The past year has been in several ways a year of transition, a year where major economic and financial developments have been in train but have yet to be clarified, let alone reach fruition. Most significantly at the moment for the United Kingdom, the Brexit referendum in June 2016 triggered much work and analysis that may, or may not, lead to a fundamental change in the United Kingdom’s relationship with itself and with the wider world, with the present period of uncertainty possibly followed by a formal transition period. More widely, regulatory and governance reform, in train since the global financial crisis and the subsequent Euro crisis, continues, but there are still important gaps, not least in the proposed European banking union, and overall there are doubts that the world’s financial system is safer or better governed now than before the crises. More widely still, artificial intelligence (AI) and big data are prognosticated to restructure or eliminate many of the jobs we all now hold, thus bringing about different societal relations from what we have experienced. In each of these areas there are aspects of political, industry, or technology capture, serving together to provide a picture of inevitability. But each of these areas have a critical political economy dimension. PEFM continues to seek to provide this dimension; work in each of these areas could easily merit a complete programme on its own. In this period of transition and uncertainty PEFM has a distinct role improving understanding and influencing the outcomes on these issues that will affect us all.

Charles Enoch

PEFM’s vision

The overarching purpose of the Political Economy of Financial Markets (PEFM) programme has been (and will remain) to help improve the institutional design of policy frameworks affecting financial markets, toward supporting sustainable and crisis-free growth around the world. The programme is fundamentally devoted to understanding the interaction between official policies and financial market behaviour, including how incentives affecting the financial sector could be better coordinated in the future. The scope of the ‘official policies’ reviewed under the programme, however, goes well beyond the design of regulatory frameworks and of financial supervision. The purview of PEFM must meanwhile be adaptive to ongoing political and economic developments in order to better understand their implications for the political economy of financial markets. The goal of PEFM is not to compile a cookbook of static policy recipes. In a world of adaptive and interactive financial markets, that would not be realistic. Rather, the aim is to bring together a community of experts from different academic disciplines, and from official and private market institutions, so that their complementary research efforts and discussions can help develop and promulgate new policy insights. The aim is for PEFM to grow into an internationally recognized go-to place in Oxford for policy-related work on the financial system.
People at PEFM

In 2016-17, PEFM Oxford was pleased to welcome Emily Jones as an Associate.

Emily Jones

Dr Emily Jones is Director of the Global Economic Governance Programme, an Associate Professor at the Blavatnik School of Government, and a Fellow of University College. She is also the academic coordinator of the Oxford-Princeton Global Leaders Fellowship Programme, which provides exceptional early career researchers with a unique opportunity to work on global governance and the role of developing and emerging countries in the world political economy. Her research examines government practices in asymmetric negotiations in the global economy. She investigates the ways in which small developing countries exert influence even in highly asymmetric negotiations. She holds a DPhil in International Political Economy from the University of Oxford, and an MSc (distinction) in Development Economics from the School of African and Oriental Studies, University of London, and a first class BA in Philosophy, Politics and Economics from the University of Oxford.

In addition, and in order to foster our links with the student community, PEFM Oxford welcomes two Student Ambassadors, Timon Dreyer and Jonas Richter.

Timon Dreyer

Timon is reading for an MPhil in Economics at the University of Oxford. For his thesis, he assembles an intermediation cost measure for a panel of European economies in order to study efficiency in the finance sector. Before studying in Oxford, Timon received a BSc in Economics from University of Bonn.

Jonas Richter

Jonas is reading for a MPhil in Development Studies at Oxford’s Department of International Development. His research focuses on taxation and development, in particular the way in which tax incentives can be used to formalise the informal economy. Prior to coming to the University of Oxford, he graduated with a BA Hons in Business Studies and Economics from the University of Stirling.

