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"People believe certain stories because everyone important tells them, and people tell those stories because everyone important believes them".
Paul Krugman[1]

By the end of the 20th century, emerging markets had become the new El Dorado of international finance. Their emergence was certainly not new. In fact, most Latin American stocks exchanges date from the end of the previous century. However, Wall Street and the City's (re)discovery of emerging-market gold mines has been at the origin of one of the most incredible gold rushes of the late 20th century.

While this story is clearly about numbers, abstract amounts of money flows, it also concerns actors and institutions, a myriad of analysts, strategists, and fund managers involved, during the last decade, in a series of financial booms and crises, from Latin America to Asia and Russia. Although, markets are made of techniques, daily transactions and huge volumes, they remain social constructs. A proper analysis of financial dynamics requires a departure from the tenacious idea that financial emerging markets, whether efficient or deficient, are not neutral and abstract homogeneous entities that adjust themselves automatically to financial information and economic variations. Their temporalities are made of sudden accelerations and ephemeral torpors. Some have short-term trading horizons, others take long-term perspectives more into account. They make noise and, because of relevant statistical information, are less transparent and reliable. Emerging markets are more sensitive to this chatter than any other financial markets. Fears, manias and panics are, then, major drivers of booms and slumps.

1. Quoted from Krugman, Paul "Dutch Tulips and Emerging Markets", *Foreign Affairs*, 74 (4), 1995. P. 28-44.

The political economy of financial crises is thus tinged with economic sociology and financial behavior. It follows a necessary deviation that could also be considered a return, or a "journey", as Hirschman would say. So the far-off origins of a science whose founding fathers, like Adam Smith, were fascinated with theorizing about not only the wealth of nations but also with the moral sentiments of economic actors, in the present case, means dealing with market sentiments, anticipations and perceptions. Even though an analysis of interests has since largely made strides over an analysis of passions, certain tenacious economists continue to occupy themselves with actors that they refuse to reduce to "rational fools" as inferred by Amartya Sen, the Nobel Prize winner in the discipline[2].

Financial markets are neither the tyrants nor the magicians nor even the omnipotent short-termists that critics frequently depict. Their temporal horizons vary according to profession, product and the constraints and resources that restrain or enlarge the horizons of very different actors. Going beyond diabolization of financial markets in the person of George Soros, recent financial crises have shown how timely a study of the socio-economic aspects of markets is, and how important it is to analyze the analysts in order to have a better understanding of financial dynamics in emerging markets. Behind the power of the market hides a myriad of actors, analysts, strategists, economists, traders and fund managers whose asset management styles and temporal horizons vary from one institution to another and even within the same investment bank or the same pension fund. In short, they constitute a veritable epistemic community which shares a set of cognitive maps and also differs in many ways, involved in a world of high speed temporal bubbles, with its own dynamics and rhythms, and windows of opportunities and walls of constraints.

In order to understand financial crises in emerging markets, it is necessary to know how financial markets think, to analyze their cognitive

2. See Sen, Amartya "Rational fools: a critique of the behavioural foundations of economic theory". *Philosophy and Public Affairs*. Vol. 6. No. 4, 1977. P. 317-344.

regimes and temporal horizons. This requires analyzing information games and the resulting web of anticipations which link operators. It also requires questioning the cognitive regimes and temporal frameworks shared by traders, investors and other analysts whose anticipations contribute to making or breaking market prices. To proceed into the black box, or to *analyze the analysts*, also means to learn more about the way the market itself is organized, with their market markers, five all-star analysts and institutions, hierarchies and connections. This deconstructive exercise is also an attempt to cross disciplinary boundaries, an invitation to trespassing from economics to politics, and vice-versa, from international political economy to economic history and economic sociology, and beyond.

Implicit Handshakes and Explicit Strangulations: A Socio-Economic Approach to Emerging Markets

Financial markets do not establish the reign of the invisible hand, but rather the reign of implicit handshakes and, from time to time, explicit strangulations, as with the corrections made to the detriment of Mexico, Korea, Russia, Brazil and many other developing countries during the past decade. The aim of this essay is precisely to contribute to unraveling some of the various strands in the tapestry woven of the interactions of those who make the market. It is not embroidered by the invisible hand of God, or the devil, but more simply by the unceasing expectations and interactions of a myriad of analysts and investors who draw their breath from Wall Street[3].

3. For a general study on the financial community of Wall Street, see the socio-economic approach analyses of Mitchel Abolafia, *Making Markets: Opportunities and Restraint on Wall Street*, Cambridge, Mass., Harvard University Press, 1997. Abolafia's approach is a socio-economic analysis in the tradition of Max Weber, who wrote essays on the stock market as well on the ethic of capitalism. The Bibliothèque du Citoyen translated both into French in 1894-1896. See Weber, Max *La Bourse*, Paris, Transition, 1999. See also, more specifically on emerging markets, Santiso, Javier *The Political Economy of Emerging Markets: Actors, Institutions and Financial Crises in Latin America*, New York and London, Palgrave, 2003.

Understanding international financial (dis)orders means taking into account what is going on inside the black box, analyzing actors and institutions, their investment behaviours and cognitive regimes. However, until recently, neither sociologists nor economists had entered the black box, the former because of some ideological aversions regarding markets (and financial markets are in a way the ultimate devil), and the latter because it is impossible to formalize socio- and information economic games. Yet, increasingly, scholars are paying more attention to the behaviour of actors and market sentiments. Recent works in economic sociology, cultural anthropology and international political economy have contributed to new understandings of finance. Economists, too, have changed their way of looking at financial crises. One of the most remarkable traits of the literature on financial crises has been the gradual displacement of its center of gravity.[4] Works centered on the economic fundamentals of the crises evolved into a second generation of models that insisted on the sensitivity of economic fundamentals to changes in the anticipations of financial actors.[5] In other words, the literature has become increasingly interested in the "sentiments of the market," the mimetic rationality of actors, asymmetries and cascades of information and the influence of self-fulfilling prophecies, self-realizing prophetic mechanisms

4. See for example the developments in economic sociology and approaches to finance issues stimulated by *The Social Studies of Finance Workshop* held at the Paris School of Mines, April 20-21, 2000 (http://www.ssfn.org/events_9903.htm) and *The Society for the Advancement of Socio-Economics, SASE* (http://www.sase.org), which enlarged the leading and seminal works of Mark Granovetter, "Economic Action and Social Structure: The Problem of Embeddedness", *American Journal of Sociology.* Vol. 91, 1985. P. 481-510; and Mark Granovetter, *Society and Economy: The Social Construction of Economic Institutions*, Cambridge, Mass., Harvard University Press, 2001.
5. The first models of balance of payments crisis were based on the seminal paper of Paul Krugman, "A Model of Balance-of-Payments Crisis", *Journal of Money, Credit and Banking*. No. 11, 1979. P. 311-325; the "second generation models" pioneered by Maurice Obtsfeld, "Rational and Self-fulfilling Balance of Payments Crises ", *American Economic Review,* March 1986. P. 72-81. For a discussion see Krugman, Paul "Are Currency Crises Self-Fulfilling?", *NBER Macroeconomics Annual*, Cambridge, Mass., MIT Press, 1996. P. 345-378.

and the diffusion of "noise" and "herding behaviours" which affect financial markets. In short, the literature is focusing more and more on the behaviour of financial actors and their anticipations and reactions to information and signals that are not only emitted by the economic fundamentals but also by other actors involved in the game themselves.

One of the most stimulating developments in the literature are on behavioural finance and prospect theory. Developed by psychologists and economists such as Kahneman, Tversky and Thaler, this theory tries to explain anomalies by focusing on human behaviour toward risk[6]. Financial markets are no longer abstract numbers but are also concrete actors, with their bounded rationalities, irrational exuberance or rational herding behaviours. They live in a world of forecasts and are forward-minded, trying to foresee, predict or anticipate booms and slumps, manage risks and returns.[7] Some players are more risk-averse or risk-seekers than others. The risk-aversion or risk-taking behaviour of the same actors can also change with contexts and settings. The prospect theory points out, for example, that when choice involves losses, investors are risk seekers not risk averse[8]. They can be "overconfident" about their abilities and then have a propensity to take risks and to make

6. For a concise review of this literature, see Shiller, Robert "Human Behavior and the Efficiency of the Financial System", *National Bureau of Economic Research Working Paper*. No. 6375 (January 1998); and Shiller, Robert *Irrational Exuberance*, Princeton, Princeton University Press, 2000. The attraction of behavioural finance has not only been academic: in 2000, an estimate suggested that more than USD 70 billion was invested in the US only using behavioural finance theories. Chicago economist Richard Thaler himself (with Russ Fuller) founded an asset management company making investments based on these heuristic discoveries. See http://www.fullerthaler.com
7. Financial actors live in a forward-looking world whose pretension of mastering risk follows a long tradition, as shown by Peter Berstein, *Against the Gods. The Remarkable History of Risk*, New York, John Wiley & Sons, 1996.
8. For seminal papers in prospect theory, see Kahneman, Daniel and Tversky, Amos "Prospect Theory: An Analysis of Decision Under Risk", *Econometrica*, 47 (2) (1979). P. 263-291; Kahneman, Daniel and Tversky, Amos "Loss Aversion and Riskless Choice. A Reference Dependent Model", *Quarterly Journal of Economics*. No. 106, 1991. P. 1039-1061; and Thaler, Richard *Advances in Behavioral Finance*, New York, Russell Sage Foundation, 1993.

investing mistakes such as focusing attention on stocks they believe will be doing well. But their investment process can also be a learning process, with trial and error (if they have enough time to keep their job). They can have a "fear of regret" - feeling regret about a bad investment decision made - they will tend to avoid it and hold bad stocks for too long, postponing a revision of their views. They can be subject to conflicts, "cognitive dissonance," when they are faced with evidence that one of their core beliefs is wrong.

Emerging markets are also worlds with their own rituals, beliefs and symbols, worlds that are mainly dynamic, with actors' cognitive maps changing with environments, agendas and career perspectives. Encounters between anthropology and economy can lead to stimulating understandings that underscore the diversity of actors, as we are not talking about a homogeneous world. This is true even, for example, if we take a professional category such as pension fund managers. Each one has his own colourful story, cultural trajectory, written rules and hidden ones that can be regarded as a belief and tribal system, with sophisticated myths, cultural codes and tribal hierarchies.[9] Other interesting works focus on institutions and conflicts of interest. A line of research focused on the reactions of financial operators to risk analyses diffused by rating agencies and brokerage firms. These works have proven the existence of market failures and institutional biases such as the rating agency's rigidity in downgrading a country (that also happens to be a client). Others underline the extent to which brokerage firms can be torn by conflicts of interest, subjugated to a double obligation to offer the best services to their clients as well as to sell the stocks these firms underwrite[10].

9. See, for example, the anthropological works of Ellen Hertz on the Shanghai Stock Exchange, Hertz, Ellen *The Trading Crowd*: *An Ethnography of the Shanghai Stock Market,* Cambridge: Cambridge University Press, 1998.

Therefore, financial markets can be understood more as a place of belief than of memory, where games of affluence and influence are played out. In the midst of an unceasing bombardment of information, traders, investors and analysts must react in real time. In addition to rating agencies (Moody's, Standard & Poor's, Fitch Ibca), large international organizations (IMF, World Bank, IADB), international newspapers (*Financial Times*, *Wall Street Journal*, *The Economist*), central banks, finance ministers, and private economic country-risk companies (Institute of International Finance, Economist Intelligence Unit, Business Monitor) are among the actors that accumulate and diffuse information and contribute to forming the configuration of the main points of reference of traders, analysts, money managers and other market makers. In this avalanche of news produced in the world each year, one that increases at approximately five *exabytes* (estimated in 2004), the equivalent of around two times 20 billion copies of *The Economist*[11], financial operators have powerful filters. In the world of finance, agencies of financial information such as Bloomberg (created in 1984 by a former Salomon Brothers trader) and Reuters (founded in 1851 by Paul Julius Reuter) are major actors, veritable market makers, that configure the reference points for thousands

10. Womack's research, for example, shows that the stocks recommended by underwriters perform poorly when compared with the "buy" recommendations of unaffiliated brokers, thus proving the importance of conflicts of interest and the biases they occasionally introduce into the recommendations made by brokerage, with most fund managers being aware of these conflicts and dealing with them when they read brokerage research, "paying as much attention to what it is written as by whom and when" "because it's part of the confidence game." Interviews with emerging markets fund managers, London, June 22nd 2000 and Paris, June 8th 2000. See Womack, Kent "Do Brokerage Analysts' Recommendations Have Investment Value?", *The Journal of Finance*. Vol. 51. No. 1, 1996. P. 137-167.
11. The figure calculated by a group of Berkeley researchers also includes around 610 billion e-mails which are sent each year in America alone (e-mail is used a great deal by analysts and fund managers as a way of diffusing or receiving research in the quickest way). See Lyman, Peter and Varian, Hal "How Much Information ?", *University of Berkeley Working Paper*, 2000 (unpublished), available through the net: http://www.sims.berkeley.edu/how-much-info/

of operators. Their non-stop information literally flows, establishing the rhythm of the lives of brokers, traders and investors who calculate their anticipations and reactions partly on results posted by promoters of these agencies that channelled the information.

