

## **Two Charts**

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Chart 1: The institutional context of finance: comparative variations and their consequences      Page 2

Chart 2: Different pathways to change: alternatives in the institutional response to financial crisis and to the reshaping of finance      Page 3

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**Chart 1**

**The institutional context of finance: comparative variations and their consequences**

	<b>Internal organization of national finance</b>	<b>Finance and the real economy</b>	<b>Finance in its international setting</b>	<b>Consequences: Internal institutional dynamic</b>
<b>US today</b>	<b>Short-term portfolio flows intermediated through the shadow banking system</b>	<b>Decoupling of finance from the real economy; government intervenes to stabilize and support the existing fin system</b>	<b>Dependent on massive inflows of foreign portfolio capital</b>	<b>Credit boom – asset bubble; debt deflation on systemic basis</b>
<b>US in the 1930s and in the early post-war period</b>	<b>Ample domestic savings intermediated through regulated banks, GSES and newly created institutional investors</b>	<b>Household savings channeled to government and non-financial enterprises</b>	<b>Relatively high domestic savings, institutional impediments to speculative trading by leveraged intermediaries</b>	<b>Virtuous cycle of domestic savings, investment, growth; active engagement in global markets</b>
<b>Mexico and Argentina in the 1980s and 1990s</b>	<b>Foreign portfolio inflows intermediated through domestic banking system</b>	<b>Decoupling of finance from the real economy; increased internal and external liquidity fuels asset inflation and debt-fueled consumption</b>	<b>Dependent on massive inflows of foreign portfolio capital, increasingly USD-based</b>	<b>Credit boom – asset bubble; debt deflation on systemic basis</b>
<b>BRIC countries today</b>	<b>Foreign and domestic funding intermediated via strategically coordinated banking system; capital controls and surplus reserves</b>	<b>State-owned banks and development agencies channel funding to firms and sectors deemed “strategically” important</b>	<b>Relative autarky: high level of domestic savings fuels domestic spending and investment; capital controls limit exposure to global shocks</b>	<b>Virtuous cycle of domestic savings, investment and growth; active participation in global markets</b>
<b>A better alternative</b>	<b>Rejection of credit dualism; decentralization of domestic banking system to broaden access and opportunity; institutional diversification and experimentation</b>	<b>Use of public-private partnerships to deepen domestic markets and to accelerate innovation in the forms and uses of finance</b>	<b>Active participation in global markets: restrictive treatment of short-term portfolio capital; accommodating treatments of investment in production</b>	<b>Finance subservient to the creation of new forms of production and new forms of finance</b>

## Chart 2

### Different pathways to change: alternatives in the institutional response to financial crisis and to the reshaping of finance

	<b>Approach to the basic framework of finance</b>	<b>Crisis management and response</b>	<b>Finance in its broader setting: regulation versus reorganization</b>
<b>US today</b>	<b>Acceptance of the existing framework, supplemented by enhanced regulatory vigilance</b>	<b>Government intervenes to bail-out the largest banks and stabilize financial markets</b>	<b>Regulation as an alternative to reorganization</b>
<b>US in the 1930s and early post-war period</b>	<b>Re-organization of the basic framework, reinforced and extended through federal insurance, liquidity facilities and multiple GSEs</b>	<b>Government responds to the economic and financial crisis by restructuring existing markets and creating new markets</b>	<b>Regulation as the first step toward reorganization of finance and its relation to the real economy</b>
<b>Mexico and Argentina in the 1980s and 1990s</b>	<b>Reshaping of domestic market by foreign capital and financial intermediaries</b>	<b>Diminished room for maneuver in the context of free flowing capital, and increasing use of USD-denominated assets</b>	<b>Deregulation as an alternative to the domestic reshaping of finance</b>
<b>BRIC countries today</b>	<b>Heterodox arrangements reduce hypertrophy in a context of limited financial deepening</b>	<b>Government control of credit and currency markets permits stabilization and support of domestic market in the context of a global crisis</b>	<b>Regulation as an alternative reorganization</b>
<b>A better alternative</b>	<b>Use of heterodox arrangements to promote financial deepening and socially-inclusive growth</b>	<b>Crisis as an opportunity to strengthen, stabilize and deepen domestic finance</b>	<b>Regulation as the first step toward reorganization of finance and its relation to the real economy</b>