Financial globalisation and human development

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FINANCIAL GLOBALISATION AND HUMAN DEVELOPMENT

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ABSTRACT

This paper is concerned essentially with the question, how does financial globalisation affect economic welfare? Orthodox theory suggests that because of greater risk-sharing between countries that financial liberalisation entails, there should be no welfare losses. Greater risk sharing should lead to greater smoothing of consumption and/or growth trajectories for developing countries. Yet there is widespread evidence of crises following liberalisation. Apart from these international macro-economic issues, it is argued here that financial globalization changes the very nature of capitalism from managerial to finance capitalism. This profoundly affects at the micro-economic level corporate governance, corporate finance and income distribution. Both macro- and micro-economic factors outlined here influence human development.

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I. FINANCIAL GLOBALIZATION AND HUMAN DEVELOPMENT

1.1 INTRODUCTION: FINANCIAL GLOBALISATION AND ECONOMIC WELFARE

This paper is concerned with financial globalisation, a large subject which raises important theoretical, empirical and policy issues. Some of these relating particularly to the global economic crisis of 2008-2010, will be reviewed here. The paper will also examine the relationship between financial globalisation and human development, together with a significant issue of the political economy of financial liberalisation.

Bhagwati (2000) has suggested that financial liberalisation has been encouraged by the US Treasury/Wall Street complex not to promote global efficiency but to maintain control over developing economies. The essential argument here is that trade liberalisation is more welfare-enhancing than financial liberalisation for most developing countries at this stage; the latter should therefore be avoided.

One major objective of this paper is to examine the effects on economic welfare of the free movement of capital between countries. On this issue, there is a huge disconnect between economic theory and empirical evidence. The former suggests that because of greater risk sharing between countries, which financial liberalisation leads to, there should be no ill effects of liberalisation on the welfare of participating countries[2]. Greater risk sharing should lead to greater smoothing of consumption and/or growth trajectories for developing countries. Yet, empirical evidence over the last three decades suggests frequent crises and welfare decline, following financial liberalisation measures adopted by individual countries.

[2] Financial liberalisation' and 'financial globalisation' have been used inter-changeably throughout this essay unless the context indicates otherwise.

Apart from these international macro-economic issues, it will be argued here that financial globalization has pervasive effects on the economy and the society at the micro-economic as well as the mesa-economic levels. Indeed it changes the nature of capitalism from managerial to finance capitalism. The highly active role of the stock markets, the greater power of shareholders, the influence of institutional investors and ultimately the institutional device of hostile takeovers characterise capitalism under financial globalisation (Deakin and Singh 2009). At the microeconomic level these dimensions of financial globalisation have a profound effect on corporate governance and corporate finance.

A significant part of the international macroeconomic literature tends to blame the recent economic and financial crisis on financial globalization. The present paper contributes by departing from this view and suggesting that financial liberalisation has positive as well as negative effects on national economies, both of which should be taken into account in arriving at a balanced picture of the phenomenon. The policy challenge lies in creating institutional frameworks which can harness the positive features of this inherently powerful phenomenon. The paper also makes a contribution by its explicit analysis of the micro-economic and mesa-economic aspects of financial globalisation which are often neglected in analyses of the subject.

1.2 FINANCIAL GLOBALISATION AND THE RECENT CRISIS

Contrary to the presumed benefits of financial liberalisation due to risk sharing and consumption smoothing, it is significant that the recent global crisis provides almost experimental evidence on how aspects of such globalisation can *adversely* affect economic welfare. There is a general consensus amongst scholars that the trigger for the global economic crisis of 2008-2010 (the great recession) was provided by the difficulties of the US housing sector – the so-called subprime mortgages market[3]. Blanchard's (2008, 2009) research indicates that by October 2007 the estimated loss on US subprime loans and securities was about $250 billion. However, the decline in stock market values, measured as the sum of all markets of the fall in stock market capitalisation from July 2007 to November 2008 was estimated to equal about $26,400 billion. This is a hundred times the initial loss caused by subprime mortgages. Although as a consequence of a subsequent rise in share prices these losses were much reversed these nevertheless represent a real loss of wealth for many stakeholders.

Blanchard, however, also estimated, under plausible assumptions, the expected cumulative loss in world output associated with the crisis based on current forecasts. This loss is constructed as a sum over all countries, of the expected cumulative deviation of output from trend in each country, based on IMF estimates and forecasts of output as made in November 2008, for the years 2008 to 2015. Based on these estimates the cumulative loss is forecast to run at $4,700 billion, about twenty times the initial subprime loss.