Whether it be the quarterly reports of companies or the public accounts of governments, each piece of information is awaited by a myriad of operators who are unceasingly fed information that must be treated as quickly as possible, and, occasionally, in a matter of seconds when panic movements begin to set in. The central desk of the Reuters agency alone furnishes as many as 25 dispatches per minute and 27,000 pages of data per second. In less than a half an hour, the equivalent of a daily newspaper is dispatched to more than 362,000 computer terminals located across the globe[12]. In the field of emerging markets, and the Latin American market in particular, each operator follows the macro-economic indicators of each country, awaiting the arrival of statistics at regular intervals. Thus, every bank has a daily calendar of events at its disposal. In the case of Goldman and Sachs, for example, for the first 15 days of February 1997, no less than 30 economic and political events concerning the emerging markets of Latin America were recorded[13]. The dissemination and availability of economic information increased dramatically with the development of digital technologies and the improvements made by emerging markets' governments to supply timely information to markets. The case of Mexico is striking, from this point, with the Mexican government offering an impressive density of released information as shown by the following calendar provided by the state statistical agency.

(See Table 1: 2001 Mexican Macroeconomic Calendar)

12. With more than 15,000 employees and over 2,000 journalists in 92 different countries, this agency possesses the second most important satellite network in the world, just after the Pentagon. Its story also deserves mention.
13. See "Calendar of Events", *Emerging Debt Markets Biweekly*, New York, Goldman & Sachs, Economic Research Department, February 4th, 1997. P. 25.

Information and rumours, interconnected in continuous flows, are disseminated at high speeds, generating mimetic comportments where to imitate "the other" becomes imperative to staying in the game. Dynamics of self-validating mimetic contagion, often disconnected from the fundamental facts, thus develop. They make the collective opinion of participants as determinant as the anticipation of future revenues in charting the course of stocks. For André Orléan, one of the economists to have pushed this type of analysis the farthest, understanding contagion movements requires an analysis of the strategic interactions which form and disappear between different actors operating on financial markets. He aims to uncover the sociological dynamics of financial markets by integrating interpersonal influences into his analysis, by understanding the game of cross anticipations between different actors at time "t" and also their future beliefs about the market at time "t+1". Financial bubbles are not simply mathematical artifacts but are also rational mimetic bubbles. In order to make them intelligible it is equally important to understand the impact of market interactions. In such a way, a fall in prices during a financial crisis, such as that of October 1987, is self-reinforcing, containing an endogenous dynamic founded on the interaction between participants.[14] Furthermore, actors develop mimetic strategies because there is a certain risk in distancing oneself from average opinion. Actors give in to conjecture on the behaviour of other operators, integrating not only new information into their anticipations, but also beliefs about the reactions that such anticipations will arouse in the behaviour of other agents[15].

Financial markets do not consecrate the exclusive reigns of single-minded calculators closing in on themselves. On the contrary, they

14. For an empirical analysis of this crisis, based on a large survey and nearly 900 responses analyzed, see Shiller, Robert *Market Volatility*, Cambridge, Mass, MIT Press, 1991.
15. See Orléan, André *Le pouvoir de la finance*, Paris, Editions Odile Jacob, 1999.

constitute an open world in which the speed imperative is primary and where anticipations are made and unmade at high speeds, operating via a wise dose of calculation and opinion. One must know how to profit from windows of opportunity, which open and close at high speeds, more rapidly and durably than competitors, especially when one is faced with the instability of emerging markets.

The Confidence Game: The Only Game in Town

At the very heart of financial transactions lies the question of confidence. Economists, from Smith to Coase, have underlined the importance of confidence, whether it be to explain the wealth of nations or the birth and death of firms. More recently, Paul Krugman highlighted the importance of contemporary games of confidence and trust at the center of financial turbulences. Because of their dependence on international capital flows and lack of financial savings and development needs, the game for emerging market policy makers consists of maintaining low-risk premiums. In other words it consists of maintaining investors' confidence in their countries' economies. But to ensure this confidence, to maintain investors' *loyalty*, and avoid their *voice* or their *exit*, it is not enough to adopt or adapt economic policies that make sense in terms of fundamentals. They must fit with the unstable *air du temps* prevailing among international financial markets.

In the international confidence game arenas, investors, strategists, and analysts have plenty of opportunities to buy or sell stocks, bonds and in the end entire countries - the so called emerging markets. Some, scared by rising risks or seeing more attractive opportunities, can simply leave the country. Others, unhappy with the policies implemented, can stop buying specific emerging markets products, stocks or bonds, using what Hirschman labelled the *exit option*. The expression of their dissatisfaction can be direct or indirect, markets

having a large range of tools and channels to protest and address their dissatisfaction, using the *voice option*, a more straightforward (and costly from a temporal point of view) option that implies involvement and, in the end, as stressed by Hirschman, a political dimension, interests articulations. In the case of financial markets, a direct measure voice is the evolution of risks premiums, narrowing or increasing spreads of emerging markets bonds over US Treasury bills, signalling not only investors' appetite or risk aversion but also their level of confidence, satisfaction or dissatisfaction.

For governments, in both cases, the task will be to restore confidence, to regain or maintain loyalty, through sound policies, accurate data, road shows or face-to-face meetings. As stressed by fund managers themselves the trend towards better investor relations and the improvement of useful and timely data released is one of the most impressive trends within the confidence game. But it can also be seen an indicator of the fierce competition among governments to attract investors, regain or maintain their loyalty[16]. Governments can take into account the voice of dissatisfied investors and improve the quality of their policy making. It can also happen that "discontented customers or members could become so harassing that their protests would at some point hinder rather than help whatever efforts at recovery are taken"[17]. One can then distinguish between *negative* and *positive* voice effects, voice options leading to sell-

16. See interviews with emerging market fund managers, New York, 8th and 10th April 2000. As pointed out by Mohamed El-Erian, "judging from the behavior of large Latin borrowers in particular, we are witnessing a sea of change in the way information is being communicated. Ad-hoc and sometime adversarial relations are giving way to regular exchanges of information via non-deal road shows, conference calls, and even e-mails." "This provides investors with better access to more timely and comprehensive information, including regular e-mails from major borrowers." Mohamed El-Erian, *PIMCO Emerging Markets Watch*, PIMCO, October 2000 (http://www.pimco.com).
17. See Hirschman, Albert *Exit, Voice and Loyalty: Responses to Decline in Firms, Organizations and States*, Cambridge, Mass., Harvard University press, 1970. P. 31.

fulfilling crises and voice options leading to policy adjustments if protesters' voices are taken into account in time. From this perspective one can then argue that in international financial markets, from the point of view of financial risk management and the prevention of crises, the most relevant option is voice, as it involves many "blessings in disguise." Perceiving and answering to the market voices is then a central governmental possible activity of the confidence game.

However, the problem in financial markets is that exit options are (nearly) always available (as capital controls are the worst possible moves of the confidence game[18]), decreasing the propensity to use voice options. In emerging markets, the lack of opportunity for exit simply does not exist. Investors always have the possibility to diversify their portfolio or, more bluntly, to put their money elsewhere. The ability and willingness of investors to take up the voice option might, then, be lower in financial markets than anywhere else precisely because of the speed of financial movements and adjustments. Their propensity to voice and then to postpone exit will be constrained by the fact that in financial markets the speed of the moves is as crucial as the timing: slower players are frequently the losers. That explains why, in financial markets, exit is a *reaction of last resort* frequently used, simply because one does not have time to wait for the failure of the voice option (this given the hypothesis that you have some incentives to use the voice option). Just as voice requires group action, it is also constrained by difficulties related to coordination and free riding, whereas exit does not require any kind of coordination with others. In financial markets the art of coordination is highly difficult, contributing to the atrophy of the development of the art of voice.

18. This does not mean that, within the game, marginal adjustments are not tolerated or even celebrated, as the Chilean example of *encaje* shows implemented in the beginning of the 1990's.

Another specificity of financial markets is that the presence of loyalty is problematic, contributing to making exit more likely than voice. In Hirschman's analyses, loyalty holds exit at bay and activates voice. It also raises the cost of exit, as loyalty means stronger attachment, intricate links and more involvement. Nothing comparable is available in the emerging market financial worlds. There is little incentive to remain loyal and at the same time no mechanism to help reinforce loyalty, nor mechanisms to bring about high penalties for exit. That does not mean that loyalist behaviours do not exist. On the contrary, to pull an investment out of a country or to break relationships with a company or a sovereign issuer can be not only painful, as it took time to build the relationship, but could take even more time afterwards to restore it.

The use and abuse of exit options is certainly a characteristic of financial markets. However here again a (relative) bias for hope can be reintroduced. Certainly exit runs can be impressive and contribute to accelerating financial crises. But if we consider that "exit is the act of simply leaving, generally because a better good or service or benefit is believed to be provided by another firm or organization," "indirectly or unintentionally exit can cause the deteriorating organization to improve its performance"[19]. Exit and crises can have "unintended consequences" and involve some "blessings in disguise" as it is argued regarding the way crises can work as accelerators of reforms or even breakdowns of regimes. Obviously reforms and breakdowns of regimes are options open even without crises[20]. But it is also true that crises create economic distortions widening the spectrum of possibilities and enabling societies to enact

19. Hirschman, Albert "Exit, voice and the fate of the German Democratic Republic", in Hirschman (ed.) *A Propensity to Self-Subversion*, Cambridge, Mass., Harvard University Press, 1995. P. 12.
20. For a discussion on the "blessings in disguise" of economic crises regarding the collapse of authoritarian regimes and democratic transition, see Haggard, Stephan and Kaufman, Robert *The Political Economy of Democratic Transitions*, Princeton, Princeton University Press, 1995.

costly reforms that would be impossible to enact at less critical junctures. The heavy costs of extremely high inflation in several Latin American countries has been a powerful element to force the adoption of stabilization plans and to avoid more delays in the adoption of fiscal adjustments[21].

Building or maintaining investor confidence becomes a much more subtle and complex exercise in which policy makers try to curb negative expectations of the "market", that is, a large number of asset managers, strategists and economists. They move money, write reports and air their views in global arenas such as the international newspapers or world conferences (or simply exit in silence, pulling their money out of the country). However, as pointed out by Krugman, the strategies followed by policy makers can lead to unintended consequences: "The need to win that confidence can actually prevent a country from following otherwise sensible policies and force it to follow what would seem perverse." "Because crises can be self-fulfilling, sound economics is not enough to gain market confidence; one must cater to the perceptions, the prejudices, the whims of the market. Or, rather one must cater to what one hopes will be the perceptions of the market"[22].

Hence the confidence game involves a democratic dilemma. Governments may be caught between choosing to implement socially-

21. See for example Alesina, Alberto and Drazen, Allan "Why are stabilizations delayed ?" and Drazen, Allan and Grilli, Vittorio "The benefit of crises for economic reforms", in Sturzenegger, Federico and Tommasi, Mariano (eds.) *The Political Economy of Reform*, Cambridge, Mass., MIT Press, 1998. P. 77-103 and p. 127-141.
22. Krugman, Paul *The Return of Depression Economics*, London, Penguin Books, 2000. P. 113. On the interactions between financial markets and governments, see Mosley, Layna *Global Capital and National Governments*, Cambridge, Cambridge University Press, 2003; and a case study focusing on Brazil, Martínez, Juan and Santiso, Javier "Financial markets and politics: the confidence game in Latin American emerging economies", *International Political Science Review*. Vol. 24, No. 3, 2003. P. 287-309.

friendly oriented policies preferred by their *local voters* (citizens) and capital-friendly measures demanded by *global voters* (investors). The art of government involves pleasing internal voters, who can exit, voice or remain loyal. But it also involves ensuring the support of global voters, who can also exit, voice and remain loyal. For them the most visible exit option is simply voting with their screens and pulling money out of the country or stopping investment. One basic rule of the confidence game is, then, to be very careful when nominating the official government voicer. Usually for investors it happens to be mainly the Secretary of Economics or Finance or the Governor of the Central Bank. He will be chosen not only for his or her political and technical abilities but also for his or abilities to play the game, i.e., to ensure market confidence and strengthen market loyalty.

By the end of Fujimori's reign, for example, in November 2000, the new Peruvian authorities were seeking to restore national and international confidence. One of the answers was naming Javier Pérez de Cuéllar (a former UN Secretary-General with strong democratic credentials) as the new Prime Minister. For the same reasons, Javier Silva, a former minister, central banker and former representative to the World Bank, International Monetary Fund and Inter-American Development Bank, was named the new finance minister. A few days later, in Mexico, the newly elected president, Vicente Fox (from the PAN, which previously had been the opposition party), appointed well-known pro-market economists from the previous two PRI governments. The most prominent figure was Francisco Gil Díaz, the new minister of finance and former deputy finance minister in Carlos Salinas' administration, who (confidence game obliged) holds a doctorate degree from the University of Chicago. Mr Gil's love of fiscal austerity, his reputation as "a tough, honest reformer and fiscal disciplinarian" (quoted from *The Economist*), were also strong signals to the market. These confidence boosters and stabilizers were coming a few weeks after impacting declarations by some of Fox's advisors (at the time known as potential finance ministers) that sent confusing signals to the

markets regarding fiscal discipline and fears of overheating. In a similar fashion, the appointment of Mr Silva in Peru responded to a legitimate need to restore confidence through an economist with extensive experience, an economist that was also very well-known by Washington international financial organizations and the Paris Club, at a moment when the country was drawing up plans to ensure Peru avoided defaulting on its debts. And remember that talking about debt in Peru is a highly sensitive issue, as the country became a financial pariah in 1985 after Alan García's declarations regarding drastic cut-offs in debt repayments.