PEFM’s first five years

This newsletter covering the academic year of 2016/17 marks the end of PEFM’s originally envisaged time horizon of five years. PEFM was established (and directed until his death in 2014) by the late Max Watson in November 2012 in order to learn the lessons of the Great Financial Crisis of 2008. Under the stewardship of Professor David Vines and Adam Bennett from 2014 through 2017, PEFM’s ongoing analysis of financial markets has reflected the unresolved tensions in the Eurozone, the near break-up of the United Kingdom in 2014 (with echoes now being felt in Spain), the ending of Britain’s successful coalition government in 2015 and the subsequent (paradoxical) slide into political disequilibrium, the epochal Brexit referendum of 2016, the rise of populism in Europe and America and the pushback against globalization, and most recently the threat of nuclear war in Asia on a world stage seemingly dominated by madmen. In the coming year, with Charles Enoch as the new Director, PEFM will be formulating its strategy for the next five years—subject to funding. PEFM’s core will remain focussed on the reform of financial markets, but could also include analyses of (i) evolving stresses, such as the recent global wave of populism and pressure for protectionism, and the effects of innovation (including robotic displacement of workers in both industry and finance), (ii) financial sector development goals and trends in emerging markets and low-income countries, (iii) the future of finance and the political economy of Europe, and (iv) the financial market consequences of longer term economic, political and demographic trends. As ever, of course, it will be “events” (in the sense of Harold Macmillan) that will focus people’s minds in these discussions.
Highlights of PEFM events in 2016-17

PEFM’s seminars had four inter-connected themes: financial sector reform since the global and European crises; ethics and finance; implications of the Brexit referendum; and the global economy, present and future. Please see the PEFM Oxford website for blogs and podcasts of all our events: https://www.sant.ox.ac.uk/research-centres/political-economy-financial-markets

Regulatory and institutional reforms in the financial sector since the global and European crises

The stated goal of establishing the European Banking Union was to “break the vicious circle between banks and sovereigns”. Christos GortsoS (University of Athens) took stock of how far this has been accomplished. He focused on key asymmetries in the three main pillars: the Single Supervisory Mechanism, the Single Resolution Mechanism, and the prospective European Deposit Insurance Scheme. Rules are increasingly set at a European level whilst implementation remains largely national; this leads to continuing tensions. The agenda thus remains unfinished.

Joanne Kellerman (Single Resolution Board) observed that after the crisis the EU sought to overhaul the structure of financial supervision. Amongst the newly-created institutions, the main goal of the SRB is to make all banks resolvable, including to maintain critical functions, limit contagion, protect depositors, and minimize the use of public funds. It also manages the joint financing arrangements to fund resolution which will gradually replace national resolution funds. Ms Kellerman concluded that financial stability and market discipline are not mutually conflicting – provided a resolution framework that is both feasible and state aid compliant is in place.

Iannis Mourmouras (Deputy Governor of Bank of Greece) analyzed the unconventional monetary policies introduced by the ECB: negative interest rates, QE programs, and forward guidance. Such policies have gradually worked, but come with significant risks. They can lead to excessive risk-taking and provide a disincentive for government reforms. Negative interest rates affect bank profitability, while insurance and pension funds struggle to meet long-term obligations. Meanwhile, QE removes some of the safe assets required for regulatory compliance, and dominance of other policies over monetary policy challenges the mandate of independent central banks. Key issues now concern the challenges of exit.

Andrew Wong (Stanford University/GIC) provided a perspective from his experience in a hedge fund and devising alternative investments to chart a history of the financial markets from a markets rather than, as conventional, from a regulatory standpoint during the financial crisis.

Charles Goodhart (LSE) took a long-term view on the changing roles of central banks, arguing that central banking has alternated between periods of consensus and uncertainty. The global financial crisis (GFC) of 2008, followed by sub-target inflation and low growth, ended the earlier policy consensus. Today central banks have a broader focus that includes financial stability, employ many instruments, and find their independence at risk. And future trends, including demography, likely mean they should expect a much more difficult future.
Finance and ethics

Alan Morrison (Said Business School) and John Thanassoulis (Oxford Man Institute) presented an elaborate model of cultural assimilation in a professional services firm, incorporating alternative behavioral assumptions. The model generates some counter-intuitive results, such as that an ethical owner-manager can result in an unethical company, and that financial advisors selling services to sophisticated customers will on average have a lower bonus to fixed pay ratio than those selling to unsophisticated customers.

John Mellor (University of Leicester) argued that the quality of bank governance is directly shaped by a bank’s culture, which in turn is defined by the objective that the bank sets itself. He used case studies of Nationwide, Rothschild, and Barclays, to illustrate the determinants of high and poor quality bank governance. Mr. Mellor called for a review of the legal, institutional and regulatory architecture underpinning the governance and purpose of banks. Examining the impact of ownership structure and bank purpose on culture and governance could highlight the impact on bank conduct.

Mark Yallop (FICC Markets Standards Board) identified some perennial problems with financial markets and advocated a standards-led approach to rebuilding trust. Market participants needed to be able to take responsibility for fixing problems and be provided with granular and public rules for how to prevent issues from recurring. The FICC Markets Standards Board (FMSB) aims to do this through the publication of agreed-upon standards. Its Board is practitioner-led, and has identified 70 activities on which to establish standards. Mr. Yallop warned that, if the FMSB does not develop effective standards, regulators will step in.