The question is, how could such a relatively limited and localised event have effects of such magnitude on the world economy? This was not after all the first time in US economic history that there had been a bursting of the housing bubble. This did not invariably lead to a depression in the US economy, let alone in the whole world. Robert Solow (2009) noted that the combined result of the housing and the stock market shocks was a fall in US household wealth from US$ 64.4 trillion in mid-2007

[3] For differing views of the crisis from mainstream and heterodox economists, see: Aiginger (2009), Arestis and Singh (2010), Cambridge Journal of Economics (2009, 2010), IMF (2009, 2010), Krugman (2008, 2010), Ormerod (2010), Solow (2009), Taylor 2010, UNCTAD (2009, 2010), UNDESA (2009, 2010), the US Council of Economic Advisers (2010).

(before the crisis) to US$ 51.5 trillion at the end of 2008. Thus 13 trillion dollars of household wealth disappeared in the space of about one year.

The spread of the decline in stock market prices from the US to the rest of the world, it is suggested, was entirely due to "financial globalisation" in the previous two decades when the world's financial markets began a process of integration as a result of extensive de-regulation [4] of the financial institutions, (see further below).

This episode reveals that contrary to neoclassical prediction of risk sharing which may be expected from greater financial integration, this apparently did not happen or its influence was overwhelmed by other factors. Indeed, the opposite appears to have occurred with contagion from financial globalisation leading to a fall in asset prices all over the world. In the following sections we will examine the case of financial globalisation taken as a whole in all its various aspects and consider its impact on the global real economy. We will find that contrary to the subprime mortgages case the overall impact of financial liberalisation and globalisation was probably positive for many countries.

1.3 THE NATURE AND EXTENT OF FINANCIAL GLOBALISATION

Financial globalisation has come to dominate the world economy over the last two to three decades. In its present form it started with the demise of the Bretton Woods system in the early 70's and the floating of the US dollar. It took a big step forward with the restitution of the convertibility of pound sterling by Mrs Thatcher in the UK in 1979. Similar liberalisation measures were emulated by other advanced countries. It is important to remember that liberalisation and globalisation tend to be additive

[4] This paper will confine itself to examining the external liberalisation of world's and national capital markets; it will not consider questions relating to internal liberalisation of various institutions and markets.

cumulative processes. Financial liberalisation occurs at different speeds in different countries during various periods.

Broadly speaking industrial countries have been operating under a regime of financial liberalisation since the mid- 1980s and many developing countries since the mid-1990s (see further Arestis and Singh 2010; Singh *forthcoming*). An important part of the financial liberalisation process has been the fast development of stock markets around the world particularly in emerging countries[5]. The IMF and World Bank have for a long time been advocating another aspect of financial liberalisation, namely capital account liberalisation to all countries including developing ones. In the mid-1990s the IMF proposed that its articles of agreement should be changed to make capital account liberalisation one of the main duties of the organisation. However this proposal was later abandoned in view of the Asian financial crisis.

Apart from the IMF and the World Bank the movement towards liberalisation of internal and external markets has been strongly supported by financial interests, banks, insurance companies in the US and also in other advanced countries. One of the major triumphs of globalisation was the repeal in 1999 of the US Glass-Steagall Act which had limited the size and scope of the financial institutions.

It was, however, not just the financial lobbies' pressure which led to liberalisation of global finance. There was strong ideological conviction at the highest levels of US government that financial innovation is good for the economy and the best way to promote it is to regulate it lightly, if at all. This was the view strongly held by Alan Greenspan and leading Wall Street executives.

[5]According to SIEMS (2011), "The total market capitalization of emerging market countries has increased approximately *ten-fold* over the past fifteen years, from less than $2 trillion in 1995 to about $5 trillion in 2005 to approximately $19 trillion by year-end 2010. This compares to a roughly doubling in total market capitalization for the developed markets over the same period. Since the turn of the century, emerging market's share of global stock market capitalization has risen from 7 percent to a current figure of approximately 30 percent". SIEMS further observe, "The speed at which the equity markets in the emerging economies have surged over the past decade is nothing short of breathtaking. After hovering around 20-25% during the better part of the 1990s, emerging market stock market capitalization, as a share of their collective GDPs, almost *tripled* from the beginning of the century until 2007."

