorities, which have relaxed their requirements and accepted practically any collateral as collateral, have not been able to reverse this process of "liquidity buffering" on a global scale, the countries of the European Union, the United States and other developed countries have followed the example of the United Kingdom and have announced, in the last two weeks, guarantees for these credits.

The first factor stems from the basic principle of self-regulation by the market that has guided all supervisory and regulatory measures in recent decades. Maryse points out that this principle can be expressed as follows: corporate governance and risk management of banks have evolved to such an extent that their decisions can be considered the most appropriate and efficient to avoid the occurrence of episodes that could lead to systemic risk. It was he who guided, to a large extent, the changes to the Basel Accords that incorporated, in their second version (Basel II), the ratings agencies' notes and the internal models of asset pricing and risk management as alternative criteria for rating credit risks and incentives to use mechanisms to mitigate those risks, including credit derivatives.

The author identifies the second factor associated with the strong interaction between universal banks and other institutions, resulting from the financial architecture that is being challenged. Banks, which since the 1980s had been looking for various ways to remove credit risks from their balance sheets and make them more liquid, began to use financial innovations more intensively in order to leverage their operations without having to reserve the capital coefficients required by the Basle Accords. But this strategy was only feasible because other agents were willing to assume the counterpart of these operations, that is, to take these risks against a return that, at the time, seemed high. These agents were the financial institutions that formed the so-called shadow banking industry.

Final Considerations

As final considerations, the essential role of the government is to provide the institutions that promote and sustain confidence in financial promises. Governments are responsible for promulgating and protecting property rights, although private actors may also travel some distance in this direction. Governments are also responsible for creating the most important of all financial markets-the public debt. The development of a secure market for government bonds is the foundation on which all other debt markets are built.

Academics suggest a concerted effort by various institutions, such as the IMF; the World Bank and regional development banks; the International Clearing House; the Basel Committee on Banking Supervision; the Financial Stability Forum; the International Organization of Securities Commissions on Securities Regulation; the International Association of Insurance Supervisors, and the International Accounting Standards Board. Academics note that better regulated systems can go off the rails during outbreaks of euphoria. Just look at the combination of the so-called subprime crisis and the collapse of securitized loans in the United States. This experience shows that financial crises are inevitable. Uncertainties about the actual state of the balance sheets of these institutions have led to a freeze of interbank markets, expressed in extremely high spreads. But it also shows that a crisis can be relatively manageable if assets and liabilities are denominated in the currency of the affected country. Therefore, the most important lessons of the crisis are the inevitability of financial irresponsibility and the importance of funding in national currency. For us, these scenarios of unchecked crisis carry with them a number of conjunctural factors that, combined with the efforts of supervisory measures and self-regulation of markets, banks and governments, and with a clear policy, one can avoid successive financial meltdowns and consequently crises.

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