Gordon Menzies (University of Technology, Sydney) presented research on restoring trust in banking, arguing that greater competition alone cannot increase public trust. For competition to drive down prices and improve the quality of services, badly performing firms must be allowed to fail. Yet banks are protected from failure. Banks therefore must rely on shaping the motivations of bankers, invest in ethics education and professionalism, and encourage the internalization of moral guidelines that stress the impact of actions on a range of stakeholders. Ethical reform is difficult, but likely benefits substantial.
The aftermath of the Brexit referendum and the future of European integration

Anatole Kaletsky (Gavekal) saw limited evidence of globalization driving Brexit voting patterns, since supporters of Brexit had slightly higher incomes than average and were to a large extent outside the labour force. Instead, the vote was an example of a gradually spreading conflict between the generations.

To preserve the UK’s economic performance would require massive devaluation, which meant significant losses in real incomes. Current expectations of ‘soft’ Brexit are unrealistic as they amount to accepting the costs of membership while losing the benefits. With ‘hard Brexit’ as the only option, it was possible that UK might end up choosing to ‘remain’.

Today these elites find themselves constrained by distrust. A Bundesbank study has found no empirical evidence of real convergence due to EU membership, including through the structural funds. This suggests the accession process might not have worked as hoped.

Peter Sanfrey (EBRD) presented research on the impact of Brexit on the western Balkans. If Brexit leads to less interest in enlargement, this will lead to a slowdown in reforms, with a negative impact on growth. Also, Brexit could threaten funding for accession. Dr Sanfrey presented empirical results from a GVAR model. Under a ‘hard Brexit’ scenario, the region suffers from indirect effects through Eurozone financial linkages, and also a hit on its propensity to reform. The model estimates the cumulative cost at 5-6% of GDP by 2021 for countries in the region.

Anatole Kaletsky (right) with Adam Bennett

Russell Kincaid (formerly IMF) argued that US policymakers see a number of structural problems plaguing the EU and believed they could better be addressed with the UK inside the Union. Brexit will not provide solutions; instead, the resulting complex negotiations risk turning into a powerful distraction. EU integration has mostly been elite-led, suffering from a democratic deficit.

Lord Jay of Ewelme (House of Lords EU Select Committee), Kalypso Nicolaïdis (St Antony’s College) and Cathryn Costello (St Antony’s College) spoke about the implications of Brexit on Ireland. This seminar had an overflow crowd in attendance.

Lord Jay saw a risk that Brexit might bring into question the remarkable progress in the peace process in Northern Ireland. In particular, should the UK leave the Customs Union some kind of controls along the border becomes very hard to avoid. This is serious, and a return to violence cannot be discounted. Lord Jay also highlighted the economic consequences for Northern Ireland. Agriculture is highly dependent on EU money, and such subsidies are unlikely to be fully replaced by UK funding.

Kalypso Nicolaïdis noted that Brexit could provide a significant hit to Irish GDP. As Ireland has the most to lose from Brexit, it should be given commensurate influence in discussions in Brussels. Prof. Costello agreed, but noted that when the British appear ready to throw everything away and leave, it is very hard for Ireland to play the role of honest broker.

In discussion it was considered whether to send a message to government saying a consensus of the meeting was that any Brexit would have to include continuing membership of the Customs Union.

Francisco Torres (LSE) introduced the book to an Oxford audience at a PEFM seminar in December 2017. In his presentation, he outlined the contributing authors’ case for urgent institutional reforms in the European monetary union. Torres said the book is based on a broadly consensual narrative of the Eurozone crisis.

The edited volume Governance of the European Monetary Union, published by Routledge in 2016, is dedicated to the memory of Max Watson, honouring his scholarship, policy-making and commitment to interdisciplinary research and cross-disciplinary conversation. That commitment to reaching across disciplines and forging common understanding seems particularly necessary in these fraught and challenging times for Europe.

Theft of the European Monetary Union
Edited by Francisco Torres and Max Watson

Published by Routledge 2016
Carlo Cottarelli’s book “What We Owe—Truths, Myths, and Lies about Public Debt” formed the basis of his talk on the problems and solutions on public debt in advanced countries. He outlined two reasons for concern. First, high public debt raises the risk of a rollover crisis. Second, it lowers long-term GDP growth. Econometric evidence suggests that increasing debt by 60 percentage points of GDP leads to a reduction in per capita GDP of over 10% in 10 years. Orthodox measures—structural measures and moderate austerity—are the way forward. Measures should be adopted before interest rates rise and countries feel the full weight of their public debt.