The net result of this mindset was the evolution of a largely unregulated parallel banking system performing the functions of banks but without being subject to banking regulations which greatly contributed to the crisis (Krugman 2008).

The nature and extent of financial globalisation during the last two decades has been documented by a number of authors (see Eatwell and Taylor (2000), Wolf 2007 and 2011). It is sufficient here to note that on Sheng's (2009) estimates, global financial assets have grown nearly four times from 109 per cent of global GDP in 1980 to 421 per cent in 2007. These figures are in line with the IMF calculations that as of 2007, the total value of global financial assets, comprising banking assets, stock market capitalisation and bond market value, amounted to US$230 trillion, four times the size of global GDP of US$55 trillion in 2007[6]. Similarly there has been enormous growth in global derivatives.

II. THE CASE FOR AND AGAINST FINANCIAL LIBERALISATION[7]

The case for international economic integration through capital account liberalisation in individual countries was authoritatively put forward by Stanley Fischer, the former deputy managing director of the IMF, in 1997. Fischer suggested that, at a theoretical level, capital account liberalisation would lead to global economic efficiency, allocation of world savings to those who were able to use them most productively, and would thereby increase social welfare.

Summers (2000) succinctly summed up the core point of the orthodox perspective as follows: "… the abstract argument for a competitive financial system parallels the argument for competitive markets in general … Just as trade in goods across

[6] For a discussion of how various aspects of financial globalisation contributed to the recent global financial crisis see, Blanchard (2009) and Sheng (2009).
[7] The analysis of this section draws on and updates my paper Singh 2002

jurisdictions has benefits, so too will intertemporal trade and trade that shares risks across jurisdictions have benefits."

The theoretical case against the Fischer –Summers` view that unfettered capital movements are essential for maximising world economic welfare and that financial liberalisation is analogous to trade liberalisation has been made by a number of economists from different schools of thought. First within the neoclassical tradition itself, Stiglitz (2000) argues that the concept of free movements of capital is fundamentally different from that of free trade in goods. Capital flows are subject to asymmetric information, agency problems, adverse selection and moral hazard. Although such problems may occur also in trade in goods and services, they are intrinsic to financial flows and are far more important.

Significantly, there are also diverging views about the price formation process in asset markets such as the stock market and the currency markets. Orthodox economists subscribe to the theory of efficient markets. In this view, prices are a collective outcome of actions of a multitude of individual economic agents whose behaviour is assumed to be based on utility maximisation and rational expectations. This price formation process is thought to lead to efficient prices in these markets. A powerful counter-view is that put forward by John Maynard Keynes (1936) in chapter 12 of the General Theory and which is encapsulated in his well-known "beauty contest" analogy which highlights the role of speculation in determining prices.

Thus, in Keynesian analysis, which has been formalised in recent theoretical contributions, price formation in asset markets may often be dominated by speculators or noise traders in modern parlance. Moreover, theoretical work on Darwinian selection mechanisms indicates that the classic Friedman (1953) assertion that rational investors will always wipe out speculators is far from being valid in all situations.

Further the critical school emphasises that financial markets are particularly prone to co-ordination failures and often generate multiple equilibria, some good, some bad. In the absence of appropriate coordination by the government or international authorities, an economy may languish in a low level equilibrium, producing sub-optimal output and employment levels. [8]

In contrast, Chakravarty and Singh (1988) suggest that the case for free trade is best put in terms of the two fundamental theorems of welfare economics. According to the first welfare theorem, a competitive equilibrium in the absence of externalities and non-satiation constitutes a Pareto optimum. The second theorem, which is more relevant for our purposes, states that any Pareto optimum can be realised as a competitive equilibrium in the presence of all-around convexity, provided suitable lump-sum transfers can be arranged among the participants. These are demanding assumptions and are not easily met in the real world. Nevertheless, neo-classical economists suggest that such considerations do not destroy the case for trade openness but only change the nature of the argument. Thus Krugman (1987) concludes his classic defence of free trade in terms of modern theory as follows: "this is not the argument that free trade is optimal because markets are efficient. Instead it is a sadder but wiser argument for free trade as a rule of thumb in a world whose polities are as imperfect as its markets."

