

COMMITTEE FOR ECONOMIC DEVELOPMENT

Chicago, Illinois
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I. Introduction

- A. Thank you. Pleasure to be here
- B. Very timely topic.
- C. Excellent group of participants, including the members of our panel.
- D. Particular pleasure to renew acquaintance with Larry Lindsey, my former colleague from the Federal Reserve.

II. Here to discuss policy options for preventing future problems.

- A. Take a couple of minutes to set the stage for the discussion.
- B. As we all know, the international financial system is undergoing significant change. But the problems are actually not all that different.
- C. We evaluated these problems as well as possible solutions during the past year at a couple of Chicago Fed conferences: the Conference on Bank Structure and Competition, which took place just a couple of weeks ago; and a Conference on Preventing Bank Crises, which was held last summer.
- D. Like to briefly give you a flavor of the discussion at these conferences.

- E. First, the origins of bank crises can be traced to two fundamental causes—unsustainable economic policies; and weak financial structure.
- F. There have been many attempts in the past to address these problems. But they've generally all had a fundamental flaw—they encourage, or don't do enough to discourage, moral hazard.
- G. (Option—The previous panel addressed this issue and provided some very interesting insights.)
- H. What are the potential solutions? I'd suggest three possibilities as a starting point for discussion:
- one—more formal international regulatory guidelines;
 - two—increased transparency—that is, more relevant information provided in a timely manner and incentives to encourage market participants to use the information;
 - three—more effective regulation, specifically regulation that is incentive-compatible whenever possible.
- I. The challenge, of course, is implementing such solutions effectively in a way that will reduce moral hazard—the devil is in the details.
- J. In the case of international regulatory guidelines, if they are necessary, it would be important to develop guidelines that are effective yet flexible.
- K. We need to avoid a one-size-fits-all approach that ignores the differences of each nation.
- L. But, at the same time, the guidelines can't be so broad that they are mere platitudes.
- M. Developing solutions that strike the right balance and contain moral hazard problems is a major challenge—it's an extremely complex issue.
- N. Fortunately, we have an expert panel on hand to address this issue. I'm very interested in hearing their thoughts.
- O. Our first panelist is **Jeffrey Shafer**.
- P. Jeff Shafer is a managing director of Salomon Smith Barney and vice chairman of Salomon Smith Barney International.
- Q. He joined the firm in 1997 after serving as Under Secretary for International Affairs at the Treasury Department.
- R. As Under Secretary, Mr. Shafer was responsible for international economic and financial issues, where he focused on three major areas:
- Strengthening economic growth and financial stability in both developed and developing countries;

- Fostering the development and liberalization of financial markets; and
 - Strengthening the IMF and multilateral development banks.
- S. From 1984 until 1993, he held a series of high-level positions at the Organization for Economic Cooperation and Development.
- T. Before that, he served with the Federal Reserve Bank of New York, the Federal Reserve Board, and the Council of Economic Advisors.
- U. Please welcome Jeff Shafer.

Akira Nambara.

- A. Our second panelist is Akira Nambara, (Nomber-a) deputy governor of the Export-Import Bank of Japan.
- B. Mr. Nombara has worked at the Export-Import Bank since 1958.
- C. He's gained experience in a number of areas at the Bank including serving as deputy director of the Bank Relations and Supervision Department, s director of the Research and Statistics Department, and as chief representative to the Americas.
- D. He was named executive director of the Import-Export Bank in 1992 and two years later he was named to his current position.
- E. He is a graduate of the Faculty of Law at the University of Japan and was a Fullbright scholar at Yale.
- F. Please welcome Akira Nombara.

David Vitale

- A. Our third panelist is David Vitale [vi-tal-le]. Dave Vitale is vice chairman of First Chicago NBD Corporation, president of the First National Bank of Chicago and chairman of American National Bank.
- B. He is also a director of the corporation and both banks.
- C. Dave Vitale has extensive international banking experience.
- D. He organized and managed foreign exchange and money market activities for First National's London Branch and headed the Corporate and Institutional Bank.
- E. In that position, he was responsible for all capital markets activities, including i-securities derivative products, and foreign exchange.
- F. Please welcome David Vitale

Larry Lindsey

- A. Our fourth panelist is Larry Lindsey. Larry is a former colleague.
- B. He was a member of the Federal Reserve Board from 1991 to 1997.
- C. Prior to his appointment to the Board, Larry served in the Bush Administration as associate director for domestic economic policy and as special assistant to the president for policy development.
- D. Larry's experience also includes teaching at Harvard, where he earned his master's degree and Ph.D in economics, and serving on the Council of Economic Advisers.
- E. He is currently resident scholar at the American Enterprise Institute.
- F. Please join me in welcoming Larry Lindsey.