

# Y376 International Political Economy

September 10, 2009

# Financial Crises

- Often begin with structural deficit problem accentuated by a severe downturn in the domestic economy
- Country may default on its international obligations (loans, other foreign investments)
- All this occurs in a general atmosphere of panic, currency value may fall rapidly

# The Peso Crisis of 1994

- Mexico admitted to OECD in May 1994
- Huge balance of payments deficit financed by Tesobonos (bonds denominated in dollars)
- Zedillo replaces Salinas as President
- Sudden devaluation of the peso in December 1994
- GDP contracted by 7 percent in 1995

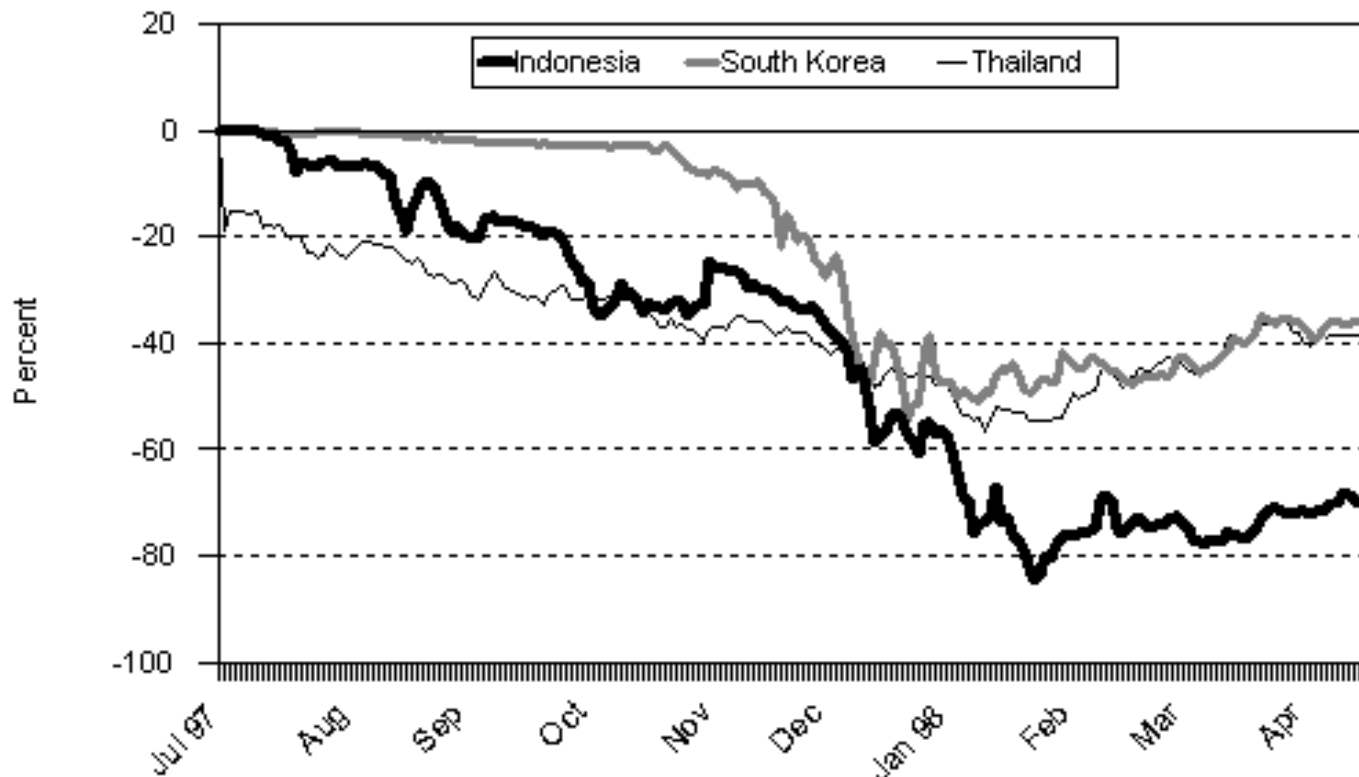
# The Asia Crisis of 1997-98

- Frontline video of origins
- Starts with collapse of Thai currency, the baht
- Crisis spreads to Indonesia, South Korea, and other East Asian countries
- IMF criticized for bad advice/pressure during the crisis



# Depreciation of Asia Currencies

Figure 2  
Depreciation of Asian Currencies  
Against the U.S.\$ Since July 1997



Data Source: J.P. Morgan & Co.

