

GLOBAL FINANCIAL CRISES: IMPLICATIONS FOR BANKING AND REGULATION
35TH ANNUAL CONFERENCE ON BANK STRUCTURE AND COMPETITION

Chicago, Illinois
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Introductory remarks

I. Introduction

- A. Good morning, I'm Michael Moskow, president and chief executive officer of the Federal Reserve Bank of Chicago.
 - 1. I'd like to welcome you to the 35th annual Conference on Bank Structure and Competition.
 - 2. I'm delighted that we have another outstanding turnout for this conference.
- B. Our theme this year is Global Financial Crises: Implications for Banking and Regulation.
 - 1. It's a very appropriate focus for the conference.
 - 2. In fact, it's probably the single most important topic we've covered during recent conferences—an issue that will play a major role in determining the future of financial services.
- C. To start things off, I'd like to take a few minutes to set the stage for our discussions.
 - 1. The Bank Structure Conference has a long and distinguished history of discussing—and anticipating—key public policy issues.
 - 2. Back in the early 1980s, for example, the conference featured some of the earliest discussions of potential moral hazard—years before the S&L crises became a national concern.

- D. The conference began in 1964 when 20 local researchers came to the Chicago Fed to discuss the microeconomics of financial markets.
 - 1. During the 1970s the conference broadened its scope. Key topics included the need for deregulation and the potential risks of existing regulations.
 - 2. The overriding issue during the 1980s was the safety net and potential moral hazard. It was during this time that the conference expanded to include bankers as well as regulators and academics.
 - 3. During the 1990s the topics have taken on more of an international flavor and focused on the implications of the changing financial environment.
- E. Today the Bank Structure Conference is generally acknowledged to be the nation's leading forum for discussing public policy issues facing the financial industry.
- F. Our topic for the next two days—global financial crises—is the key public policy issue facing the industry.
 - 1. For all of us in this room, the Asia crisis was one of the major defining events that's shaped the economic and financial environment in which we work.
 - 2. Clearly, the issue of global financial crises is one that will require both regulators and practitioners to work together closely in order to develop effective policy.
- G. Most crises are unexpected, and it appears that the Asia crisis falls into that category. Not all would agree, but the Asia crisis and its worldwide repercussions did seem to take the world by surprise.
 - 1. For example, bond spreads between emerging market debt and U.S. Treasury securities actually fell between the middle of 1995 and July 1997.
 - 2. In some ways, the Asia crisis worked its way into our collective consciousness with more of a whimper than a bang.
 - 3. The news reports on July 3rd indicating that the Bank of Thailand would allow the baht to float were an early indication of future problems. But the articles were far from front-page news. For example, the July 3rd edition of The Wall Street Journal placed the article on the floating of the baht on page 8.
- H. The unexpected nature of the Asia crisis was due in part to the apparent lack of any real macroeconomic distortions in the East Asian countries.
 - 1. The economies of the five countries in crisis generally had strong growth, low inflation, low unemployment, budget surpluses, and declining government foreign debt. But, in retrospect, there were critical imbalances.

2. The ratio of short-term debt to short-term assets was high and growing in each country.
 3. And there was a dramatic increase in foreign bank lending, much of it focused on real estate markets.
- I. A look back at past crises raises the question of how much financial markets drive developments in the real economy.
1. Is the massive outflow of capital that we've seen in past crises a rational expectation by investors of future economic problems?
 2. Or is it caused by a loss of confidence unconnected to any real economic shock?
 3. Or is the loss of investors' confidence so damaging that it becomes a self-fulfilling prophecy?
 4. These troubling issues have even led some to question the fundamental value of capital market integration across countries, although I believe we must not lose sight of the enormous benefits we've gained in having a free flow of capital worldwide.
- J. Certainly looking back at past crises highlights the importance of having an effective and efficient financial system to complement sound macroeconomic policy.
- A variety of factors have been cited as playing a role in past crises: excessive speculation; poor risk management; ineffective bank supervision; weak corporate governance; inadequate transparency; and, perhaps most important, a high level of moral hazard resulting from perceived explicit or implicit government guarantees as well as political interference in the credit allocation process.
- K. The task facing us in the next two days, of course, is to explore the implications of global crises for banking and regulation. There are a number of important public policy questions that are likely to emerge in our discussions:
1. What are the implications of global financial crises for U.S. firms?
 2. What are the most appropriate public policy responses?
 3. What are the most effective means of preventing such crises?
 4. Do we need to develop a new regulatory architecture for banking?
 5. And how can we mitigate the effects of moral hazard in the international arena?
- L. The answers to these questions, and many others we'll be discussing in the next two days, will play a key role in shaping the future of the financial services industry in the U.S. and across the globe. I'm pleased that we have some of the leading experts in the industry to discuss these issues.

II. Greenspan Introduction

- A. I'm especially pleased to introduce Alan Greenspan our keynote speaker today.
 - 1. I'm not sure I can say anything about Alan that hasn't been said before. If any topic has been in the business pages more than financial crises, it's Alan Greenspan.
 - 2. Alan's been described in various publications as "subtle"; "exceptionally bright"; "a droll wit"; "a numbers junkie"; "open to new ideas"; "a man people really like"; "a semipro philosopher"; "a skilled athlete"; "a lover of spy novels"; "an unparalleled economic guru".
 - 3. He's also been called "a pretty good woodwind player" and "an even better bookkeeper" in his earlier years with a touring jazz band; "the best Fed chairman ever"; and, recently in Newsweek, "a financial superhero."
- B. All this from unbiased sources. I'm not sure I could elicit such a string of superlatives from my own mother, much less our nation's press corp.
 - 1. I can add my own testimony on a couple of counts:
 - 2. Alan is indeed a brilliant economist and Fed chairman; and he's also a talented athlete. I've had the pleasure of witnessing Alan's skills on the golf course. I can report that his golf game is exactly what you'd hope to see from the head of our nation's central bank.
 - 3. He has a safe, sound, and successful strategy. He hits straight down the fairway; never misses a green on his approach shot; and always sinks the make-able putt. Well, almost always. Definitely a winning approach for golf or central banking.
- C. Please join me in welcoming Alan Greenspan.