Reforms are strategic signals towards financial markets

From this perspective, achieving liberalization policies, implementing deregulation and strengthening central bank independence, all reforms previously implemented during the 1990's, can not be seen exclusively as highways to the promised economic heavens securing support from local voters. They are also *strategic labels* bringing visibility in the large landscape of populous emerging markets. They help one country to differentiate itself from others and to compete in attracting scarce foreign investment, and to catch the attention of friendly free-market investors. They can be seen then as policy choices, delivering confidence shocks, lowering instability, and restraining uncertainty, all the things that foreign investors dream of avoiding. In a world of increasing capital mobility and exploding short-term liabilities thanks to financial liberalization, regaining or retaining confidence becomes a strategic asset for emerging countries' economic development. Without confidence one becomes exposed to capital flight, money runs. Without confidence even one's domestic investors can exit the country. They can convert their short-term assets, banks deposits, government bills, into currency and taking them out of the country.

In this perspective, Mexico's integration into the NAFTA world or the building process of MERCOSUR also correspond to signals

implemented in order to boost this confidence[23]. Free trade areas indicate not only a pro-market commitment but also give a signal regarding the search for economic stability. In the case of Mexico, NAFTA also brought the promise of linking a third world country to a first world one, boosting confidence among foreign investors. The MERCOSUR promise has also materialized with increasing capital inflows, especially foreign direct investment, that reached a stock of more than USD 100 billion in 2000 for the Brazilian MERCOSUR member. Linking economic destinies also brings the hope of locking emerging political democracies. If the net effect of democracy on growth remains uncertain and the correlations between economic development on democratic propensities is lacking in empirical evidence (even if the link seems more robust[24]), the unintended consequence of democratic transitions in the 1980's and 1990's might have been also to boost confidence and catch the attention of international investors. For investors and strategists, democracy is seen as a "positive asset" because it is perceived as "bringing more stability," "more transparency," the diffusion of "corporate governance rules into the economy being comparable to the diffusion of electoral rules into the political sphere as it increases the levels of checks and balances, brings more openness and secures the rule of law"[25].

23. For a detailed analysis of NAFTA negotiations, see Cameron, Maxwell and Tomlin, Brian (eds.) *The Making of NAFTA : How the Deal was Done*, Ithaca, Cornell University Press, 2000.
24. For analyses testing the "Lipset hypothesis" (prosperity stimulates democracy) and for analyses testing the reverse channel, that is, the impact of economic development on democratic propensity, see Rodrik, Dani "Democracies pay higher wages", *The Quarterly Journal of Economics*. Vol. 114, No. 3 (August 1999). P. 707-738; Barro, Robert "Determinants of democracy", *Journal of Political Economy*. Vol. 107. No. 6, 1999. P. 158-183; Przeworski, Adam et al., *Democracy and development: political institutions and well-being in the world, 1950-1990,* Cambridge, New York, Cambridge University Press, 2000.
25. Interviews with emerging market asset managers, Paris, November 9th 2000; London, October 17th 2000, and New York, May 8th 2000.

In the same line, during the 1990's, emerging countries experienced a wave of central bank independence to bring about more stability and avoid political interferences in monetary policies but also in order to signal creditworthiness to international investors and, in return, increased investor confidence[26]. In a world of more liquid capital flows and with increasing financial needs in middle-income developing countries, the propensity of politicians to seek creditworthiness and to give strong signals to international investors rose. With bondholders becoming more and more involved in emerging market finance, the incentives for independent central banks also increased and became one of the beloved confidence game tools used during the 1990's to secure investor loyalty.

Regarded as highly desirable by investors, central bank independence became one of the best moves within the confidence game for emerging countries looking to also signal greater stability. In Latin American countries, central banks, like other institutions, reflected this instability with quite frequent removals of governors. Apart from a few countries, like Mexico, where central banker turnover has been low, with a change every five and a half years (5,7) on average between 1935 and 2000, Latin American countries present higher turnovers. In Brazil, the central bank governor has been removed nearly every two years (1,72) between 1945 and 2000. In Argentina the turnover was even higher, with the central bank governor changing nearly every year (1,30) between 1935 and 2000.

26. As stressed by Sylvia Maxfield, international financial asset holders are supposed to be "more willing, *ceteris paribus,* to invest in countries with independent central banks for two reasons. First, investors expect central banks with discretion and authority to help keep the national economy on a stable, consistent course. Therefore central bank independence increases the extent to which investors can predict their relative returns." "Central bank independence may also increase the confidence of some international investors in a second way": "international investors may believe that their ability to influence policy is greater the more independent the central bank is from the executive branch." See Maxfield, Sylvia *Gatekeepers of Growth : The International Political Economy of Central Banking in Developing Countries*, Princeton, Princeton University Press, 1997. P. 6.

Market operators, policy makers in emerging countries and US Treasury decision makers, IMF economists, asset managers and brokers analysts all are involved in this worldwide game whose name is confidence, the only game in the global financial village. As stressed by Dani Rodrik, "bankers and currency traders study economics in typically Northern American or British universities, they read *The Economist* and the *Financial Times*, look at reports by the IMF and the World Bank, listen to academics hired as consultants, call up their friends in international organizations, and generally imbue the economics *zeitgeist* of the time. In all this, the pronouncements of the official Washington community (the IMF and the Treasury in particular) play an important anchoring role."[27] They help to shape the conventional wisdom that contributes to framing the cognitive regimes not only of market participants but also of emerging market policy-makers. They become "aware" of how they can be part of the game, which language, signals and policies trigger confidence. Or, on the contrary, which ones can lead to becoming a pariah or a renegade and be transformed into risky moves leading to risks of withdrawal of foreign (and even local) investments.

In order to preserve investors' loyalty, the IMF will demand more structural reforms and, if needed, will supply more emergency lines. The IMF international assistance packages to Mexico, Asia, Russia, Brazil, Turkey and Argentina, are the ultimate ways to restore confidence or avoid the use of more exit options (contagion effects). One of the last IMF emergency loan innovations, namely the Supplemental Reserve Facility, was created in 1997 precisely to deal with the disruptive effects of a sudden loss of market confidence. In order to gain this confidence,

27. See Rodrik, Dani "Governing the global economy: does one architectural style fit all ?", Harvard University, John F. Kennedy School of Government. P. 13, paper prepared for the *Brookings Institution Trade Policy Forum* conference on *Governing in a Global Economy*, April 15-16, 1999 (unpublished).

policy-makers from emerging countries will multiply road-shows and face-to-face interviews in the city centres of the global financial village (Wall Street and the City) and, time allowing, in the suburbs, such as Paris, Madrid, or Boston. Reuters and Bloomberg screens and international financial newspapers, like the Financial Times or the Wall Street Journal, are being transformed into arenas of the confidence game. They indicate the levels of spreads (veritable financial thermometers), in other words, the amount of confidence or distrust that investors put in, or remove from, the country.

However, States are not always the losers and Markets the winners of the game. States can sucessfully restore confidence and market loyalty. A good example is provided by Argentina when policy makers responded to the spillover effects of the Mexican devaluation of December 20th, 1994. They prevented a financial crash without abandoning the currency board system by taking an active announcement policy and sending the right signals to the markets. Among the most positive signals received by the markets was the announcement of the IMF's agreement for the dollarization of the deposits and Menem's re-election, to which stock and bond markets reacted positively[28]. One can even argue that bringing the IMF back into the game can be, for the State, not only a self-imposition of a costly straitjacket in economic and political terms but can also be viewed as a strategic move. It can boost confidence and works like an "international insurance policy" as financial markets can – in some cases – react positively to the announcement of the package as stressed by some operators after the IMF rescue packages to Argentine and Turkey in December 2000.

28. For an analysis of capital market reactions to Argentine policy announcements, see Ganapolsky, Eduardo and Schmukler, Sergio "Crisis Management in Capital Markets: The Impact of Argentine Policy During the Tequila Effect", *World Bank Economists' Forum,* 1 (April 2001). P. 3-30.

In the case of Argentina, a political crisis in October and November 2000 led to an abrupt decline in international financial markets' confidence as to Argentina's debt repayment capacities, hindering access to foreign funding. Within a few days sovereign risk increased, as measured by the evolution of Argentina spreads (that exceeded 1100 basis points over the US Treasury by early November). With the perspective of an aid package, the expected amount of which quickly climbed from USD 20 billion to more than USD 30 billion within a few weeks, sovereign risk fell back. With the announcement in December of a package of nearly twice the amount expected (USD 40 billion), markets reacted very positively. "There is no question about it, commented a fund manager, the packaging is impressive. You have had top international and national figures announcing headline figures of USD 40 billion (yes billions) in exceptional financial assistance for Argentina and over USD 10 billion for Turkey. The packaging has had its desired impact in abruptly reversing the sense of panic that had gripped Argentine and Turkish financial markets"[29]. The good news, the essential news, was that the package covered more than the anticipated 2001 Argentina financial needs. The confidence game could then proceed.

One of the key elements of this sequence was the temporal dimension of this restored confidence operation. Not only did the financial aid involve a large amount but above all it was made available very speedily. If a lesson has been learnt from the Mexican, Asia and Russian crises, it has been the temporal acceleration of rescue operations. Time and speed became strategic assets to restoring market confidence. For this purpose, one of the actors, the IMF established new tools in order prevent financial crises. For this purpose, the IMF

29. See El-Erian, Mohamed "IMF Delivers packages for the holidays", *PIMCO Emerging Markets Watch*, PIMCO (December 2000).

established in early December 1997 the so-called Supplemental Reserve Facility (SRF) to help emerging countries face abrupt and disruptive losses of market confidence. Another new facility called Contingency Credit Lines (CCL) was also set up in April 1999 designed as a precautionary line of defense. Large aid packages are then made available not more quickly but also ex-ante, the timing and the speed of the aid being as relevant as the amount itself. Note also that all these new instruments are also made available with an interest surcharge. Repayment terms for SRF and CCL are both 2-2½ years instead of 3½-5 years for the stand-by programs and 4½-10 years for the Extended Facility Fund (EFF). The general philosophy of these shortened temporal horizon measures has been to encourage early repayments. One can argue that it has also framed the confidence game within shorter temporal horizons, with the speedy and accelerated cognitive regime of the markets having been adopted (and adapted) by the States and international agencies.

In some cases, governments can enter into an IMF agreement not only because they need loans and are urged to avoid a liquidity crisis, but also because they want to pass unpopular and costly reforms. Furthermore, bringing in the Fund can be a strategic resource, a blessing in disguise, tying one hands and helping governments to ensure the vote of unpopular reforms that had been delayed because they were perceived as being too costly by domestic opposition players. A good example of this blessing in disguise of the IMF's involvement was the IMF loan for Brazil secured at the end of 1998. As with any IMF package, Brazil was expected to conduct some drastic reforms involved in a fiscal adjustment program. The measures included large cuts in overall federal expenditures and federal infrastructure projects, and also a long delayed reform of the social security system. Without these reforms, the government was expected to register a fiscal deficit in 1999. However with them it was even able to have a primary surplus. Above all, with the shadow of the IMF

conditionality and the Russian crisis looming, the Brazilian president was able to push through reforms that he had been trying to have approved for many years without success, having to face strong opposition inside the Congress and inside his own ruling coalition. Immediately after his team negotiated the IMF straitjacket, Cardoso won approval in the lower house for the pension system reform. This specific reform had been impossible to reach for many years of very slow negotiations. Thus the IMF's involvement, and the shadow of a foreign reserve crisis, acted as accelerators, speeding the pace of obstructed reforms[30], with the Brazilian government and the IMF sharing, in a sense, the burden of the political costs of unpopular adjustment policies.

The many faces of financial markets

Even on the same side of the game, the visions of the game can be strongly different. Not all the players inside the Markets behave or react in the same way. In fact, a micro-economic sociology can bring to light what is one the most relevant aspects of the confidence game - the diversity of the players. For many observers, financial operators are seen as the usual suspects of the emerging market's financial crisis, provoked by uncontrolled swirling of capital flows. Critics of capital mobility, deeply rooted in the dependency tradition, insist that financial flows can work against emerging democracies. They put under the spotlight the fact that financial investors undermine the policy range of choices and

30. See Vreeland, James *The IMF and economic development*, Cambridge, New York, Cambridge University Press, 2003; Vreeland, James "Why do governments and the IMF enter into agreements? Statistically selected cases", *International Political Science Review*, 24 (3). P. 321-343.; and Przeworski, Adam and Vreeland, James "The effect of IMF Programs on Economic Growth", *Journal of Development Economics*, 62 (2) (2000). P. 385-421.

shape the policy preferences and autonomy of elected governments[31]. However, when we take a closer look at the broad spectrum of financial actors participating in the confidence game, the picture remains more coloured, offering more *claire-obscur* than the sharp light of the spotlights.