Oya Celesun (IMF) presented the recently-completed IMF forecast. Structural impediments continue to hold back a stronger recovery. With persistent structural problems—including low productivity growth and high inequality—pressures for inward-looking policies are increasing, threatening the cooperative global economic order that has served the world economy well. Policies should aim to support demand and repair balance sheets; boost productivity, labor supply, and investment through structural reforms and supply-friendly fiscal measures; upgrade the public infrastructure; and support those displaced by structural transformations such as technological change and globalization.

Poul Thomsen (IMF) focused on programme ownership. Greece has had ten finance ministers, and the second IMF program was off-track almost 80% of the time. Progress eroded as there was no broad coalition in support of the measures. This led to confidence shocks, hence spiking government bond yields, deposit outflows, and a collapse of investment that battered output. A focus on fiscal adjustment was inevitable. The windfall from euro adoption was used entirely for fiscal relaxation. Greece hiked wages and pensions. The proposed fiscal adjustment in 2010 was ambitious but not unprecedented, and the IMF and the EU provided extremely high levels of financial assistance. However, the fiscal adjustment came at the expense of capital spending that is crucial for growth. Also, a relatively generous pension system had become unsustainable: Greece needs to transfer annually 11% of GDP to cover funding gaps, compared to an EU average of 2.5%. Reforms to the tax and pension systems would allow the return of capital spending and a more growth-friendly stance. The speakers examined whether IMF conditionality inadvertently strengthened illiberal currents.

Merih Angin (Blavatnik School of Government, Oxford), argued that the Justice and Development Party (AKP) used Turkey’s 2005 IMF programme promising the privatization of the four largest state enterprises to depoliticize the transformation of labor relations. Saliha Metinsoy (Wadham College, Oxford) focused on the effects in Greece of the opening of labor markets on immobile workers, leading to large-scale protests. Alex Kentikelenis (Trinity College, Oxford) argued that optimistic assumptions over fiscal multipliers hit the Greek health system hard, contributing to the emergence of parties opposed to liberal principles. But local dynamics may be different from national. His study of the Parama Neighborhood showed a liberal backlash by local residents opposed to illiberal forces.

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Carlo Cottarelli’s book “What We Owe—Truths, Myths, and Lies about Public Debt” formed the basis of his talk on the problems and solutions on public debt in advanced countries. He outlined two reasons for concern. First, high public debt raises the risk of a rollover crisis. Second, it lowers long-term GDP growth. Econometric evidence suggests that increasing debt by 60 percentage points of GDP leads to a reduction in per capita GDP of over 10% in 10 years. Orthodox measures—structural measures and moderate austerity—are the way forward. Measures should be adopted before interest rates rise and countries feel the full weight of their public debt.

Oya Celesun with Charles Enoch

Poul Thomsen

Merih Angin, Alex Kentikelenis, Saliha Metinsoy and Charles Enoch

Poul Thomsen

Merih Angin

Oya Celesun

Carlo Cottarelli

Paul Gretton (Australia) spoke on ‘Bilateral and regional trade agreements: a case for economic reform’. As global
Crucially, this happens without the need to disclose costs. The problems are accentuated by limited competition. Just four banks run the majority of pension funds, particularly those of retail customers. Prof. Morris proposed three reforms: more effective use of competition law; greater disclosure; and establishing a state-administered fund to serve as benchmark.

In the 19th century, unskilled workers displaced skilled workers (such as the luddites). In the 20th century a ‘skills wage premium’ emerged. Today both trends are evident, leading to more employment at the bottom and very top of the skill distribution, but ‘hollowing out’ the semi-skilled middle classes.

The British banking sector remains highly concentrated. Nevertheless, challenger banks are reshaping the landscape. Cyrus Ardalan (OakNorth Bank), formerly Barclays Vice Chairman, is Chairman of OakNorth Bank, a challenger bank specializing in financing SMEs. In addition to regulatory changes, Mr Ardalan highlighted the importance of technological shifts. OakNorth was the first British bank to use cloud computing for its core systems, allowing it to be far more agile, paying only for the IT services it requires. Atom is the “UK’s first bank built exclusively for mobile”, while Fidor is modelled in part on social media platforms.