As suggested by Chakravarty and Singh (1988), there is, however, a more robust economic case for a managed trade openness (rather than free trade) which would explicitly take into account increasing returns to scale and imperfect competition. It would also stress the role of learning through economic interactions with the rest of the world. However, it would need to assume that the level of aggregate demand in the world and national economies was adequate to provide continuous full utilisation of resources and full employment. Within this kind of setting,

[8] On this set of issues, see for example, Stiglitz (1994); Allen and Gale (2000); Glen, Lee and Singh (2000), Shiller (2000), Hong and Stein (2007), Baker and Wurglar (2007).

Chakravarty and Singh (1988) suggest managed trade openness can be a source of *great advantage* for an economy for many different totally plausible reasons:

In general, trade openness works positively if there is suitable conjuncture in which the world economy can achieve a fast long term rate of growth. These are the main lessons that emerge from the outstanding industrial success of East Asian economies during the second half of the 20th Century.[9]

To sum up, Jagdish Bhagwati's advice for developing countries to adopt trade globalisation and to avoid financial globalisation until they have reached a high level of development is only partially correct. Developing countries would be better off with managed trade openness rather than free-trade.

III. FINANCIAL GLOBALISATION AND THE REAL WORLD ECONOMY

In this section, we consider the effects of financial globalisation in all its aspects on the real world economy. We first examine the period 2000-2007, before the recent financial crisis (which is normally thought to start from bankruptcy of the Lehmann Brothers in September 2008). We ask the question, did globalisation of finance considered in comprehensive terms have a positive or negative effect on the international economy. The results are surprising and extremely interesting.

The world economy had one of the fastest growth rates ever during 2005-2007. It is also significant that developing countries grew faster than developed countries during this period. India and China had stellar performances, recording growth rate of near 10%. The number of people living in absolute poverty declined by a sizeable margin in many countries.

[9] See further Freeman (1989); Chang and Rowthorn (1995); Singh (1995).

Then came the crisis of 2008 which has led to an even poorer performance by developed countries than that in developing countries. So the workings of the world economy have led to palpable failure in the North and unequalled success in the South particularly in China and in India. The question arises whether this outstanding performance of the latter two countries can be ascribed in part to globalisation or should it be attributed entirely to other factors. Some economists argue that globalisation had little to do with this outstanding performance. However, there are opposite arguments which suggests that China's phenomenal success was due to export-led growth over the last three decades, during the last decade under China's membership of the WTO. Without the institutional changes connected with globalisation in the world economy China would have found it difficult to pursue a strategy of high exports and high investments.[10]

There are, however, other factors which were also important. Financial globalisation allowed countries like the US, UK and Australia which were running current account deficits to grow at a fast rate. Mervyn King 2011 notes, that these three countries together with some countries in the Euro-area periphery were borrowing one trillion dollars more each year by 2006 than they had been in 1998. This in turn hastened the pace of growth of the world economy than what it would have been otherwise. Although King suggests that this "created unsustainable paths for domestic demands, net debt, long term real interest rates" this is very much a perspective from the North. For the South, particularly India and China, it will be no exaggeration to say it was a giant step forward. It is nevertheless also true to suggest that countries like China and India were able to grow fast because they did not

[10] It has been argued that China's membership of the WTO is an event which occurred a decade ago and that China's current high growth cannot therefore be ascribed to globalisation. It should not be forgotten in this context that China's WTO membership requires almost an annual renewal because of the certificate the US Congress has to give to say that the country has not been engaged in manipulation of the exchange rate. A more important point is that without the institutional framework of the WTO, and acceptance of the principles of globalisation by China and the US, the former would not have been able to be a star player in trade and financial globalisation. The essential point is that notwithstanding three decades of successful export-led growth, Washington can stop China from its preferred strategy of high exports and high investment, without US commitment to globalisation policies.

abolish all their controls and in particular, regulated the foreign capital flows so as to maximise the national gain.

To sum up, financial globalisation during the first decade or so of the new millennium was undoubtedly successful for China and India and many developing countries, while for many developed countries it was clearly a failure. In the discourse on the subject, it is the latter which is emphasised while the former does not get much attention. Both aspects need to be taken into account to arrive at a balanced picture of the merits and demerits of financial globalisation for countries around the world.