In fact, investors have differing, if not conflicting, demands regarding governments' economic policy choices. Some, like bondholders, will be unhappy with expansionary fiscal policies. They will punish a Keynesian expansionary policy because their first preference is high-interest-rate, growth-oriented policies. On the other hand, foreign direct investors and stockholders will seek countries with high growth levels rather than high interest rates. Most of them will be looking very carefully for the engines of growth not only in a specific country but also within sectors and industries. As stressed by the Chase Fleming Asset Management emerging markets team, "our traditional answer has been to say that we like to invest in companies where the drivers of growth are as specific to the company as possible. That means they don't just depend on a booming economy; they exist within a growing industry, and can grow their share of it too"[32]. Unlike investors who buy bonds, stockholders' and direct investors' returns will depend mainly on the engines of growth. Only growth will boost the earnings of the companies they have invested in or the sectors in which their firms are settling down operations and not policies that shape interest rates (and through the coupon on the bond). Investors present a large variety of preferences that can be conflicting between them and which converge with or diverge from the democratic governments' most desired policies.

31. See, for example, the criticisms made by Leslie Elliott Armijo, eds., *Financial Globalization and Democracy in Emerging Markets*, London, MacMillan, 1999.
32. See Chase Fleming Asset Management, *Emerging Equity Markets. Quarterly Review*, London, Chase Fleming Asset Management, November 2000. P. 5.

Even within the same category of investors, bondholders for example, the range of preferences can be very large and conflicting, forbidding any reductive and normative dichotomy. As stressed by Sylvia Maxfield, it is also necessary that "before we rush to portray villainous bondholders in a global economy supply contraction champing at the bit to punish signs of growth in emerging market countries because it could signal inflation, lower interest rates and falling central bank reserves, we should note important differences among bondholders."[33] These actors can diverge regarding their money-making strategies and their temporal investment horizons. Some will express concerns about economic slowdown because it will dampened enthusiasm for emerging markets debt or because only a return of growth is seen as the best way to restore confidence, to decrease investor risk aversion and prevent debt spirals in emerging markets[34]. Others will be oriented towards rapid returns and focused on short time horizons and arbitrages will punish growth-oriented policies because they will involve lower interest rates[35].

33. See Maxfield, Sylvia "Globalization, Economic Policymaking and Democratization", speech prepared for the *UNRSID Conference on Technocratic Policymaking and Democratization*, Geneva April 27-28 2000 (unpublished).
34. See, for example, explicit references to growth dynamics by Michael Cembalest and Paul Dickson, J.P. Morgan emerging markets debt managers, in their *J.P. Morgan Markets Debt Fund Quarterly Report* dated September 2000 (http://jpmorgan.com/mutualfunds) or Mohamed El-Erian, PIMCO emerging markets debt manager, in his *PIMCO Emerging Markets Watch* dated October 2000 (http://www.pimco.com). Julius Baer emerging markets debt team was even more direct concerning Argentina: "Argentina is the simplest to analyse. A rash of debt dynamics studies, qualifications, re-analysis and data-mining has not altered one fact (which the market fully recognizes) – a return to growth of say 4% a year will boost tax revenues, restore confidence and prevent a debt spiral while further stagnation will lead to a crisis and possibility a default." Julius Bär, *Fixed Income Essentials. 4th Quarter 2000*, London, Julius Baer Investment Management, 2000, p. 5 (http://www.juliusbaer.com).
35. Interviews with emerging bonds markets fund manager and emerging markets fixed income team, New York, May 1st and 10th 2000; interview with an emerging bond markets fund manager in London, April 13th 2000; and interview with an emerging bond market fund manager in Paris, November 17th 2000.

These short-term preferences are explained by the set of constraints these investors are facing, with their performances depending on quarterly temporal horizons. In the case of mutual funds for example, their investment behaviour is strongly constrained by the fact that they can face quarter to quarter redemptions if their performances fall below the average of their tracking indexes[36].

They then face different constraints hardly comparable to those of the hedge funds, another kind of investor. Hedge fund strategies can be implemented in longer temporal horizons, as their assets under management are committed for relatively longer time (in the case of the famous LTCM it was nearly three years for example). They do not face, then, quarter to quarter redemptions and can deploy longer or contrarian strategies. If we add that the investor's universe is completed by other players such as pensions funds, insurance companies and commercial banks, presenting long- or short-term temporal strategies and horizons, we can argue against the current that financial actors do not play against emerging democracies. If some short-term bondholders focused on interest rates can play against, others on the contrary can even help to strengthen democratic rules. They can contribute to boosting bond and equity markets, and to dismantling rent-seeking behaviours and expensive public oligopolies, or to consolidating corporate governance rules, leading, in the end, to less corruption, less cronyism, and more transparency, more reliable information.

Even within governments, as shown by the Mexican, Brazilian or Argentinean examples, the discrepancies can be important. Ministers can differ on the choices of options and responses to a confidence crash

36. Interview with a mutual fund asset manager in global emerging markets, London, April 12th 2000; and interview with another mutual fund asset manager in global emerging markets in Paris, June 9th 2000.

or on the way to restore credibility. Because they are embedded in political interests, local actors can diverge in their policy choices, and their preferences for exchange rate strategies can be conflicting. Also note that governments acting as market operators can present different temporal horizons. In some cases governments can be more short-termist than markets. For short-term political reasons, governments that will intend to secure their tenure in the office (or the tenure of their party) will tend to delay exchange rate adjustments in the run-up to elections. Once their office is secured, they will raise the probability of an immediate devaluation, sometimes making the adjustment more painful economically speaking (but not always politically).

This short-term strategic horizon has frequently held in Latin America, with painful episodes of electorally motivated delayed devaluations such as the recurrent ones experienced in Mexico in 1976, 1982, 1988 and 1994, or in Brazil in 1986 and 1999[37]. In the case of the last financial crisis in Mexico, for example, during the last months of 1994, the huge capital inflows and real appreciation of the peso presented expected rewards as it positively affected some politically important segments of the Mexican society. As the PRI was fighting in a hotly contested 1994 presidential election, the government could not risk alienating these potential electoral supports. A sudden depreciation would have a tremendous impact on the purchasing power of the middle classes and among them urban consumers,

37. As shown by Frieden, Ghezzi and Stein, who analyzed the behaviour of nominal and real exchange rates within a 19-month window centered on more than 240 election episodes in Latin America, the probability of large real depreciations is typically affected (over 25%) by the electoral cycle. See Frieden, Jeffry; Ghezz, Piero and Stein, Ernesto "Politics and Exchange Rates: A Cross-Country Approach to Latin America", in Frieden, Jeffry and Stein, Ernesto (eds.) *The Currency Game: Exchange Rate Politics in Latin America*, Baltimore, The Johns Hopkins University Press, 2001. See, only on Latin American currencies games and the political economy of exchange rate regimes, Wise, Carol and Roett, Riordan (eds.) *Exchange Rate Politics in Latin America*, Washington, DC, Brookings Institution, 2000.

pivotal supports for winning the elections[38]. So in spite of divergences among policy makers (Presidency, Central Bank, Minister of Finance), the Mexican government opted in the end for a postponed delayed depreciation strategy, the consequences of which we already know.

Political actors and government institutions may face conflicting arbitrages regarding the political economy of exchange rate regimes, ranging from a complete free float to managed floats and fixed, pegged or dollarized regimes, each one involving specific tradeoffs, different distributions of gains and costs throughout the society and the economy. So depending on their political, economic and social support, actors and institutions inside the State will present different sets of preferences and not a homogeneous or unique policy-oriented choice. In the same way, as reported by Joseph Stiglitz in a very interesting report of his own experience as a World Bank chief economist for three years, the so-called Washington Consensus was more a facade than a reality, with the divergences within the Washingtonian trinity (IMF, World Bank and US Treasury) regarding financial crises management in Asia or Russia being huge[39], depending on institutions, actors' preferences and strategies.

It's a Small Embedded World

The language of the confidence game is that of economics. Nearly

38. For an analysis centered on the political economy of the crisis, see Frieden, Jeffry "The Politics of Exchange Rates", in Edwards, Sebastian and Naim, Moisés (eds.) *Mexico 1994: Anatomy of an Emerging Markets Crash*, Washington, DC, Carnegie Endowment for International Peace, 1997. P. 81-94; and Santiso, Javier "Wall Street and the Mexican financial crisis: a temporal analysis of emerging markets", *International Political Science Review*. Vol. 20. No. 1, 1999. P. 49-71.
39. See Stiglitz, Joseph "The Insider: What I learned at the World Economic Crisis", *The New Republic* (April 17th 2000). See also: http://www.brookings.edu/views/articles/Stiglitz/20000417.htm

all the key players are professional economists - because economics is the only highway to financial heavens and a powerful interpretative method of world realities. They earn BA's, MBA's or Ph.D.'s in economics from the most prestigious universities. Be it in governments, in international organisations, or in investment houses, they speak of fiscal deficits and liquidity ratios, they share a common vocabulary - but they differ in their phrasings and conjugations. Economic rhetoric brings powerful tools, assumptions and views of the world. But it also brings a common technical language shared not only by the Wall Street and City actors but also, increasingly during the past decades, by emerging markets actors, ministers, debt negotiators, and central bankers, who also became free-market believers and decent interlocutors.

This is particularly true for the Americas during the 1990's. By then, in Latin America, the "technopols", well-educated, with Harvard or MIT credentials, followed the path of the Chilean Chicago Boys[40]. They became increasingly influential, removing the old guard, the "dinosaurs," from their offices. They explained (and implemented sometimes with success) how free-market reforms and liberalization of capital accounts will change developing countries. In Mexico, the shift towards more trust in free-market reforms paralleled the rise of a new generation of young foreign-educated professional economists, such as Salinas' Finance Minister, Pedro Aspe (1950; Ph.D. MIT, 1978), Minister of Commerce, Jaime Serra Puche (1951; Ph.D. Yale, 1979), NAFTA's chief negotiator, Herminio Blanco Mendoza (1950; Ph.D. University of Chicago, 1978) or Minister of Programming and Budget, Ernesto Zedillo

40. On the diffusion of monetarism in Latin America and the key role of Chilean Chicago Boys, see Valdés, Juan Gabriel *Pinochet's Economists: The Chicago School in Chile*, Cambridge, Mass., Cambridge University Press, 1995.

(1951; Ph.D. Yale) who would become President after Carlos Salinas de Gortari (Ph.D. Harvard, 1978)[41].

Table 2. Top and Mid-Level Economic Policy-Making Positions in Mexico)

It must be stressed that these reforms were also embedded in political local worlds, market reforms being not only a way to bring in more "efficiency" and policy-making processes "preventing rent-seeking", but also political assets and constraints. In the case of Mexico, for example, not only did finance policy reforms provide rent-seeking opportunities for the private sector, but it also brought political support to President Carlos Salinas de Gortari who, in spite of his promotion of free market policies, decided to insulate banks from competition and maintain an artificial overvaluation of the peso through exchange rate interventions[42]. Finance policy is not only a policy imposed from the outside, an inevitable outcome embedded in global ideological shifts, but it can also be a resource that governments are able to manipulate in order to secure internal political and economic support among local interest groups.

For this generation of reformers, the US Cambridge center played a pivotal role. There, Pedro Aspe for example, connected with other promising Latin American students, among them Domingo Cavallo (1946, Ph.D. Harvard, 1977) and Alejandro Foxley (1939; then a

41. For a study on this "technocratic vanguard" and the rise of U.S.-trained economists within the Mexican government, see Babb, Sarah *Managing Mexico: Economists from Nationalism to Neoliberalism*, Princeton, Princeton University Press, 2001; Centeno, Miguel Angel *Democracy Within Reason: Technocratic Revolution in Mexico*, University Park, Pennsylvania, The Pennsylvania State University Press, 1994.
42. See for an analysis of the political dimensions of financial reforms in Mexico, Kessler, Timothy "Political Capital: Mexican Financial Policy Under Salinas", *World Politics*. No. 51 (October 1998). P. 36-66; and Auerbach, Nancy *States, Banks and Markets: Mexico's Path to Financial Liberalization in Comparative Perspective*, New York, Westview Press, 2000. For a more theoretical approach, see Frieden, Jeffry "Invested Interest: The Politics of National Economic Policies in a World of Global Finance", *International Organization*. No. 45, (Fall 1991). P. 440-441.

visiting scholar at MIT), who, during the 1990's, would lead Argentinean and Chilean reforms, respectively, as Economics Minister and Finance Minister. There they would meet some of the prominent economist scholars that would play a prominent role in the emerging markets confidence game of the 1990's. Among others, they would meet academics such as Stanley Fisher, who, years later, would become the IMF's second in command, or Rudiger Dornbusch, who would become a prominent *voice* before and during Mexican and Brazilian crises (also as a clever advisor of the Boston-based custodian, State Street Bank).