Ron Bird (University of Technology, Sydney) studied how one could explain the existence of a multi-trillion-dollar industry—asset managers—that consistently underperforms. He cited numerous studies demonstrating that, as a group, active managers do not outperform indices, and underperform once fees are taken into account. Also, even outperforming managers do not tend to remain so for long. Active management is argued to improve the price discovery mechanism, leading to improved allocative efficiency. However, research shows no evidence of pricing in equity markets becoming more informationally efficient.

Nick Morris (University of New South Wales, Sydney) discussed his empirical work showing underperformance of Australian asset management companies. He attributed this to unresolved principal-agent problems and an overly complicated structure in which 85-90% of fund activities are outsourced over several layers.

Ron Bird

Cyrus Ardalan with Alexa Zeitz

Nick Morris

Daniel Susskind with Adam Bennett

Cyrus Ardalan with Alexa Zeitz

Ron Bird

Daniel Susskind (Balliol, Oxford) argued that technology allows machines to perform tasks very differently from humans, especially relying on databases and pattern-recognition technologies. With ‘advanced capital’ eroding the value of labour, the capital share of income is likely to increase further. Inequality is likely to rise absent countervailing changes in taxation.

Read online at https://goo.gl/G6z7Kn

P.E.F.M. Oxford
An interview with Charles Enoch

Charles Enoch is since September 2017 Director of the Political Economy of Financial Markets programme and an Associate of SEESOX at the European Studies Centre at St Antony’s College, Oxford. Prior to joining St Antony’s, he worked for over 20 years for the International Monetary Fund (IMF), mainly in the IMF’s monetary department. His work covered over 80 countries in all regions; his last assignments were in the Western Hemisphere Department. Charles was actively involved in addressing various banking crises during his time there, including in particular in Bulgaria and Indonesia. He led the IMF’s first Financial Sector Assessment Programme for the European Union. Before joining the Fund he was a senior Official at the Bank of England. Charles holds an MA in economics from King’s College, Cambridge, and a PhD from Princeton University.

What brought you to PEFM?
I knew Max Watson for almost 40 years, since my days at the Bank of England. We subsequently both landed up at the International Monetary Fund (IMF), and became close friends and colleagues. After Max moved to Brussels and then Oxford we stayed in touch. I attended a few PEFM seminars, and planned with Max that I would join PEFM when I left the IMF. As things transpired, the IMF asked me twice to stay on for an extra year, so I came later than originally expected. And in that period, tragically Max became sick and passed away.

How did you first get into economics?
I was originally accepted at King’s College, Cambridge to study history. After acceptance there were 10 months before starting my course, so I worked in a brewery in Germany to earn funding and then went to the US, taking a 165-dollar-for-99 days ticket on a Greyhound bus. Meeting all sorts of people across 47 states, I became alive to the big economic issues of the day. When I came back to the UK I wrote to the senior tutor asking permission to change subject, and he immediately approved. If I had been at Oxford then the change might not have been so simple, and I might still be an historian.

From Cambridge I went to Princeton. One of the pleasures of Princeton economics was that, because of the American system under which many senior public sector appointments are political, important figures of the “out” party would spend their time at universities awaiting their recall. Paul Volcker, for example, was in our seminars. My main thesis advisor, Peter Kenen, too had returned from Washington, and was briefing would-be candidates for the election ahead.

Where did you work after university?
I spent about 15 years at the Bank of England, and over 20 at the IMF. They were both to some extent academic institutions, certainly in my early years, involved in applying their economic expertise to ongoing conjunctural issues. At the Bank I worked for Christopher Dow, Kit McMahon, and Charles Goodhart, amongst others, who were all highly regarded economists. I was for a while Secretary of Dow’s Panel of Academic Consultants, which brought me into contact with many of the leading British economists of the day.

My first publication was an empirical demonstration that the IMF’s preferred measure of competitiveness, normalized unit labor costs, was better than the UK’s measures at explaining UK exports and imports. I was the main Bank representative on the Treasury-Bank committee on competitiveness, which was summarily dissolved by Mrs. Thatcher when it concluded that the rapidly- appreciating exchange rate would largely wipe out the UK manufacturing sector (mistrust of economists is nothing new!). My main claim to fame however may have been a Daily Mail front page headline one April 1: “Panic and Enoch at the Bank of England”. It warned its readers that this was not an April Fool joke, but that a team at the Bank of England (Mića Panić and myself) had estimated that if economic growth rose above a certain low level there would be substantial rises in commodity prices.