Although the Great Recession has been relatively mild, the possibility of cascading defaults in Eurozone countries and hence, the prospect of long-term stagnation in developed economies cannot be ruled out. Even though the probability of such a worst case scenario is small, developing countries must be prepared for it. In those circumstances, China and India need to adapt and implement suitable policies in order to maintain a sustainable high growth rate. From the policy perspective, the more flexible the economy the more it will be able to cope with the changing circumstances of the world economy.

IV. MANAGERIAL *vs* FINANCE CAPITALISM

Financial globalisation does not just affect financial variables at the national macroeconomic and at international levels so far discussed in this essay, but it also has profound effects at the micro-economic as well as mesa-economic levels in individual countries. It has already led to major changes in economic regimes particularly in advanced countries. These profound developments have been best summed up by Wolf (2007) when he suggests that the economic environment in the free market industrial countries such as the US and the UK has changed from managerial to finance capitalism during the second half of the twentieth century.

In economic terms, this evolution of the economic regime has been associated with the emergence of a market for corporate control. The latter in turn has imposed on corporate managers the goal of share-holder wealth maximisation, subject to a take-overs constraint on the stock-market. Financial globalisation has thus been associated with the increased power of share-holders, the greater influence of institutional investors on the corporations, and widespread adoption, indeed an internalization by corporate managers of the goal of shareholder wealth maximisation. Over time, the managers' own interests have come to coincide with that of share owners, not least because of the stock options which have come to dominate the managerial remuneration packages. Finance capitalism in this form is spreading throughout the world at greater or slower speeds.

An important question is whether finance capitalism of the kind above is in the best interests of developing countries in their quest for fast industrialisation. Evidence on these issues is not reassuring from a developing country perspective. Both analyses and evidence suggest that the enhanced role of stock market in an economy leads to short-termism and a preference for quick profits at the expense of longer term investment, see Singh (1997) and Deakin and Singh (2009). An important reason for these negative effects of financial globalisation lies in the short-comings of both the pricing and takeover mechanisms on the stock market. These two mechanisms are the key channels through which the stock market influences economic outcomes. Each of these will be briefly commenting upon below.

Taking the takeover mechanism first, a vast body of research indicates that the market for corporate control, although it has a potential for the firm level as well as global economic efficiency, it does not in fact achieve those objectives. There are in principle two ways in which the takeover mechanism can lead to greater efficiency.

The first is through the threat of takeover which can discipline less efficient firms. The second is that social value may be added even if all firms are operating at their highest level of efficiency. Amalgamation of some of these firms may lead to greater social value through synergy than otherwise would be the case.

Unfortunately, however, neither of these mechanisms works very well in practice. Empirical results from a half century of research indicate that although selection in the market for corporate control takes place in part on the basis of performance (i.e. shareholder value) it also takes place to a large extent on the basis of size[11]. Thus, a small profitable firm has a greater chance of being acquired than a large relatively unprofitable one[12].

Since third world firms are likely to be small compared with those from advanced countries, in a free market for corporate control, the smaller firms are likely to be at a disadvantage. In practical terms this means that if there was complete capital account liberalisation the small often more efficient and technologically progressive domestic firms will be subject to takeover by the larger and relatively less efficient advanced country firms. This is one of the reasons why developing countries should have the power to impose capital controls, importantly including against FDI. In orthodox analysis FDI is regarded as being sacrosanct but research shows that under globalisation it has also been subject to enormous fluctuations and is likely to generate financial fragility almost as much as other types of capital flows (see Singh 2005 and IMF 2011 a and b). These countries should therefore vigorously oppose the so-called multilateral agreement on investment.

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[11] There is a huge literature on the subject. The classic references are Singh (1975, 1992, 1998), Jensen (1988) Scherer (1998), and Mueller (2003). The more recent literature is summed up by Cosh and Hughes (2008), Tichy (2002), Gugler et al (2004), and Scherer (2006).

[12] The other mechanism, by which mergers can benefit society, is through the act of merger itself as outlined in the text. Overall empirical evidence on this channel is not very helpful either from the perspective of those who emphasise the virtues of the market for corporate control. Both studies based on accounting data as well as stock market data have been examined in detail in a large literature and the consensus is that mergers do not lead to greater efficiency through this route. See further Mueller (2003), Scherer (2006), Tichy (2002), and Deakin and Singh (2009).

This agreement was proposed by advanced countries at the WTO. It would give multinationals complete freedom to invest where they like, when they like and in what they like. Such globalisation is clearly not in the interests of developing countries and was therefore duly opposed. However although the proposal was effectively defeated, it is still on the table (see further Singh (2005)[13].