In some cases, after their return to their intellectual birthplaces, they maintained close contacts with their Cambridge alma maters. Pedro Aspe, for example, became head of ITAM's Economic Department in Mexico and there reshaped the economics curriculum, raised academic standards and continued to send promising young students to US universities. During the Salinas presidency, most of these "technocrats" colonized Mexican ministries when Aspe took charge of the financial portfolio, filling senior posts in the Central Bank, Education, and Agriculture. In the case of Domingo Cavallo, he founded his own think-tank, the *Instituto de Estudios Económicos sobre la Realidad Argentina y Latino-Americana*, or IEERAL, and gained strong backing from the *Fundación Mediterranea*. When he became minister, nearly all the staff of IEERAL was appointed with him, assuming key senior positions. For Alejandro Foxley, the name of the economic think-tank was CIEPLAN, an institution he founded in 1970 that played a pivotal role during the Pinochet regime, as it gave a technical voice to the opposition. With the return of democracy in 1990, as in the case of Aspe and Cavallo, *CIEPLAN* boys colonized major government agencies[43].

43. See, respectively, for these notions of idea carrier and the trajectories of these reformers, Hall, Peter (ed.) *The Political Power of Economic Ideas: Keynesianism Across Nations*, Princeton, Princeton University Press, 1989; and for analysis on Latin America, see Domínguez, Jorge (ed.) *Technopols: Freeing Politics and Markets in Latin America in the 1990's*, University Park, Pennsylvania, The Pennsylvania State University Press, 1997.

At the same time, in Wall Street and the City, their roommates became more involved in a new asset class called emerging markets, which was "invented" by financial marketers to sell these new, developing-nation gold mines. In Washington, their former teachers and colleagues were in the process of creating a new Decalogue, the making of a "Global New Brand" labelled the Washington Consensus[44]. The involvement of scholars ranges over a large spectrum. Their works are disseminated within and outside the academic community. They can advise governments or international organizations. They can also advise or even cross over into Wall Street firms. Their spheres of involvement can also overlap. They can be, at the same time, bright scholars and advisers to a central bank or an investment house. As stressed by Michael Walzer, all selves are self-divided and scholars, like any other human being, are self-divided among different interests and roles but also identities and values, playing many parts not only across their lifetimes but also across a week or even a single day[45]. They are not "above" the confidence game but "within" the game, and, for some of them, they even play different roles inside the same play.

A first way of involvement is through their research activities.

44. The term "Washington Consensus" was the name given in 1989, the same year as the fall of the Berlin Wall, to a list of ten policy recommendations given by the economist, John Williamson, for developing-country reformers. As stressed by Moisés Naim this Washington Consensus was more a Washington Confusion, as the views shared by prominent individuals that share pro-market beliefs and distrust of government intervention were divergent. See Naim, Moisés "Fads and fashion in economic reforms: Washington Consensus or Washington Confusion?", *Working Draft for the IMF Conference on Second Generation Reforms*, (November 8-9 1999), see http://www.imf.org/external/pubs/ft/seminar/1999/reforms/Naim.HTM; and for a retrospective by its "inventors," Kuczinski, Pedro Pablo and Williamson, John *After the Washington Consensus: restarting growth and reform in Latin America*, Washington, DC, Institute for International Economics, 2003.
45. See Walzer, Michael "The divided self", in Walzer, *Thick and Thin. Moral Argument at Home and Abroad*, London and Notre Dame, University of Notre Dame Press, 1994. P. 85-103.

Academic research can help to understand financial crises and the dynamics of contagion. It can bring very useful and new analytical tools or theoretical understandings with empirical applications for financial crises. One of the best examples of this is the "early warning signals" approach developed by IMF economists and US-based academic scholars. Starting in the mid 1990's, there has been an explosion in studies of "early warning signals." These approaches have been discussed and used by a large spectrum of actors, ranging from international organizations such as the BIS in Basel, government institutions such as the Banque de France, the Federal Reserve Board in the US, and investment houses such as Crédit Agricole Indosuez or Goldman Sachs[46].

Early warning signals are based on precise definition of a crisis and intend to build a framework for generating predictions of crises using the "signal extraction" approach which follows the works of Kaminsky, Lizondo and Reinhart published in 1998 and those of Goldstein, Kaminsky and Reinhart and Berg and Patillo of 1999 and 2000[47]. Basically the system involves monitoring the evolution of several economic indicators that behave differently prior to a crisis. These policy-oriented works expand on the previous literature on currency crisis pioneered by Eichengreen, Rose and Wyplosz in a series of papers dating back to 1994 (focused mainly on industrialized countries) and those of Frankel and Rose and Sachs, Tornell and Velasco, which, in 1996 just after the Mexican crisis, shifted the focus towards modelling currency

46. Interviews with a Wall Street global emerging markets strategist, New York, May 10th; and with an emerging markets economist, London, October 7th.
47. See Kaminsky, Graciela; Lizondo, Saúl and Reinhart, Carmen "Leading indicators of currency crises", *International Monetary Fund Staff Papers*. Vol. 45 (March 1998). P. 1-48; Kaminsky, Graciela and Reinhart, Carmen "The twin crises: the causes of banking and balance of payments problems", *American Economic Review*. Vol. 89. No. 3 (June 1999). P. 473-500; Goldstein, Morris; Kaminsky, Graciela and Reinhart, Carmen *Assessing Financial Vulnerability: An Early Warning System for Emerging Markets*, Washington, DC, Institute for International Economics, 2000.

crashes for developing countries[48]. Following the Mexican crisis, several scholars, mainly Kaminsky and Reinhart, developed early warning system models in order to improve the power to predict banking and currency crises. They find that prior to a crisis in developing countries (roughly 20 were analyzed using monthly data from 1970 to 1997), emerging markets experienced economic slowdowns, overvalued exchange rates, loss of international reserves and high ratios of broad money to international reserves. These findings helped them to construct an early warning system. Later other researchers, namely Berg and Patillo in 1999 and Masson, Borensztein, Milesi-Ferretti and Patillo in 2000, evaluated and developed improved early warning systems for the use of the IMF[49]. Most of them are based on qualitative comparisons, comparing economic fundamentals, econometric modelling using regressions as explanatory tools and non-parametric estimations.

In addition to these academic studies and IMF research, other institutions have been involved in building their own early warning systems. The aim has been mainly to address the challenge that increasing and unpredicted crises in emerging markets during the late 1990's posed, with financial operators having been notoriously poor at spotting a crisis to come. In Europe for example, the Banque de France, the bank of

48. See Eichengreen, Barry *Capital Flows and Crises*, Cambridge, MIT Press, 2003; Eichengreen, Barry; Rose, Andrew and Wyplosz, Charles "Speculative attacks on pegged exchange rates: An empirical exploration with special reference to the European monetary system", *National Bureau of Economic Research Working Paper*. No. 4898 (1994); Eichengreen, Barry; Rose, Andrew and Wyplosz, Charles "Contagious currency crises", *National Bureau of Economic Research Working Paper*. No. 5681, (1996); Sachs, Jeffrey; Tornell, Aaron and Velasco, Andrés "Financial crises in emerging markets : The lessons from 1995", *Brookings Papers on Economic Activities,* (1996). P. 147-198.
49. See Berg, Andrew and Patillo, Catherine "Predicting currency crises: the indicators approach and an alternative", *Journal of International Money and Finance*. Vol. 18. No. 4 (August 1999). P. 561-586; Berg, Andrew; Borensztein, Eduardo; Milesi-Ferretti, Gian Maria and Patillo, Catherine "Anticipating balance of payments crises: the role of early warning systems", *IMF Occasional Paper.* No. 186 (1999).

International Settlements and, in the private sector, the Crédit Agricole Indosuez investment house were constructing such a modelling of crisis in 2000[50]. In the US, many institutions have been inspired by early warning approaches, among others the Federal Reserve Board or investment houses such as J.P. Morgan, Credit Suisse First Boston or Citicorp Securities, which tried to forecast the probability of large currency depreciations[51]. One of the most inspired investment houses has been Goldman Sachs, whose model received considerable attention and combined previous approaches with the early warning signal approach of Kaminsky, Lizondo and Reinhart and other econometric modelling developed by Eichengreen, Frankel and Rose. By the end of 1998, this Wall Street house replaced its previous model, the *Short Term Market Pressure Indicators* by a new one the *GS-Watch*. The explicit task was to move from "subjective assessment of qualitative variables" to more objective and quantitative indicators[52]. The predictive power of this last approach gave some results signalling crises within a short horizon of less than three months for countries like Brazil,

50. See Burkart, Olivier and Coudert, Virginie "Les crises de change dans les pays émergents », *Bulletin de la Banque de France*. No. 74, (February 2000). P. 49-61; Vlaar, Peter "Early warning systems for currency crises", *BIS Conference Papers*. Vol. 8, (March 2000). P. 253-274; Hawkins, John and Klau, Marc "Measuring potential vulnerabilities in emerging market economies", *BIS Working Papers*. No. 91 (October 2000); and Claire Dissaux, who built a "country seismograph" based on "early warning signals" approaches, Crédit Agricole Indosuez, *Country Seismograph Presentation*, London, CAI Global Emerging Markets, October 7th, 2000.
51. See Edison, Hali "Do indicators of financial crises work? An evaluation of an early warning system", *International Journal of Finance and Economics*. Vol. 8. No. 1, 2003. P. 11-53; Citicorp Securities, "Early warning system – an anticipating balance of payments crisis in Latin America", New York, *Citicorp Securities Economic Research*, May 6th 1998; Crédit Suisse First Boston, "Emerging Markets Risk Indicator", London, *CSFB Technical Report*, 199; Avinash Persaud, *Event Risk Indicator Handbook*, London, J.P. Morgan, January 29th, 1998.
52. See Ades, Alberto; Masih, Rumi and Tenengauzer, Daniel "GS-Watch: A new framework for predicting financial crises in emerging markets", *Goldman Sachs Emerging Markets Economic Research* (December 18), 1998.

Ecuador and Turkey but failed to predict, for example, the Colombian currency depreciation. In nearly all the studies some economic variables provide better signals than others, namely a high ratio of short-term debt to reserves or a high ratio of M2 to reserves, substantial losses of foreign exchange reserves, etc., but they also stress the relevance of more in-depth, specific analysis, as they also provide many false alarms.

Without a doubt, this early warning system approach is an important contribution. But as pointed out by many of their defenders, even though there is some consensus based on econometric evidence, there is also substantial disagreements about the relevant indicators, and their respective weights. In an attempt to evaluate the performance of several leading indicators approaches, Berg and Patillo ask the question "if we had been using these models in late 1996, how well armed would we have been to predict the Asian crisis?"[53] The results would have been mixed, as only one model provided some useful, though still not reliable, information, while the other two that were evaluated failed to give useful forecasts. Without referring to Karl Popper's epistemological problems embedded in the attempts to foresee the future[54], one of the problems of these approaches is that they are running after the numbers and the crisis.

53. Berg, Andrew and Patillo, Catherine "Are currency crises predictable? A test", *IMF Staff Papers*. Vol. 46. No. 2 (June 1999). P. 107-138.
54. For an epistemological critique of the pretension embedded in nearly all social sciences to predict the future, see Popper, Karl *Poverty of Historicism*, London, Routledge, 1988. As stressed by many commentators, scholars and financial operators, too frequently the debates are about crisis prediction versus crisis anticipation or crisis prevention and are embedded in confusions about the terms of the debates themselves. As pointed out by Jorge Braga de Macedo, "the role of news in generating sudden changes in beliefs is such that crises can hardly be forecast: the success rate at predicting them is less than one third (25-30%). The reason is that two types of errors must be balanced against each other: not to predict crises that do occur and to predict crises that do not occur. Detecting vulnerability is very different from predicting the timing of the crisis." Jorge Braga de Macedo, "Financial crises and international architecture: A Euro-centric perspective", paper prepared for a panel discussion on *The future of MERCOSUR* held at the Central Bank of Argentina, Buenos Aires, August 24th 2000, p. 10 (unpublished).

Accurate data is part of the difficulty but, above all, crisis after crisis, surprises arise and the variables that seemed to be pertinent for the previous one become less useful. Open Asian economies were mainly facing competitiveness problems, while Latin American ones have been facing more internal monetary problems and commodity price slumps. The Mexican crisis was mainly a public finance issue embedded in short-term debt problems, while the Asian crises were more linked with bank lending and private sector finance. In their own evaluation of early warning systems, Goldstein, Kaminsky and Reinhart do not hesitate to warn and prevent the readers against too much enthusiasm: "while we would not place much confidence in the precise estimated ordering of vulnerability across countries, we think the signals approach looks promising for making distinctions between the vulnerability of countries near the top of the list and those near the bottom – that is, it may be useful as a first screen which can then be followed by more in-depth country analysis"[55].