How did you get to the IMF?
I originally went to the IMF as Bank of England secondee to be the UK’s Alternate Executive Director. The UK was then still the second biggest shareholder. Just before my term was up the UK position was traded away by the UK government for a number of other desiderata, some linked to the IMF but mostly not. Three years later the IMF decided it needed a monetary department, as it realized that the “Its Mostly Fiscal” sobriquet for its acronym left important areas of policy under-addressed. They searched for people they knew, and I was asked to return on to the staff.

The monetary department has a global remit, and I had the privilege of working in over 80 countries. Some exercises were single event presentations, but some involved repeated visits, and intensive interaction at the highest levels of government.

What were some of the highlights of your time at the Fund?
Too many to fully cover here. A continual highlight was the interaction with colleagues. At the Board I sat next to Alex Kafka, a distant relative of the writer, who features in Dennis Healy’s autobiography where Healy reports his astonishment, when they met at the IMF, at Kafka’s metamorphosis from Czech student roommate at Balliol before the war to IMF Executive Director for Brazil.

My first mission was to Tanzania where we set up a framework for conducting monetary policy. Soon thereafter the IMF was asked by the Tanzanian and Zanzibari governments (Tanzania like the UK has a pan-territorial government and a government covering a part of its territory) to adjudicate as to how much of Tanzania’s import revenues and donor funds should be passed on to Zanzibar. This was critical.
at a time when ethnic violence was threatening to explode, and the massacres were occurring next door in Rwanda. The exercise involved taking small planes to visit the Prime Minister of Tanzania, surviving ministers of first independent Tanganika government, and the President of Zanzibar in the Indian Ocean island of Pemba. Importantly, it required perusal of documents of the East African Currency Board (Tanganika and Zanzibar had separately been members). We prepared a report, with a simple formula, and presented it to a joint meeting of the two cabinets. Both sides accepted it, although I am not sure it still survives.

By this time banking crises were engulfing most of the former communist countries. At one point I was in Armenia and was called from Washington that Bulgaria was about to head into banking crisis. A chartered plane was the next day taking a team to Georgia. It would head on to Armenia, to take me to Bulgaria. So I duly flew to Sofia. In the central bank an IMF/World Bank team was waiting, shortly to be joined by two ("Red Adair") bank closure experts from Arizona, fresh from handling the US S&L crisis, and bemused that Bulgaria was not like Texas. This was an unreal situation: the sun was shining, it was a national holiday and the park outside was crowded with families. The central bank staff were away, and we foreigners seemed the only ones at work and worried.

I paid several further visits to Bulgaria. The restructuring caused deep pain, and there must be a question as to whether some of it could have been avoided. Out of many images I recall an elderly senior official of Mineral Bank, one of the so-called "ailing banks", showing with pride the ancient beauty of the bank’s buildings, and the carefully-carved wooden doorways, explaining the bank’s history from before independence and how he had worked all his life as a public servant making sure that the bank would provide the needs of its customers. He must surely have been devastated by the bank’s closure shortly thereafter, and the hyper-inflation that was to grip the country. By the time the currency board was established the following year there was widespread destitution. And yet this new framework has stood the test of time, and underpinned Bulgaria’s entry into the EU and to the EU presidency in 2018.

My most intensive work was on the Indonesian banking sector, 17 visits of up to 4 weeks each, between 1998 and 2000, first arriving a week after the initial programme had failed, and a picture of Camdessus standing with arms folded watching Suharto sign Indonesia’s programme commitment had been taken as neo-colonial overlordship. The Fund’s work was deeply intrusive into the Indonesian financial sector, although welcomed by most of our counterparts, and served ultimately to end a pathological kleptocratic regime. At a key moment we were confronted by government ministers seeking a populist alternative (i.e. to expropriate the Chinese, so as to redistribute in favour of the “pribunis”), which took some effort to ward off, and could have triggered the sort of ethnic cleansing that marked the start of the Suharto regime. Towards the end of my time, we watched the students demonstrating in the streets for “reformasi”, and Indonesia achieved the relatively peaceful election of its first ever democratically chosen President. Since then, despite setbacks, the economy has been growing around 6 percent a year. More recently, I led Financial Sector Assessment Programmes (FSAPs) for a variety of countries, each with its own challenges. These included Turkey, Netherlands, Switzerland, Nigeria and the European Union. With the EU FSAP as partial background I led projects on regional financial integration, looking at the spread of African banks across their region, and at financial integration in Latin America. These integration exercises continue. I visited Brasilia in November 2017 at the invitation of Mercosur to talk on the lessons from Europe for Latin American integration.