# Russian Crisis of 1998

- Delayed impact of Asia Crisis
- Oil prices on the decline, government unable to collect taxes
- Use of dollar-denominated GKO bonds to finance budget deficits
- Ruble suddenly devalued in August 1998
- Economy recovered quickly when oil prices increased

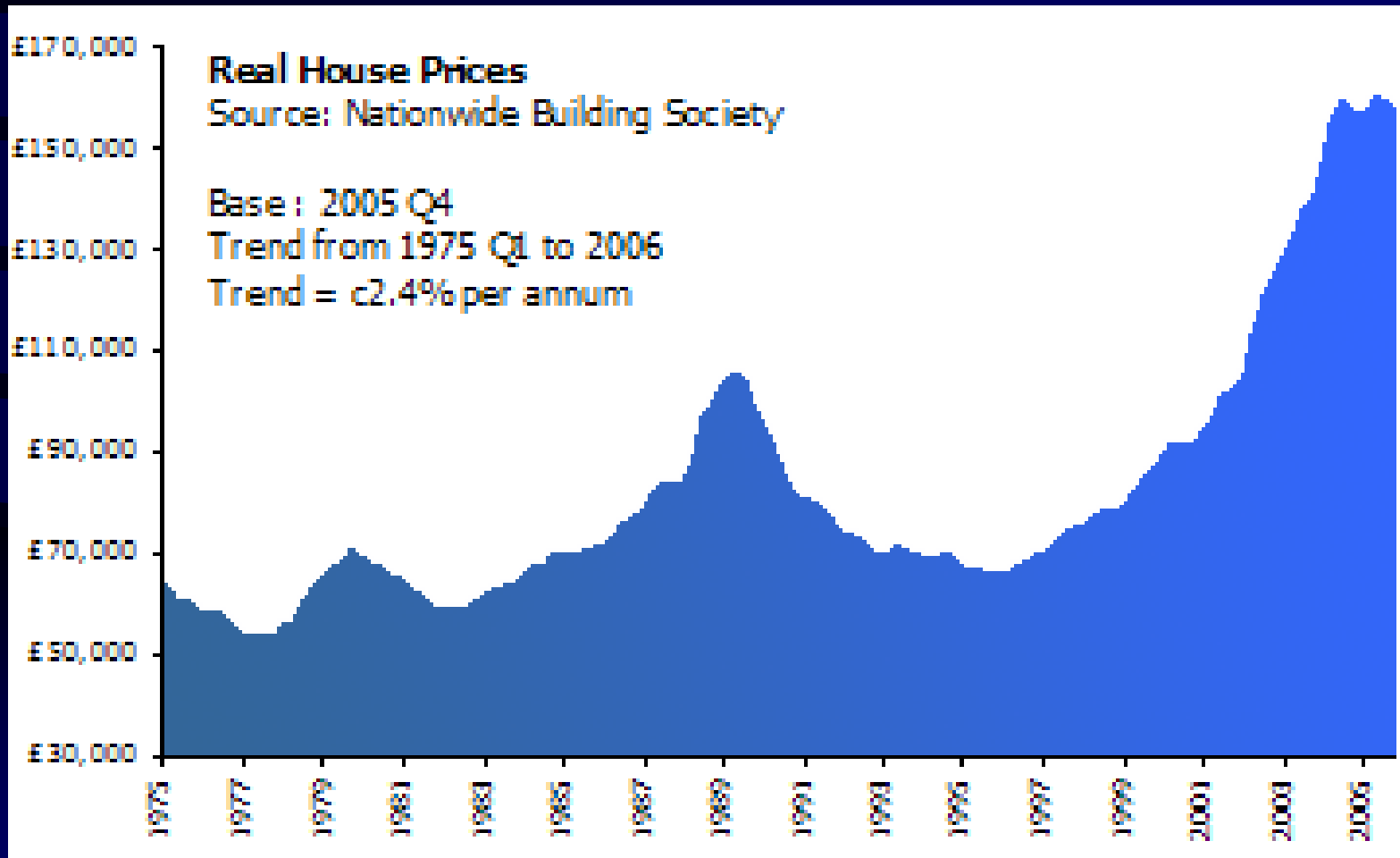
# Argentine Crisis, 1999-2002

- New currency created in 1983, the austral
- Inflation problems led to the restoration of the peso in 1990, and the peso was pegged to the dollar
- Balance of payments problems led to debt increases that resulted in speculation about the value of the peso
- When Brazil devalued the real, Argentine trade suffered further, and GDP declined by 4% in 1999
- 3 years of recession followed, combined with capital flight to produce a major economic collapse
- In 2002, the peso was allowed to float (and devalue)

# Global Financial Crisis 2008

- Led by bursting of housing bubble in the US
- Made worse by near collapse of US financial markets connected with mortgage-backed securities and credit default swaps
- Response revives Keynesian approach to preventing deep recessions

# House Prices in the UK 1975-2005



# The Group of Eight (G8)

- Began in 1975 as a way for the largest industrialized economies to deal with the problems of interdependence
- Heads of state of the G7 countries met annually until 1997 when Russia joined
- The European Union is represented separately in all G7/G8 meetings

G8 Information Centre



# Who are the G8?

- US
