The Financial Crisis – 2 Years On

From the guest editor - Irene van Staveren

It was in the summer of 2008 that the first bank in the US fell, Lehman Brothers. At the time, both the general public and economists thought that it was an entirely American phenomenon. Within a few months, however, the crisis had spread across Europe, with banks falling or being taken over by the state, including devastating bankruptcies of Iceland's main banks. Yet for most of 2009, the general view was still that the crisis would not hurt the developing world. It was seen as a rich men's crisis, right at the heart of the financial centres of the world, from New York to London and from Reykjavik to Frankfurt. In her contribution to this special issue, Esther-Mirjam Sent emphasizes the word 'men' here, showing that the crisis emerged in a male-dominated financial sector. She argues, on the basis of available research outcomes, that management teams that represent a critical mass of women are better able to cope with risk and lead to better business performance. So, a stronger representation of 'Lehman's sisters' may have prevented the crisis in its current form.

A narrow economic view may hold on to the wishful thinking that the negative effects of a financial crisis in the US would remain limited to the financial sector in the developed world. But those taking a wider economic perspective knew that this was a myth, desperately held on to by those who had no idea how vulnerable financial markets are in today's financialized and globalized world. Prabirjit Sarkar shows in his contribution that stock markets and other forms of financial market development do not necessarily promote economic growth in developing countries. Rather, the financial sector seems to be a risk for development. While the financial system in the US and Europe almost collapsed, the wider economic perspective appeared to be the more realistic one. Governments in the developed world stepped in to nationalize banks that were considered too big to fail and thereby interfered heavily in the market. While the real economy – consumption, investment, exports, imports, employment – showed alarmingly sharp declines. Hence, it seems not good for the economy to have the financial market continuously spread.

As the crisis moved into its second year, it became clear that it was spreading to the developing world as well. First to its financial sector, with banks being affected through toxic derivatives they had bought from US and through the drying up of foreign capital inflows, which declined by a third in 2009. The effect of the crisis in the developing world was, however, not limited to the financial sector. It also hit the real economy, in particular through a reduction in exports as well as imports. These effects are described clearly in the paper by Peter van Bergeijk. Hence, there is an important lesson to be learnt about the extent of globalization of the world today: our world is even more strongly globalized than most of us thought. Not only through the spread of ICT and coca cola to every village across the globe, but also through the financial interconnectedness of the world's banks and financial markets, and the increasing role of trade for a country's development. Although Africa seems to have become more resilient to fluctuations in its growth over the past decade, the continent is still vulnerable to economic downturns elsewhere in the world, as Jorge Arbache argues in his contribution. Africa's growth benefits are mainly due to exports of resources, which benefit only a few countries on the continent and still depend heavily on imports by the developed world and China.

This crisis has thus shown the vulnerability of the globalized economy, in which not only good things spread quickly, but also bad things can very easily contaminate every country around the world and, worse still, hit the weakest groups hardest, as Richard King points out in his article. He brings together indicative evidence that poor women are hurt particularly, due to their role as providers for household livelihoods and their communities.

Finally, this issue contains two fine papers by ISS participants that are not part of the theme. The first one, by Sergio Ferragut, applies an innovative local development perspective to the development of an open market in the city of The Hague. The other one, by Marie Angelie Resurreccion, focuses on youth mobilization in the Philippines, referred to as 'generation text', through mobile phones and internet. Both give hope for a better world to come after the financial crisis. And perhaps even more so for ideas from the developing world – where alternatives for Western white male financial innovations are more likely to come from – perhaps in text messages.