In the same way, some strategists of investment houses argued that "in a world of herding, tighter market-sensitive risk management regulations and improved transparency can, perversely, turn events from bad to worse, creating volatility, reducing diversification and trigging contagion." As stressed by State Street Bank currency strategist, Avinash Persaud, the move toward more quantitative and market-sensitive approaches tend to exacerbate mimetic behaviours, with banks switching at the same time, for the same sovereigns according to the "signals" sent out by management risks units using DEAR models (Daily Earnings at Risk). "Banks and investors like to buy what others are buying, sell what others are selling, and own what others own." This herding behaviour is explainable by three major drivers. "First in a world of uncertainty, the best way of exploiting the information of others is by copying what they are doing. Second, bankers and investors

55. Goldstein, Kalinsky and Reinhart, 2000.Op. cit.. P. 105.

are often measured and rewarded by relative performance, so it literally does not pay for a risk-averse player to stray too far from the pack. Third investors and bankers are more likely to be sacked for being wrong and alone than for being wrong and in company"[56].

But economists can also play another very indirect role and contribute to the configuration of cognitive regimes with their presence in international arenas. They can participate in world forums, such as international conferences or newspapers. Economist tribes can then meet and voice during annual professional congresses, with "pure player" scholars mixing with the other players of the game, be they in government, international organizations or in Wall Street. These channels are powerful enlargers of their voice, no longer limited to a cohort of specialists (through professional reviews and professional world congress associations), but much more open towards the financial community, governments, investors and so on. From this point of view, for example, LACEA meetings bring the opportunity for all the players to exchange points of view, discuss rumors, share views on current issues, Argentinean dollarization or external debt management, with these meetings being transformed into world brainstorming and confidence arenas. The spectrum of LACEA Rio 2000 speakers, for example, ranged from world renowned scholars from US universities to senior officers from international organizations, governors of central banks, ministers of finance from emerging countries and, last but not least, international bankers, strategists and economists from Wall Street firms such as Goldman Sachs.

IMF, IADB and World Bank meetings[57] and, for more discrete encounters, the ones organized for example by the Federal Reserve of

56. See Persaud, Aninash "Sending the herd off the cliff edge: the disturbing interaction between herding and market-sensitive risk management practices", *2000 Essay Competition Essay in Honour of Jacques de Larosière of the Institute of International Finance*, 2000. P. 5.
57. See http://www.imf.org/external/am/2000/prague.htm

Dallas[58], are also good examples of such voice enlargers. In this small embedded world, where scholars, central bankers, ministers, investors and bankers can exchange formal and informal views, they can try to curb others' perceptions, guess their next moves, what they say and what they remain silent about or simply be informed of the current and relevant discussions in the world confidence game arena[59]. As stressed by one emerging markets debt manager, referring to IMF/World Bank meetings, "the Annual Meeting provides a unique opportunity to exchange views on both country-specific issues and systemic trends. After all, where else do you get Ministers of Finance and Central Bank Governors from over 180 countries gathered under one roof, participating in roundtables, and willing/able to hold frank one-on-one meetings with investors? Our specific aim in going to Prague (the 2000 annual meeting took place in this city) is to obtain further input for the day-to-day management of structural and tactical strategies impacting our emerging market portfolio"[60].

(See Table 3: World Confidence Game Arenas in 2000).

The IADB and the World Bank/IMF Annual Meetings bring the opportunity for securities houses to organize their own encounters, such as the ones organized by Deutsche Bank. In the IADB 2000 meeting, an encounter was organized with leading speakers including William Cline (from the Institute of International Finance), Liliana Rojas Suárez (then Deutsche Bank chief economist for Latin America), Sebastian Edwards (UCLA economist), Guillermo Calvo (University of Maryland

58. See http://www.puc-rio.br/lacea-rio-2000/; http://www.dallasfed.org/htm/dallas/archives.html.
59. Several interviews with a head of an emerging markets fixed income team, a fund manager on emerging markets and an emerging markets chief economist in New York, 8th, 9th and 11th April 2000; interviews with an emerging debt fund manager in Paris, November 17th 2000.
60. Mohamed El-Erian, *PIMCO Emerging Markets Watch,* PIMCO, August 2000 (http://www.pimco.com).

economist), Daniel Marx (Argentine Vice Minister of Finance), José Angel Gurria (Mexican Minister of Finance), José Suárez (Venezuelan Minister of Finance), Ricardo Hausmann (then IADB chief economist), and Moisés Naim (Foreign Policy editor). During the 1999 World Bank/IMF meeting, among the speakers at the Deutsche Bank emerging markets conference were also, for the Latin American panel, Guillermo Ortiz and Arminio Fraga, respectively governors of the Mexican and Brazilian central banks[61]. Organized for their clients, these parallel meetings were among the myriad of possible encounters offered, bringing all the players the opportunity "to meet during this global financial mass, exchange vanities, worlds and silences"[62].

The Trespassing Game

The involvement of scholars can be far more direct. They can also *voice* in well read international newspapers, especially the *Financial Times*. It is instrumental in shaping public attention and categories of thought, contributing to creating the cognitive environment within which financial market events are played out. The *Financial Times* provides a unique global confidence game arena, as it is the most widely read newspaper in financial communities in New York, not to mention in the City of London or other European financial centres, and in the financial communities throughout the world. Being referenced or published by the FT brings a unique strength to one's "voice".

61. Interview, New York, May 12th 2000. The proceedings of panel speakers were published by Deutsche Bank, see Deutsche Bank World Bank/IMF Annual Meetings, *Realignments in Industrial Countries: A Challenge Facing Emerging Markets*, London, Deutsche Bank Global Markets Research, November 1999; and Deutsche Bank IADB Annual Meetings, *Financing Latin American Growth: Sources, Politics, and Outlook*, London, Deutsche Bank Global Markets Research, May 2000.
62. Interview with an emerging markets chief economist, New York, May 12th.

From this point of view, the most present scholars are Paul Krugman (MIT) and Jeffrey Sachs (Harvard University). However being mentioned by FT does not mean that your voice will be taken into account. A good example of this is the Cassandra-like warnings of Rudiger Dornbusch, who warned, on several occasions, about the looming economic crises in Mexico and Brazil. This caught little attention in spite of the truth of the situation. In early April 1994, Rudiger Dornbusch, along with Alejandro Werner, presented a paper to the *Brookings Panel on Economic Activity* in which they advocated for a 20% devaluation of the peso. The main conclusion of their research was that the currency was overvalued. But no one seemed to have paid any attention, even some of the former Mexican students who were in charge of finance in Mexico at the moment[63].

(See Table 4: The Financial Times Confidence Game Arena)

Scholars can also be part of the confidence game through other means. They can themselves be investors or advisors of investment houses[64]. One of the best examples in emerging markets is Steve Hanke,

63. Most of Rudiger Dornbusch' papers are available online at http://web.mit.edu/rudi/www/papers.html. As stressed by Paul Samuelson, during moments of financial euphoria no one wants to listen warnings: before the 1929 financial crisis, Paul Warburg, at that time one of the most respected bankers and a founding member of the Federal Reserve System, warned about a forthcoming collapse but "the reaction to his statement was bitter, even vicious" and the same happened to the economist, Roger Babson, whose forecast of the crash brought him a deluge of criticism. See Paul Samuelson, *A Short History of Financial Euphoria*, New York, Penguin Books, 1994, p. 7.
64. Note also that the trespassing can go the other way round: investment bankers (with Ph.D. credentials) can trespass from Wall Street to the academic world. A good example is Carmen Reinhart, a leading scholar, based at the University of Maryland since 1996, who has published in prestigious academic reviews and is also involved as a consultant for the World Bank and the IMF. Prior to joining to the academic world, she earned a Ph.D. from Columbia University and spent nearly four years as an economist at Bear Stearns, a New York based investment house, before joining the IMF in 1988, where she developed a career mainly in the Research Department.

not only a leading professor of economics at Baltimore's Johns Hopkins University, but also the well-known pope of currency boards and (less) well-known chairman of an asset managers firm. He is not only a "pure player" "voicing" from academia, but also a player directly involved in the confidence game, and from both sides of the game - as a chairman of The *Friedberg Mercantile Group* in New York and as president of the *Toronto Trust* in Buenos Aires[65], a performing mutual fund, but also as an advisor of emerging markets governments on currency reforms, privatization and capital market developments, in several countries such as Lithuania, Indonesia and Argentina. The most recent famous example is probably that of LTCM's partners and the 1997 Nobel laureates in economics, Robert Merton and Myron Scholes, responsible (with their colleague, the late Fischer Black) in the early 1970's for one of the single most important breakthrough in modern mathematical theory of finance, providing a new way of thinking about risk and suggesting a method that has become fundamental to modern finance for pricing risk. During the 1990's, as partners of LTCM, a US investment boutique, these financial theorists became part of what they were accustomed to examining.

The involvement of scholars in Wall Street and the City is not at all new and, in a way, the current trend is merely a continuation trend. In the past decade, many high-profile scholars have continued to stream to Wall Street to put their theories to the test and contribute to the increasing merging of academic and applied professional research in finance. Eugene Fama, for example, a University of Chicago scholar, is also the research director of an asset management company, *Dimensional Funds Advisors*[66]. This same company has other leading scholars like Merton Miller, the 1990 Nobel Prize recipient, and

65. See www.friedberg.com
66. See http://www.dfafunds.com

Kenneth French, an MIT economist, among the distinguished academic theorists who are members of the board. In Europe, Bruno Solnik, a well-known professor of finance at HEC School of Management is also a member of the board of *Sinopia Asset Management*. Other examples include Steve Kealhofer, a Ph.D. in economics from Princeton and a former professor who taught finance at Columbia University and the University of California at Berkeley and who founded KMV[67], a leading financial boutique on credit risks; Rudiger Dornbusch from MIT and Kenneth Froot from Harvard, who set, among other scholars, entered into a joint venture in 2000 with *State Street* to analyse fund flow data and participate as partners in an investment management corporation, *State Street Bank*. Joseph Stiglitz and Albert Fishlow, two prominent academic figures, also joined Wall Street in 2000, the former as a board member of a Manhattan hedge fund, after leaving the World Bank, and the latter as the Latin American chief economist of a Wall Street financial boutique, based in New York, *Violey, Byorum and Partners*[68].

Crossing boundaries into the real world and becoming key players in the emerging markets confidence game can be a convincing move for economists, as suggested by Larry Summers, America's Treasury Secretary and a leading "voice" regarding global emerging markets. It can also be a most painful and less kind experience, as Andrei Shleifer,

67. See http://www.sinopia.fr and http://www.kmv.com
68. See http://www.globallink.com/gl/public/index.html and http://www.vbp.com/research/index.html. Interviews with a senior emerging markets economist and an emerging markets chief economist, New York, May 12th 2000; and for Stiglitz see *The Brookdale Group*, Ltd. asset management web site, http://www.nelnet.com/imhp/374769.htm, mentioned by Joshua Chaffin, "High-profile academics are streaming to Wall Street eager to put their theories to the test", *Financial Times*, November 3rd 2000 on ft.com. See Dornbusch, Rudiger *Keys to Prosperity: Free Markets, Sound Money and a Bit of Luck*, Cambridge, Mass., MIT Press, 2000; Fishlow, Albert and Parker, Karen (eds.) *Growing Apart: The Causes and Consequences of Global Village Inequality*, Washington DC, Council on Foreign Relations Press, 2000.

a Harvard economist and Russian expert, discovered in 2000[69]. In the 1990's, Andrei Shleifer became a leading advisor of the Russian government. From 1991 to 1997, he advised on privatisation and other reforms, while working at the *Harvard Institute for International Development* (HIID), a think-tank run at the time by Jeffrey Sachs, another Harvard scholar. Later the American government launched a USD 120 million lawsuit against him alleging that he helped foreign investors (amongst them an investment banker who at that time was his wife) to make investments in Russia that were prohibited by the terms of contract received from the American government. This case is also interesting in that we are talking about a leading economist who, in 1999, won the American Economic Association's John Bates Clark Medal for the best American economist under 40 (an indicator of a potential Nobel Prize winner), and currently is in the global village of international finance, as he has been running, with two other academics (among them Robert Vishny from the University of Chicago), a Chicago-based investment management firm since 1994[70].

Meanwhile IMF, World Bank and IADB leading economists have also been crossing boundaries, trespassing from international organizations to investment banks[71]. For example, leading J.P. Morgan Latin American economists such as Philip Suttle, Marcelo Carvalho and Alfredo Thorne were previously at the World Bank in Washington. Probably one of the best examples of the attractiveness of Wall Street boutiques is given by Deutsche Bank, where you can find several former high profilers coming from the IMF, the Academy or former Central Banks. Among

69. *The Economist*, "A tale of two economists" (September 28th 2000). Andrei Shleifer is the author of several essays on international finance, see for example Shleifer, Andrei *Inefficient Markets: An Introduction to Behavioural Finance. Clarendon Lectures in Economics*, Oxford, Oxford University Press, 2000.
70. See http://www.lsvasset.com
71. Several interviews with Latin American strategists and economists from Wall Street investment banks, New York, May 9th and 11th, 2000.

the most significant trespassers to Deutsche Bank are people like David Folkerts-Landau, a former senior IMF economist and Peter Garber, a well-known scholar who, before joining Wall Street, spent the previous 15 years as a professor of economics at Brown University[72]. Among Inter-American Development Bank professionals, Michael Gavin, who joined UBS Warburg, and Liliana Rojas-Suárez are among those moving from Washington to New York.