... and so to PEFM?

Political economy of financial markets issues have been central to much of my professional life. PEFM Oxford is therefore a natural follow-on. Max Watson is much-missed and irreplaceable, but other colleagues and friends—old and new—continue the work and the excitement. I am delighted to work with David Vines and Adam Bennett, who have carried PEFM forward over the last three years. I first met David almost 40 years ago at a money study group conference in Oxford where I was making my first-ever post-university presentation, and I have interacted with Adam throughout our overlapping careers. I have been pleased to meet several other old friends too. Meanwhile, Julie Adams has been keeping the show on the road and enhancing the quality of our outputs.

The siting of PEFM in St Antony’s is highly appropriate. St Antony’s is the most international of Oxford’s colleges, full of citizens of the world, and ever-open to address the big challenges. The potential for collaborative work is immense, and is important at this difficult and somewhat bizarre time. I relish the prospect of helping take it forward.

Charles (right) with Olivier Frecaut during his time in Indonesia
BREXIT

The view from Britain and the rest of the world

Following the two successful Future of Europe conferences in 2016, held just before the referendum on Brexit, and in light of the result of that referendum, PEFM convened two Brexit-themed conferences in the Trinity Term in 2017.

The first conference was held in Oxford on May 16, and aimed to shed light on how Britain’s relationship with Europe would change in the wake of Brexit, as well as on how Britain’s connections with the rest of the world would change. Views were sought both from those in Britain, but also from other countries. Keynote speakers included Onora O’Neill, who addressed the thorny Irish implications of Brexit, and Sir Adam Roberts, who gave a tour d’horizon of the issues at stake. The first panel focussed on British perspectives on questions such as: what will (or should) become of Britain’s ties with Europe, and of migration between Britain and Europe? What does this mean for British sovereignty and for Britain’s future as a nation? The second panel broadened the debate on issues such as: Should Britain become a solitary island embracing free trade and/or new bilateral arrangements, or should it form new alliances to replace the EU? What should be Britain’s future role in the world? Finally, the concluding panel solicited the views on these questions from observers in Europe, the United States, Australia, and the developing world. It would be impossible to describe the mood of this conference as in any way optimistic. Perhaps the most upbeat prognosis was that of Sir Simon Jenkins, who judged that “Britain would muddle through somehow”, as it has always done.
The second conference was convened in collaboration with Global Strategy Forum. It was held in London at Church House on June 14 and followed by luncheon in the House of Lords. The panel, chaired by Lord Lothian, sought to gain a more detailed perspective on Brexit from Europe. The Europeans had been struggling to gain a clear idea of what Britain wanted from Brexit, and the snap election (with resulting minority government) that took place the week before the conference only muddied the waters further. Brigid Laffan (European University Institute) revisited the complex Irish question, while Marcel Fratzcher (DIW) and Jacek Rostowski (former Finance Minister of Poland) offered German and Polish perspectives on Brexit respectively. The most popular take-away from the panel was Rostowski’s Five Brexit Set Menus: (i) EU membership: Menu Gourmet, (ii) EEA (single market membership): Menu du Chef (the Chef decides), (iii) Customs Union with the EU (like Turkey): Menu du Jour (sans dessert et vin), (iv) Free Trade Agreement: this is the only one where the customer has any choice, but it is not “à la Carte”, and the discussion will be long and tedious, (v) WTO: Menu Touristique. In the event of no agreement, Britain would be told: “Toutes les tables sont réservées, Madame”. At the lunch that actually followed, where the menu was rather more agreeable than any of Rostowski’s options, Lord David Owen presented his (previously published) thesis that Britain would (re)enter the EEA by default in the absence of an agreement (on the grounds that membership of the EU did not annul this prior arrangement) and that this matter would be adjudicated by the Vienna Convention on Treaties were it to be challenged by Brussels. Lord Owen did not, however, see the EEA as anything other than a transition arrangement to a fuller Brexit in due course. If Brexit matters remained cloudy after these deliberations, at least the weather on June 14 was not, and attendees dispersed after lunch into a gloriously sunny afternoon: a small consolation as they reflected on what had been said.
PEFM Events 2016-17

Michaelsmas Term 2016

10 October Ethics and cultural assimilation in financial services
   Alan Morrison (Said Business School); John Thanassoulis (Oxford-Man Institute)
   Chair: Natalie Gold (King's College London)