Having examined the many deficiencies of the market for corporate control, we will now turn briefly to the pricing mechanism on the stock market. This suffers from its own deficits including frequent and prolonged mispricing of shares. The traditional efficient markets hypothesis (EMH) as a description of stock market share prices has been subject to important criticisms. During the last two decades the EMH has been thought to be incompatible with a number of events in the real world stock markets, a) the US stock market crash in 1987, b) the melt-down in the Asian stock markets in the late 1990s, c) the technology bubble in the US in 2000, d) the virtual melt-down of the US stock market in the wake of the difficulties of subprime mortgages market during the current global financial crisis. As Alan Greenspan observed with respect to the 1987 US stock market crash:

> "The US experienced such a sudden change with the decline in stock prices of more than 20 per cent on October 19, 1987. There is no credible scenario that can readily explain so abrupt a change in the fundamentals of long-term valuations on that one day".

Tobin (1984) made an analytically useful distinction between two kinds of efficiency of stock markets, (a) the information arbitrage efficiency that ensures that all information concerning a firm's shares immediately percolates to all stock market participants, ensuring that no participant can make a profit on such public

[13] A referee has enquired whether too much attention has been given to stock markets in this paper. There are two reasons for this. First, as documented in footnote 4, the rate of growth in stock market capitalisation in emerging countries in the new millennium has been extremely high. The second more important reason is that multinational investment in developed countries as well as increasingly developing countries takes place through takeovers rather than through green field investments. The ultimate goal of globalisation is to have a situation where anybody can invest where and when they like. Stock market development is an indicator for both internal and external financial globalisation.

information; (b) fundamental valuation efficiency, that is, share prices accurately reflect a firm's fundamentals, namely the long-term expected profitability. The growing consensus view is that, in these terms, stock markets may at best be regarded as being efficient in the sense of (a) but far from being efficient in the economically more important sense (b). Thus EMH, as identified in a, is compatible with share prices not reflecting fundamental values.

In addition to the deficiencies of the takeover mechanism and the basic pricing process on the stock market, the rise of finance capitalism can in a general sense result in the unhealthy ascendancy of finance over production. The latter leads to financial engineering taking precedence over the normal long run entrepreneurial tasks of introducing technical change, reducing costs and improving products. The operation of stock markets particularly the market for corporate control also has adverse consequences for income and wealth distribution. Huge fortunes are made and lost on the stock market and on the market for corporate control. Managerial stock options are an important source of economic inequality[14].

V. FINANCIAL GLOBALISATION AND HUMAN DEVELOPMENT

As noted in the introduction, one of the remits for this paper is to examine the relationship between financial globalisation and human development. This is a difficult task because as far as I am aware there are no direct studies of human development and financial globalisation. Therefore, one has to use the best available surrogates for these variables in order to acquire some understanding of the issues involved.

There are a few studies which have examined the relationship between financial liberalisation and poverty. If poverty reduction is taken as an index of the

[14] On income distribution in emerging countries see Cornia (2004)

improvement in human development – which is by no means far-fetched – there is some scholarly literature which is informative. The main players in these analyses have included the IMF and Joseph Stiglitz. Up to the early 2000s the IMF and its staff tended to produce results indicating that financial liberalisation or more precisely, capital account liberalisation benefits the poor and reduces poverty. However, in a seminal and authoritative IMF contribution (Prasad *et al*,2003) came to an almost opposite conclusion. The authors summarised their empirical findings as follows: 'Thus, while there is no proof in the data that financial globalization has benefited growth, there is evidence that some countries may have experienced greater consumption volatility as a result.' (pg. 1).

In the wake of the above empirical findings the IMF has also shifted its policy stance on capital controls and the dangers of free capital flows. Although still committed to free capital flows, the IMF now recognises that the latter can harm countries and that capital controls can make an effective contribution to economic policy.

Fluctuations arising from capital flows are harmful to poor people and particularly, to women. As Singh and Zammit (2000) pointed out, economic recessions increase the unpaid work of women, while their remuneration from and the quantity of paid work declined. On the question of income inequality, Cornia (2004) suggests that capital account liberalisation has the strongest impact on widening inequality within individual countries. Cornia also suggests that further domestic financial liberalisation has a negative effect on the poor.

