

Does an Aging of Mature Markets Boost Emerging Markets?

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The Important Interpretation

- The users of the markets are aging
- Following the economists' much advertised "life cycle" hypothesis, they will save less
- Therefore, the markets will decline

The tasks of Finance

- Finance, including for the moment both markets and banks, fulfils two roles
- The allocation of an existing stock of capital
- *and*
- The allocation of additions to that stock – the allocation of savings

The Conclusion?

- The inescapable conclusion seems to be that financial markets in the developed economies will decline, with the populations they currently serve
- But that is wrong

Wrong for Two Reasons

- The unimportance of location for *market* finance
- The direction of international capital flows

Banks and Markets

- Some countries have market based finance, others bank based
- To an extent that is a product of a particular history
- But the two systems fulfil different roles
- These follow from the importance of information

Information

- Banks can use private information in investment decisions
- Markets basically make use of public information- it has to be public to sell securities (except in irrational booms!)

An immediate implication

- *If* new firms grow in markets with expanding populations, then *banks* will have to be there to do business
- but
- *Markets* do not need to be close to users of funds
- For markets location is partly history (example of UK stock exchange) and partly regulation (the same example again!)

What of Markets?

- The current direction of investment flows is important for this issue
- Funds flowing from developing to developed economies
- Why?

Two main reasons

- Time preference
- The rule of law

What about Banks?

- A basic point here is that there are three broad types of bank
- International Commercial Banks
- Domestic Commercial Banks
- The Others
- They will not all be affected in the same way.

Banks

- Will have to move, adapt, and face changing regulation
- Will also need to develop new products for different populations

Markets

- So long as markets remain well functioning and sensibly regulated, they can do their business regardless of where their customers are
- They will have to continue adapting and developing products
- If they do that, mature markets will survive and prosper

Therefore

- An aging of Mature Markets Need not Boost Emerging Markets