17 October A pragmatic approach to reform of banking governance and culture
   John Mellor (University of Leicester)
   Chair: Adam Bennett (St Antony's, Oxford)

24 October The future of banking and the role of challenger banks
   Cyrus Ardalan (OakNorth Bank)
   Chair: Alexa Zeitz (St Antony's, Oxford)

31 October Restoring trust in finance: Competition or moral motivation?
   Gordon Menzies (University of Technology, Sydney)
   Chair: David Vines (Balliol, Oxford)

7 November European Banking Union: The unfinished agenda for a changing Europe
   Christos Gortso (Panteion University)
   Chair: Adam Bennett (St Antony's, Oxford)

9 November Brexit and its impact on the Western Balkans
   Peter Sankey (EBRD)
   Discussant: Adis Merdzanovic (St Antony's, Oxford)
   Chair: Jonathan Schelle (St Antony's, Oxford)
   In association with SEESOX

14 November Bank resolution in the European financial architecture
   Joanne Kellerman (Single Resolution Board)
   Chair: Charles Enoch (St Antony's, Oxford)

28 November Brexit - what are the options?
   Anatole Kaletsky (Gavekal; Reuters; International Herald Tribune)
   Chair: Adam Bennett (St Antony's, Oxford)

1 December Governance of the European Monetary Union
   Francisco Torres (LSE)
   Chair: Charles Enoch (St Antony's, Oxford)

1 December Brexit and the future of European Integration
   Russell Kincaid (Former IMF); Francisco Torres (LSE)
   Chair: Charles Enoch (St Antony's, Oxford)

Trinity Term 2017

27 February Emergency Liquidity Assistance: Theory and evidence
   Iannis Mourmouras (Bank of Greece)
   Chair: Charles Enoch (St Antony's, Oxford)
   In association with SEESOX

6 March Ireland and Brexit
   Michael Jay (House of Lords; Magdalen, Oxford)
   Chair: Kalypso Nicolaides (St Antony's, Oxford)
   In association with Centre for International Studies

22 March Greece and the Euro Zone: The IMF perspective
   Paul Thomsen (IMF)
   Chair: Adam Bennett (St Antony's, Oxford)
   In association with SEESOX

24 April Is the World Economy gaining momentum?
   Oya Celesun (IMF)
   Chair: Charles Enoch (St Antony's, Oxford)

1 May Facing the pensions challenge: Lessons from Australia
   Nick Morris (University of New South Wales, Sydney)
   Chair: David Vines (Balliol, Oxford)

15 May Public debt in advanced countries: problems and solutions
   Carlo Cottarelli (Fiscal Affairs Department, IMF)
   Chair: Charles Enoch (St Antony's, Oxford)

16 May BREXIT: Looking at me, looking at you (Britain and the (non-European) World)

22 May Technology and the future of the labour market
   Daniel Susskind (Balliol, Oxford)
   Chair: Adam Bennett (St Antony's, Oxford)

5 June The changing roles of Central Banks
   Charles Goodhart (LSE)
   Chair: David Vines (Balliol, Oxford)

6 June An exposé of the asset management industry
   Ron Bird (University of Technology, Sydney)
   Chair: David Vines (Balliol, Oxford)

12 June Economic and financial challenges in South East Europe
   Gent Sejko (Governor, Bank of Albania)
   Chair: Othon Anastasakis (St Antony's, Oxford)
   In association with SEESOX

14 June BREXIT: Looking at me, looking at you (Brexit Britain and Europe)
   In association with Global Strategy Forum

21 June Bilateral and regional trade agreements: A case for economic reform?
   Paul Gretton (The Australian National University)
   Chair: David Vines (Balliol, Oxford)

Hilary Term 2017

30 January Select aspects of financial engineering during the financial crisis, in retrospect
   Andrew Wong (Stanford University/GIC)
   Chair: David Vines (Balliol, Oxford)

13 February What does the FICC Standards Board do?
   Mark Yallop (FICC Markets Standards Board)
   Chair: Adam Bennett (St Antony's, Oxford)

15 February IMF conditionality and illiberalism in South East Europe
   Merih Angin (Blavatnik School of Government, University of Oxford); Alex Kentikelenis (Trinity, Oxford); Sallia Metinsoy (Wadham, Oxford)
   Chair: Charles Enoch (St Antony's, Oxford)
   In association with SEESOX

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