(See Table 5: The Trespassing Game)

Not only is the "sell-side" involved in these trespassing games, but also the "buy side," the asset management industry. It is also quite common to trespass from, for example, the IMF to investment houses. A good example is Mr El-Erian, PIMCO portfolio manager of emerging bond markets, who after 15 years with the IMF (where he worked on debt and emerging markets country issues) joined Salomon Smith Barney and then PIMCO in 1999. One does not have to go very far to move on towards the asset management industry. A clear example is Nicholas Brady, currently chairman of Darby Overseas Investments, a Washington-based investment company he established in 1994, after serving as US Treasury Secretary, where he designed and implemented a strategy known as the Brady Plan to solve emerging markets debt problems (prior to this government appointment, he had a 34-year career in investment banking at Dillon Read).

72. Peter Garber is the author of several essays, among them Peter Garber, *Famous First Bubbles*, Cambridge, Mass., MIT Press, 2000. He also published several important essays, some with leading figures of the confidence game, such as Herminio Blanco, who, later in the 1990's, would become one of the most successful ministers under the Zedillo Mexican government (by that time Peter Garber had joined Wall Street). See Blanco, Herminio and Garber, Peter "Recurrent devaluation and speculative attacks on the Mexican peso", *Journal of Political Economy*. Vol. 94, (February 1986). P. 148-166.

Inside the game then, the players can change positions and even trespass to the opposing party, the trespassing game being another way to continue playing. Trespassers are particularly interesting players as they bring with them not only precious expertise but also a deep network that takes its roots inside governments and international organizations. Even if the formal links with their former employer are severed, the bridges remain. Friendship relationships are preserved but so are interesting (weak or strong) ties, as well[73]. "For strategic reasons one can be interested in delivering information to a former IMF director or senior that crossed to Wall Street, who knows he can be your next (and wealthy) employer?"[74] "More simply, previous IMF economists can return back to the IMF with another managing position. Then it can be in your own interest not to stop (at least in an obvious way) transmitting some kind of information, even (and above all) if your interlocutor is a senior banker and former IMF staff or managing member: simply he can be back and become you next boss, as the institution preserves this kind of privilege for their previous employees"[75]. Even without discussing inside information, one can wonder if those trespassing and shifting involvements would be included in the agenda of "international finance architecture" and "moral hazard" debates - is the game changing when you know how IMF rescue packages are negotiated, the inside processes, and the cognitive regimes of IMF decision makers?

Even more spectacular, from the point of view of the confidence game during the end of the past decade, is the trespassing of some

73. Interview with a former senior economist of a Washington-based international organization that trespassed to a Wall Street boutique, New York, May 12th, 2000.
74. Interview with a former IMF economist that trespassed to an international bank, Paris, May 3rd, 2000.
75. Interview with a former IMF economist that became an asset management strategist, Paris, June 9th, 2000.

high-profile economists from Wall Street to emerging markets governments. The most significant example is that of Arminio Fraga, a former Soros Fund Management executive, nominated in 1999 to head Brazil's central bank. After the devaluation of the real on January 15th, 2000, Brazil picked the then hedge fund poacher as its economic gamekeeper and a *fin connaisseur* of the confidence game, as a former fund manager used to taking macroeconomic bets such as currency devaluations in emerging markets. The move was clearly a double best play. Mr Fraga brought with him useful expertise at a moment when the country was forced to let the currency float, after nearly 50 years of some form of fixed exchange rate. He had been brought in with the aim of neutralizing new speculative pressures and, above all, of rebuilding a central bank credibility which he had been doing since his appointment.

Another kind of involvement is that of the legendary Bill Rhodes, Citigroup Vice Chairman, who had been involved in nearly all problem-solving related to financial crises in Latin America over the past two decades. In 2000, he helped Ecuador restructure its sovereign debt, being involved as an international adviser with the Latin American country at the request of the IMF's first deputy managing director, Stanley Fischer (a former distinguished MIT professor), who wanted to avoid an IMF bailout of the country's private sector. It seems as though the *New Money Doctors*, instead of coming from Academia, were once again back from Wall Street. This situation is not new - when compared with J. Pierpont Morgan's involvement in rescuing and becoming the central banker of what was then, at the end of 19th century and beginning of the 20th century, an emerging country – the United States[76].

76. On J.P. Morgan, see the biography by Jean Strouse, *Morgan: An American Financier*, New York, Random House, 1999; and on money doctors on general, Flandreau, Marc (ed.) *Money Doctors: The Experience of International Finance and Advising, 1850-2000*, London, Routledge, 2003.

Conclusion: A Bias for Further Research

Much more research is still needed on the political economy of emerging markets. Underscoring the political economy and sociological dimensions is essential if one wants to understand the confidence game, a central issue in capturing financial dynamics, not to say financial crisis. As underscored by most of the research on international financial institutions, for example, access to IMF programs, for example, is not only a matter of depth of financial distress and liquidity problems. Participation in IMF programs is also influenced by institutional, political and geographic dimensions. As underscored by Barro and Lee, for example, countries' member's political connections to the IMF, proximity or not to major IMF shareholding countries (and notably the US), and the size of a country's quota of a country national staff at the IMF are all variables that affect the probability of loan approvals. According to these authors, a country that has more IMF staff, a higher IMF quota and voted more frequently with the US in the UN is expected to have higher probabilities of getting IMF loan approvals by 9.6, 6.7 and 12 percentage points each, respectively[77].

Further steps would be needed. I only mention one which could lead to another research program in itself: the political economy dimension of the confidence game, not from a market perspective but from the perspective of States and multilaterals. How do States, central banks, ministries or promoting FDI agencies, play the confidence game, with what resources, and with what results and difficulties? It would be interesting, for example, to consider the number of ex-Wall Street analysts or ex-IMF staff economists, and/or IADB and World Bank officials who work in the governments of various countries and how

77. See Barro, Robert and Lee, Jong-Wha "IMF programs: who is chosen and what are the effects ?", *Harvard University and Korea University* (April 2003).

they play the game. Several cases studies, the Paris Club debt games, the web sites' diffusion or the way central banks are organized or the way treasuries in emerging countries interact with bond fund managers and fixed income teams all could be part of this further research.

At least, as it would have been said by Albert Hirschman, to whose memory this essay is largely dedicated, there is a bias for hope: journeys toward international political economy research remain tremendously promising. The research agenda remains open and with it the horizons of investigations on what continues to be one of the most central issues of our century: the unfinished dialogue between States and Markets.

Appendix 1 :

Total Interviews Completed in 2000 (in brackets the number of persons interviewed by institution)
Total interviews realized: 139 (from 94 different institutions)

Interviews in London and Edinburgh: 62 (from 44 institutions)

AIB Govett (3); American Express Asset Management (1); Barclays Global Investors (1); BBVA (2); Baring Asset Management (1); Cazenove (1); City of London Investment Management (1); Delaware International Advisors (2); Deutsche Bank (1); Deutsche Asset Management (1); Dresdner Kleinwort Benson (1); Dresdner RCM Global Investors (1); Edinburgh Fund Managers (2); Colonial First State/Stewart Ivory (1); Fitch Ibca (1); Fleming Asset Management (2); Foreign & Colonial Emerging Markets (1); Gartmore (1); Framlington Investment Management (1); Global Fund Analysis (1); Henderson Investors (1); Indocam Asset Management (2); Invesco (3); Martin Currie Investment Management (1); Investec Asset Management (1); Jupiter Asset Management (1); Martin Currie (2); Mercury Merrill Lynch Asset Management (1); Morgan Stanley Dean Witter (1); Old Mutual Asset Management (2); Pictet Asset Management (2); Rexiter Asset Management

(1); Rothschild Asset Management (2); Salomon Smith Barney Citibank Asset Management (1); Schroders (1); Scottish Life (2); Scottish Widows Investment Partnership (2); Scudder Threadneedle Investments (1); Standard Life Investments (2); Tempest Consultants (2); The Economist Intelligence Unit (1); UBS Warburg Dillon Read (2); Walter Scott & Partners (1); WestLB Asset Management (1).

Interviews in Paris and Madrid: 24 (from 18 institutions)

Ahorro Corporación (1); Axa Investment Managers (3); Barep Asset Management (1); BBL Asset Management (1); Banque BNP Paribas (1); Carmignac Gestion (1); CDC Asset Management (1); Comgest (1); Crédit Agricole Indosuez (2); Crédit Lyonnais Asset Management (3); Fortis Investment Management (1); Indocam Asset Management (2); BNP Paribas Asset Management (1); Santander Central Hispano Gestión de Activos (1); Sinopia Asset Management (1); Société Générale (1); SG Asset Management (1); State Street Bank (1).

Interviews in New York and Boston: 53 (from 33 institutions)

ABN Amro (2); Alliance Capital Management (1); BBVA (1); Barclays Securities (1); Batterymarch (1); BCP Securities (1); Crédit Suisse Asset Management (2); Crédit Lyonnais Securities Americas (2); Chase (3); Deutsche Bank Securities (3); Dresdner Kleinwort Benson (1); Donaldson Lufkin & Jenrette (1); Evergreen Investment Management Company (1); Goldman Sachs (4); International Finance Corporation/The World Bank (2); J.P. Morgan (4); J.P. Morgan Investment (3); Keystone (1); Lehman Brothers (1); Merrill Lynch (2); MFS Investment Management (1); Moody's Investors Services (2); Morgan Stanley Asset Management (2); Pioneer Investment Management (1); Salomon Smith Barney (2); Santander Central Hispano Investment (1); Schroders (1); Scudder Kemper Investments (1); State Street Global Advisors (1); Standard & Poor's (1); US Trust (1); Violy, Byorum & Partners (1); Wellington Management (1).

Table 1: Mexican Macroeconomic Calendar: Timing and Frequence of Released Information in 2001

TEMAS\MES	Ene	Feb	Mar	Abr	May	Jun	Jul	Ago	Sep	Oct	Nov	Dic
Balanza Comercial R/ (Mensual)	9 (Nov)	9 (Dic)	9 (Ene)	9 (Feb)	9 (Mar)	8 (Abr)	9 (May)	9 (Jun)	10 (Jul)	9 (Ago)	9 (Sep)	10 (Oct)
Balanza Comercial O/ (Mensual)	23 (Dic)	23 (Ene)	23 (Feb)	23 (Mar)	23 (Abr)	25 (May)	23 (Jun)	23 (Jul)	24 (Ago)	23 (Sep)	23 (Oct)	26 (Nov)
Indicador de la Inversión Fija Bruta (Mensual)	17 (Oct)	7 (Nov)	7 (Dic)	10 (Ene)	7 (Feb)	7 (Mar)	10 (Abr)	7 (May)	7 (Jun)	8 (Jul)	7 (Ago)	7 (Sep)
Indicadores de la Actividad Industrial (Mensual)	11 (Nov)	12 (Dic)	14 (Ene)	11 (Feb)	14 (Mar)	11 (Abr)	12 (May)	13 (Jun)	11 (Jul)	12 (Ago)	12 (Sep)	12 (Oct)
Empleo y Desempleo (Mensual)	18 (Dic)	19 (Ene)	20 (Feb)	19 (Mar)	21 (Abr)	20 (May)	18 (Jun)	21 (Jul)	19 (Ago)	17 (Sep)	21 (Oct)	19 (Nov)
Producto Interno Bruto a Precios Constantes (Trimestral)		15 (4to Trim)			15 (1er Trim)			15 (2do Trim)			15 (3er Trim)	
Oferta y Demanda final de Bienes y Servicios (Trimestral)			15 (4to Trim)			15 (1er Trim)			14 (2do Trim)			14 (3er Trim)
Establecimientos comerciales (Mensual)	24 (Nov)	20 (Dic)	22 (Ene)	20 (Feb)	24 (Mar)	21 (Abr)	20 (May)	24 (Jun)	20 (Jul)	22 (Ago)	22 (Sep)	20 (Oct)
Principales Indicadores de empresas constructoras (Trimestral)	26 (Sep -Nov)			24 (Dic -Feb)			26 (Mar -May)			25 (Jun -Ago)		
Producto Interno Brutoa Precios Corrientes (Trimestral)		22 (4to Trim)			22 (1er Trim)			22 (2do Trim)			26 (3er Trim)	
Indicador Glogal de la Actividad Económica (Mensual)	10 (Oct)	1 (Nov)	27 (Ene)	25 (Feb)		26 (Abr)	25 (May)		25 (Jul)	26 (Ago)		
Industria Maquiladora de Exportación (Mensual)	29 (Nov)	26 (Dic)	29 (Ene)	27 (Feb)	30 (Mar)	28 (Abr)	30 (May)	30 (Jun)	27 (Jul)	30 (Ago)	29 (Sep)	18 (Oct)
Industria Minero-metalúrgica (Mensual)	30 (Nov)	27 (Dic)	30 (Ene)	30 (Feb)	31 (Mar)	29 (Abr)	31 (May)	31 (Jun)	28 (Jul)	31 (Ago)	30 (Sep)	27 (Oct)
Indicadores del Sector Manufacturero (Mensual)	31 (Nov)	28 (Dic)	28 (Ene)	26 (Feb)	29 (Mar)	27 (Abr)	27 (May)	29 (Jun)	26 (Jul)	29 (Ago)	28 (Sep)	28 (Oct)
Producción Manufacturera y Generación de Electricidad por Entidad Federativa*/ (Mensual)	12 (Oct)	8 (Nov)	6 (Dic)	5 (Ene)	4 (Feb)	5 (Mar)	5 (Abr)	3 (May)	4 (Jun)	4 (Jul)	5 (Ago)	5 (Sep)