- UK
- Germany
- France
- Italy
- Japan
- Canada
- Russia



# G7/G8 Meetings, 1975-2009

- 1975 Rambouillet
- 1976 Puerto Rico
- 1977 London
- 1978 Bonn
- 1979 Tokyo
- 1980 Venice
- 1981 Ottawa
- 1982 Versailles
- 1983 Williamsburg
- 1984 London
- 1985 Bonn
- 1986 Tokyo
- 1987 Venice
- 1988 Toronto
- 1989 Paris
- 1990 Houston
- 1991 London
- 1992 Munich
- 1993 Tokyo
- 1994 Naples
- 1995 Halifax
- 1996 Moscow
- 1997 Denver
- 1998 Birmingham
- 1999 Cologne
- 2000 Okinawa
- 2001 Genoa
- 2002 Kananaskis
- 2003 Evian
- 2004 Sea Island
- 2005 Gleneagles
- 2006 St. Petersburg
- 2007 Heilegendam
- 2008 Hokkaido
- 2009 L'Aquila

# Heilegendam Summit in 2007



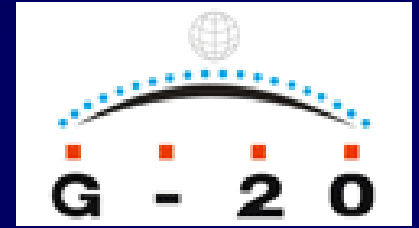
**L to R: Tony Blair, Romano Prodi, Vladimir Putin, Nicolas Sarkozy, Angela Merkel, George Bush, Stephen Harper, Shinzo Abe and Manuel Jose Barroso**

# 2009 L'Aquila G8 “Family Photo”



**L to R: Taro Aso, Stephen Harper, Barack Obama, Nicolas Sarkozy, Silvio Berlusconi, Dmitry Medvedev, Angela Merkel, Gordon Brown, Fredrik Reinfeldt, Jose Manuel Barroso**

# Who are the G20?



- G8 countries
- Argentina
- Australia
- Brazil
- India
- Indonesia
- Mexico
- Saudi Arabia
- South Africa
- South Korea
- Turkey
- China
- European Union

[Pittsburgh Summit 2009](#)

# What are the G8 and the G20 Doing about the Current Crisis?

- Stimulus packages
- Improved regulation of financial markets
- Capital adequacy reforms (credit default swaps, especially)
- Improve credit rating agencies
- Continued meetings