Title	*Credit Crunch Global recession why/when/what?*
Description	Ngaire Woods, Jeni Wharton and Christina Ward discuss why institutions are pushing toward greater financial regulations in order to prevent another global recession
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Interviewer In response to the global credit crunch who is pushing for more global regulation?

Respondent So the current global crisis has had these two effects. One as your pointing to is a credit crunch and that's the financial crisis which has affected a small group of countries, mainly in the European area whose financial systems were vulnerable to this crisis. And we've seen a very quick reaction to that, where the IMF has immediately been sent in to help those countries to ensure that there isn't a financial crisis in the Ukraine or in Poland or in Hungary or Romania or Iceland and to shore over the cracks.

So we've seen quite a quick response to making sure the crisis doesn't cause those economies to seize up and now we are seeing a push for some financial regulation. Not anywhere near as strong enough push on financial but we are seeing some push.

But of course the other part of the crisis is its impact on developing countries, not by producing a financial crisis but through a different transmission belt which is the real economy. The credit crunch produced an immediate slowing down of the main economies of the world and that it turns out has had truly dire catastrophic effects on a much larger range of countries in the developing world and it is that which global leaders are now calling the development emergency which this crisis has provoked.

Interviewer And are the G20 leaders really learning to coordinate as a result of this crisis or are they still having their separate agendas very much?

Respondent Well in responding to the development crisis, the development emergency in developing countries they have said a lot you know this is where they have been more of a talking shop than an action shop. Because they've said a lot about needing to respond collectively needing to cooperate to deal with the effects of the crisis in developing countries. In actual fact what they've delivered is very, very little.

So in some research that we've just been doing here at Oxford we've examined where IMF funding has gone, we have found that more than 80% of IMF funding has gone to European countries in crisis in financial crisis. Less than 2% has gone to sub Saharan Africa.

Interviewer For which year?

Respondent That's just since the crisis began, just looking at who the IMF is lending to since the crisis began and how much they are actually lending. What that's telling us is that the powerful countries are using the IMF to stave of financial crises, but they are not using it very much or very effectively to ensure that this global crisis doesn't devastate developing country's chances. So a lot of developing countries have made real progress over the last ten years towards the millennium development goals, towards eradicating poverty, increasing education, improving their government arrangements.

What we are seeing now according to the IMF and the World Bank's own monitoring report is a real risk that all of that progress is being unravelled. What we are not seeing the G20 deliver is a cooperative solution to that, we are seeing them promise assistance which they are not actually delivering on. They've given The World Bank almost no new resources very, very small new resources to deal with this crisis.

So they are pushing The World Bank into simply using its existing resources and existing loans to try and put more money out of the door quickly and that's creating problems down the line. Big gaps in funding for countries down the line, big gaps in who's actually getting some emergency assistance. So actually if you were scoring the G20 I think you'd have to give them a sort of two out of ten on a cooperative multi lateral response to the development emergency.

Whereas you'd probably give them about nine out of ten on their response to the credit crunch and the seizing up of economies in the industrialised world. On financial regulation and whether they are actually going to put in place the kind of regulation that prevents the next crisis coming, I think the jury's out, at most I would give then five out of ten, but we are going to see in the next six months whether they really do deliver on their promise to ensure that effective regulation is put in place that will prevent the next crisis.

Interviewer What is it that G20 countries need to agree on to have an effective system of global regulation?

Respondent There are a number of core elements they need to agree on capital and liquidity standards for their banks. In other words, part of this the underlying driver in the financial sector in this crisis was banks and financial services firms hugely over leveraging themselves. In other words gambling with far more money than they ever had in their own bank account. To put a stop to that governments have to robustly regulate the capital that financial services firms have to hold and the liquidity that they have to have access to.

What we are seeing at the moment on that issue is Europe and the United States being pulled into a spat over it where the United States is saying we need higher capital adequacy standards because they know theirs are already the highest and the Europeans saying its not about quantity it is about quality, it is about the quality of capital because the Europeans have higher quality capital but lower standards. In other words the countries are jockeying for competitive advantage and the risk is that while governments jockey for competitive advantage, no proper standard will be agreed and the financial services firms and the banks will simply step in, write detailed regulation which in effect lets them off the hook and permits them to go back to business as usual.

That's what they are hoping for and they might actually succeed if there isn't agreement on that first issue. And then there is a series of other issues, credit default swaps one of the, all the complex instruments that financial services firms used to slice and dice risk into endless tiny little parcels that they could then pass around and sell to other financial services firms in the sector. Risk it seemed almost disappeared from the system but of course we have just discovered it didn't disappear and the result is that tax payers are being left picking up a nine trillion dollar trade out bill.

So dealing with that, dealing with how you regulate all these fancy instruments which the financial sector have become more and more sophisticated in producing as new ways, in effect we have discovered as new ways for them to gamble. I mean some financial innovation is important and useful, but they have gone well beyond that so that's going to need regulating.

The credit rating agencies, the agencies that we rely upon for information about how soundly banks are managing their own practices as it turned out horribly under regulated and horribly conflicted in their own interests, being paid by those who they were supposed to be rating. That's got to change we've got to see decent regulation of the credit rating agencies.

Cross border supervision, another lesson from this crisis is that banks live globally but they die nationally. In other words they can gamble all they like across borders but when all of their gambling collapses it is tax payers in national jurisdictions that pay the bill. In other words, it is British tax payers who are having to pay for the Royal Bank of Scotland's global investment strategies; and that means that countries are going to have to cooperate to supervise the activities of banks internationally. And we are seeing them begin to talk about doing this.

The problem with the arrangements that they are talking about for cross border supervision is that there is no robust enforcement of rules. What we actually need is something quite simple, governments need to agree as set of rules and agree a robust enforcement mechanism for those rules among themselves.

Without that we just get these elegant talking shops which promise to monitor, which promise to come up with nice standards but which everybody knows nobody in fact needs robustly to enforce.

Interviewer What is preventing them from making that agreement what is holding them back?

Interviewee So I think the major financial centres, I think in the United States and Britain there is a very long habit of treating the financial sector as the goose that lays the golden egg and there is a real fear by policy makers of taking actions which might damage the competiveness of their financial sector. And that fear is something that the financial sector itself is playing to maximal advantage.

So what we are hearing in our research from policy makers is that they are being ferociously lobbied by the financial sector; and that every time they try to move on any one of these four issues that I mentioned, they find immediately that the financial services sector associations and individual companies are at their door yelling and screaming. And that is difficult for governments who depend on these sectors, who have a habit of depending on them for revenue, for campaign financing, in all kinds of ways. So I think there is a deep politics to this struggle on which kinds of regulations are going to robustly enforced.