Source: INEGI, 2000

Table 2:Top and Mid-Level Economic Policy-Making Positions in Mexico, October 1994

Name	Position/Year	Undergraduate Degree	Graduate Degree
Carlos Salinas de Gortari	President	UNAM Economics, 1969	Ph.D. Political Economy and Government, Harvard, 1978
Pedro Aspe Armella	Minister of Finance	ITAM Economics, 1974	Ph.D. Economics, MIT, 1978
Guillermo Ortíz Martínez	Deputy Minister of Credit (Finance Ministry)	UNAM Economics 1972	Ph.D. Economics, Stanford, 1977
Francisco Gil Díaz	Deputy Minister of Revenues (Finance Ministry)	ITAM Economics 1966	Ph.D. Economics, University of Chicago, 1972.
Carlos Ruiz Sacristán	Deputy Minister of Budget Control (Finance Ministry)	Anáhuac Economics 1972	Ph.D. Economics, Northwestern University, 1974
Antonio Sánchez Gochicoa	Oficialia Mayor (Finance Ministry)	ITAM Economics 1974	M.A. Economics, Cambridge University, 1977
Carlos Jarque	Director of the National Bureau of Statistics (INEGI--Finance Ministry)	Anáhuac Accounting 1976	MS and MA in statistics, London School of Economics 1977, 1978. MA Economics, Australian National University, 1981
Jaime Serra Puche	Minister of Commerce	UNAM Political Science, 1973	Ph.D. Economics, Yale, 1979
Pedro Noyola de Garagorri	Deputy Minister of Foreign Trade (Commerce Ministry)	No information available	No information available
Fernando Sánchez Ugarte	Deputy Minister of Industry and Foreign Investment (Commerce Ministry)	ITAM economics 1973	Ph.D. Economics, University of Chicago, 1977
Eugenio P. Carrión Rodríguez	Deputy Minister of Domestic Trade and Foodstuffs (Commerce Ministry)	UNAM Business Administration 1972	MA Economics, Colegio de México 1975. Ph.D. Economics, University of Grenoble, France, 1980
Miguel Mancera Aguayo	Central Bank Director	ITAM Economics, 1956	MA Economics, Yale, 1960
Ariel Buira Seira	Director of International Organisms and Agreements (Central Bank)	B.A. Economics, University of Manchester, England, 1963	Ph.D. Economics, University of Manchester, England, 1966
Agustín Carstens Carstens	Assistant to the Director (Central Bank)	ITAM economics	Ph.D. Economics, University of Chicago
Marín Maydón Garza	Director of Development Credit (Central Bank)	Autonomous University of Nuevo León (UANL) Economics 1965.	Ph.D. Economics, MIT, 1967
Angel Palomino Hasbach	Director of Monetary Programming and Financial Systems Analysis (Central Bank)	UNAM Economics 1966	MA Economics, Colegio de México, 1971
José Julian Sidaoui Dib	Director of Central Bank Operations (Central Bank)	University of the Americas Economics 1973	MA Economics, UPenn, 1974 Ph.D. Economics, George Washington U. 1978

Source : Sarah Babb, 2001.
Top positions include President, Finance Minister, Commerce Minister, and Central Bank Director

Table 3 : World Confidence Game Arenas in 2000

LACEA Rio 2000 Sample of Speakers, Rio, October 12-13 2000
IMF/World Bank Annual Meeting, September Prague 19-28 2000
Federal Reserve Bank of Dallas, Dallas March 6-7 2000.

Inernational Organizations

Stanley Fisher (IMF, First Managing Director)
Eduardo Borensztein (IMF)
Olivier Jeanne (IMF)
Gaston Gelos (IMF)
Ernesto Stein (IADB)
Nora Lustig (IADB)
Carmen Pagés (IADB)
Bicholas Stern (World Bank)
Guillermo Perry (World Bank)
Ariel Fizbein (World Bank)
Martin Ravallion (World Bank)
Luis Servén (World Bank)

Governments

Pedro Malan (Brazil, Finance Minister)
Norman Loayza (Chile, Banco Central)
Alexander Foffmaister (Costa Rica, Banco Central)
Luiz Miguel Trevino (Peru, Min. of Economy)
José de Gregorio (Chile, Min. of Planning)
Edward Amadeo (Brazil, Min. of Finance)
Carlos Winograd (Argentina, Min. of Economy)
Fabio Ghironi (USA, Reserve Federal Bank of NY)
Fernando Aportela (Mexico, Banco Central)
Rodrigo Valdés (Chile, Min. of Finance)
Klaus Schmidt-Hebel (Chile, Banco Central)
Andrew Powell (Argentina, Banco Central)
Arminio Fraga (Brazil, Banco Central)

Banks

Paulo Leme (Goldman Sachs)
Luis Carranza (BBVA)
Walter Molano (BCP Securities)
John Welch (Barclays Capital)
Paulo Vieira da Cunha (Lehman Brothers)
Mohamed El Rian (PIMCO)
Russell Cheetham (Frank Russell Company)
Wolfgan Wendt (Deutsche Bank)
Michael Gavin (UBS Warburg)

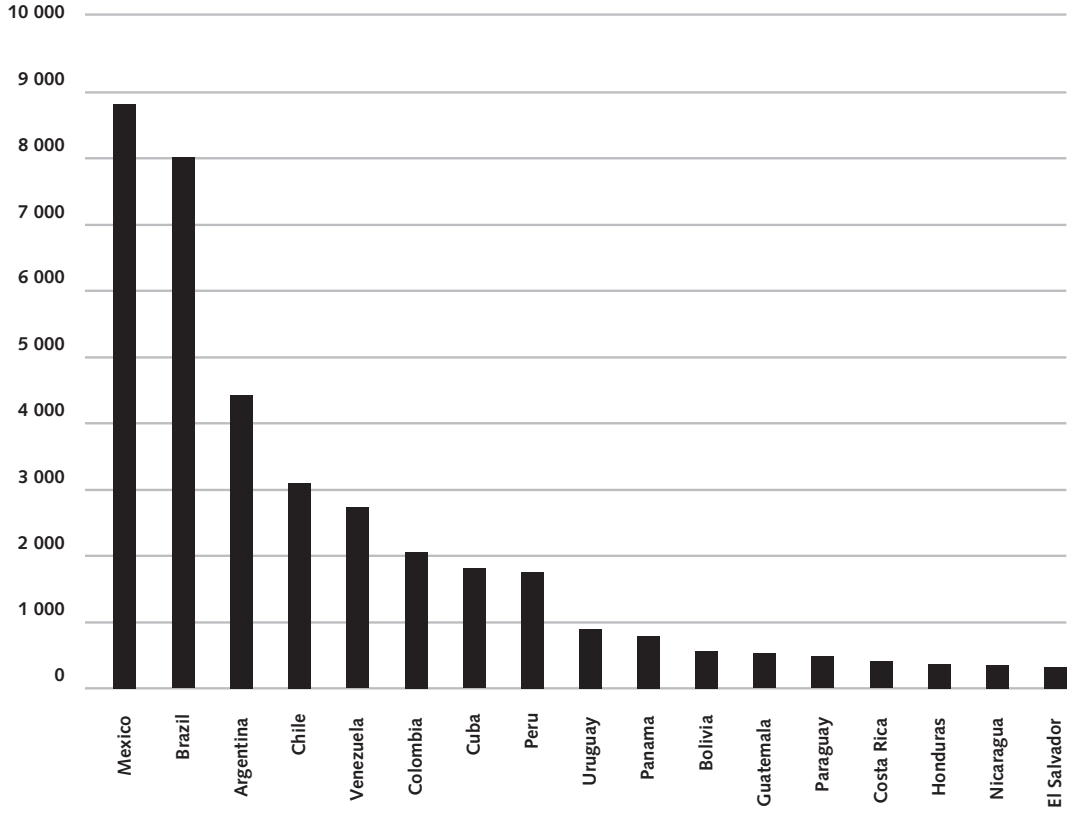
Universities

Graciela Kaminsky (George Washington University)
Guillermo Calvo (University of Maryland)
Ricardo Hausmann (Harvard University)
Roland Bénabou (Princeton University)
Raquel Fernandez (NYU)
Andrés Velasco (Harvard University)
Ricardo Caballero (MIT)
Rudiger Dornbusch (MIT)
Dani Rodrik (Harvard University)
Sebastian Edwards (UCLA)
Andrew Rose (Berkeley)

Sources:
http://www.puc-rio.br/lacea-rio-2000/
http://www.dallasfed.org/htm/dallas/archives.html
http://www.imf.org/external/am/2000/prague.htm

Table 4: The Financial Times Confidence Game Arena

Number of references
5 years between November 1995 and November 2000



Washington and Academia	Number of References
Alan Greenspan (Federeal Reserve)	3058
Michel Camdessus (IMF)	558
Larry Summers (US Treasury)	431
Jeffrey Sachs (Harvard)	149
Paul Krugman (MIT)	102
Joseph Stiglitz (World Bank)	88
Enique Iglesias (IADB)	44
Ricardo Hausmann (IADB)	28
Guillermo Perry (Worl Bank)	18
Sebastian Edwards (UCLA)	17
Claudio Loser (IMF)	15
Rudiger Dornbusch (MIT)	14
Victor Bulmer-Thomas (ILAS)	6
Guillermo Calvo (Maryland)	3
Ricardo Ffrench-Davis (ECLAC)	3
José Antonio Ocampo (ECLAC)	0

Wall Street & The City	Number of References
Georges Soros (Soros)	907
Geoffrey Dennis (SSMB)	83
Peter West (BBVA)	70
Walter Molano (BCP Secutiries)	46
William Rhodes (Citigroup)	38
Paulo Leme (Goldman Sachs)	33
Arturo Porzecanski (ABN Amro)	32
Joyce Chang (Chase)	17
Francis Freisinger (Merrill Lynch)	17
Jorge Mariscal (Goldman Sachs)	15
Damian Fraser (UBS Warburg)	13
Tim Love (SG)	11
Neil Dougall (DkB)	10
Ernest Brown (Santander)	8
Jay Pelosky (MSDW)	8
Philip Suttle (JP Morgan)	3
Michael Hood (JP Morgan)	3
Mark Precious (UBS Warburg)	3
Michael Gavin (UBS Warburg)	3
Tom Trebat (SSMB)	2
Vladimir Werning (JP Morgan)	1

Latin American Policy Makers	Number of References
Fidel Castro (Cuba)	753
FH Cardoso (Brazil)	636
Hugo Chavez (Venezuela)	617
Ernesto Zedillo (Mexico)	508
Alberto Fujimori (Peru)	478
Carlos Menem (Argentina)	438
Fernando de la Rua (Argentina)	179
Domingo Cavallo (Argentina)	170
Guillermo Ortiz (Argentina)	127
Pedro Malan (Brazil)	111
Roque Fernandez (Argentina)	87
José Angel Gurria (Mexico)	72
Arminio Fraga (Brazil)	67
José Luis Machinea (Argentina)	54
Daniel Marx (Argentina)	17
Francisco Gros (Brazil)	8

Sources: Financial Times &FT.com; Reuters business Briefeings.
Note: 5 years Nov. 1995-Nov. 2000; *Financial Times* references only

Table 5: The Trespassing Game
Trespassings To Wall Street : Deutsche Bank Trespassers

Name	Position held at DB (year joining)	Previous Position	Academic Background
Leonardo Leiderman	Chief economist Latam (2000)	Central Bank of Israel	PhD in economics from University of Chicago
Gustavo Canonero	Economist, Latin America (1998)	Salomon Brothers	PhD in economics from MIT
José Carlos de Faria	Economist, Latin America (1999)	/	PhD in economics from MIT
Piero Ghezzi	Economist, Latin America (1999)	Johns Hopkins University	PhD in economics form Berkeley
Michael Spencer	Chief economist Asia (1997)	International Monetary Fund	PhD in economics from Queens University
Peter Hooper	Global Economics and US (1999)	Federal Reserve Board	PhD in economics from University of Michigan
Nicholas Boorks	Economis, Asia (1999)	Santander Investment/Peregrine	MA in Ecnomics Columbia University
Sanjeev Sanyal	Economist, Asia (1997)	Société Générale Crosby	M.Sc. in economics Oxford University
Marcel Cassard	Chief economist emerging europe (1997)	International Monetary Fund	PhD in economics Columbia University
Tefvik Aksoy	Economist, Emerging Europe (2000)	Bank Ekspres (Turkey)	PhD in economics University of Delaware
Natalia Gurushina	Economist, Emerging Europe (1999)	Bankers Trust (Russia)	Degree in Philosophy Oxford University
Peter Garber	Global Strategist (1998)	Brown University	PhD in economics from University of Chicago

Source : Deutsche Bank, 2000