For the US, Mah-Hui and Chin (2010) report that between 1993 and 2006, the top one per cent income earners captured half of the overall economic growth. In terms of wealth distribution, the top 1 per cent of households owned 33 per cent of the total wealth in 2001, twice the amount owned by the bottom 80 per cent. The two authors suggest that economic inequality gives rise to two kinds of bubbles – a debt bubble assumed by households whose incomes have stagnated and whose consumption can only be met through taking on more debt; and an asset price bubble that is the consequence of the rich chasing the higher yields. It is not surprising that despite the greater economic efficiency which capital account liberalisation may entail, income distribution may worsen because the efficiency benefits of well-functioning capital markets go to the rich rather than the poor in many developing countries.

In order for human development to improve, it is necessary for the government to intervene through creation of public services to improve citizens' health, education and other indicators of human development. This of course requires increased government revenues which economic growth can provide but that is not a sufficient condition for improving human development. It may not even be a necessary one.

Another study which requires discussion here is that by Arestis and Caner (2010). This is one of the econometrically more sophisticated studies on the subject. It pays careful attention to causation, to the data (it only uses data from developing countries) and notably, the authors directly relate capital account liberalisation to poverty without going through the intermediate steps of exploring the relationship between capital account liberalisation and growth and subsequently that of growth and poverty. Arestis and Caner's results may be summarised as follows. Firstly, they find no statistically significant relationship between the degree of capital account liberalisation during the period and the poverty rate. Secondly, they find developing countries with higher institutional quality have lower poverty rates, but the effect has low statistical significance. Thirdly, they find a higher degree of capital account liberalisation results in a lower income share for the poor.

To sum up, if reduction in poverty is taken as a surrogate for improvement in human development, then the balance of evidence cited in this section on the basis of partial studies, suggests that financial globalisation does not enhance human development. However, this result needs to be assessed also in the light of the earlier discussion which suggested that financial globalisation led to fast world economic growth and generated sizeable reduction in poverty in low-income developing countries such as China.[15] Thus, the overall conclusion is that financial globalisation is a powerful force which can both help or hinder human development. It is best likely to help human development (*i.e.* reduce poverty) if there is a high rate of growth of world demand and fast growth of world economy, it will also help if the governments use appropriate policy measures to improve income distribution and to promote employment.

High unemployment, particularly youth unemployment constitute some of the greatest challenges facing the vast majority of developing countries. ILO (2011) rightly notes that the governments can take steps to simultaneously improve income distribution and employment. One of the important stylised facts about the world economy today is that the share of labour in national income has declined significantly and that of capital has increased in most economies throughout the world. ILO rightly argues that if this was put right and the share of labour was increased, this would increase world demand and hence, employment. These and similar ideas need careful attention from developing countries themselves but equally importantly from international organisations concerned with development.

VI. CONCLUSION

It has been argued in this paper that financial globalisation has enabled developing countries to take a giant step forward in the first decade of the new millennium by its positive impact on world demand and growth. However the world economy's growth path for the period 2000-2007 was ultimately unsustainable due to a number

[15] There is a scholarly dispute about whether absolute poverty ($1 a day) has fallen in India because of India's high growth rate. However for other countries such as China most scholars accept that has been a clear reduction in poverty.

of interacting factors e.g. rising US current account deficit, other global imbalances and inadequate regulation of the financial system and so on.

While benefiting from the positive features of financial globalisation, developing countries need also to be fully aware of the negative consequences of economic slowdown, indeed prolonged stagnation in advanced countries for which as noted earlier there is a non-zero probability. Moreover, as Akyuz (2011) has pointed out, increased capital inflows to and outflows from developing countries in response to the crisis in advanced countries is creating fragility and instability in the former group of countries. This indicates hard-landing for those countries which do not take appropriate policy measures in time. The most important of the latter are, as Akyuz (2011) suggests, capital controls which have enormous scope for containing the upheaval arising from the more than ordinarily volatile recent capital flows to developing countries. If there is a prolonged stagnation in advanced countries, China and India will need to respond by deep domestic structural changes in their economies to maintain the tempo of growth. They would need to expand for example the internal sectors of their economies at the expense of their external sectors. For developing countries like India and China to fully benefit from financial globalisation and faster economic growth timely policy responses are required all the time. These countries will need to be even more vigilant when financial globalisation is associated with a slow down or stagnation in world economic activity, a situation which could easily arise in the foreseeable future.

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