1. Introduction  
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DAVID LLEWELLYN

All of the chapters in this book are the product of a one-day conference entitled ‘Financial Institutions, Systems and Markets: Structure, Performance and Regulation’ held at Loughborough University on 16 June 2009 to celebrate the career of David Llewellyn and his contribution to the Department of Economics at Loughborough University.2

David was appointed as Professor of Money and Banking in the new Department of Economics at Loughborough University in 1976 at just 33 years of age, a post he has held for over 30 years. After graduating from the London School of Economics (LSE) in the mid-1960s David moved to Rotterdam to take up the post of economist at Unilever. He moved back to the UK one year later to work for HM Treasury where he advised on both domestic and external financial matters, before leaving to join the staff of Nottingham University in 1967. In 1974 David joined the Treasurer’s Department of the International Monetary Fund (IMF) in Washington DC where he was responsible for the analysis of banking and capital markets and advising on the reform of the international monetary system.

Just five years after his arrival in Loughborough, David became head of the Department of Economics (1981–91) and from 1985–2004 was chairman of the Loughborough University Banking Centre, which with the aid of sponsorship from leading UK banks (especially the former Midland Bank, National Westminster Bank and the Halifax Building Society) made Loughborough a centre for the study of the financial system. David was one of the principal drivers behind this very first public-private initiative, and the banking centre was subsequently responsible for a number of important developments. In particular it was one of the main pioneers of the empirical study in the UK of bank and building society efficiency and competition. By the early 1990s sponsorship had been reduced nationally, and the banking centre staff merged with the Economics Department
and the Business School at Loughborough. However, David had put Loughborough on the academic map as a centre for excellence in the area of the economics of banking and financial markets and this reputation continues to this day.

Reputations are not built on sponsorship alone and David was very active in research. His book, *International Financial Integration: The Limits of Sovereignty* (1981), was the first in economics which tackled the implications of financial integration long before the topic was fashionable. This was soon followed by an edited volume on *The Framework of United Kingdom Monetary Policy* (1983) and the Gilbart lectures on the *Evolution of the British Financial System* (1985). In this pre-research exercise era academics focused less on academic journal papers and more on books, but as the demands changed so did the direction of David’s output. David has contributed, *inter alia*, to the *Journal of Financial Regulation and Compliance*, *Journal of International Banking and Financial Law*, *Economic Notes*, *Open Economics Review*, *European Journal of Finance*, *International Journal of Financial Regulation and Compliance*, *Journal of International Financial Markets, Institutions and Money*, *Journal of Development Studies* and *Journal of International Financial Markets*. In addition, David has served on the editorial boards of *International Journal of Regulation and Compliance*, *International Journal of Bank Regulation*, and *Banking and Information Technology* and, of course, there are numerous chapters in books and reports on various aspects of the banking and financial sectors all around the world.

Throughout his career David has been extremely active in consultancy work for both private and public sector organisations. This reflected his belief that economics should be of practical use, as well as his wide interests in real-world problems, and these activities contributed greatly to his reputation. Between 1994 and 2002 he was a Public Interest Director of the Personal Investment Authority (the UK regulator of retail financial services until it was superseded by the Financial Services Authority (FSA)). In 2004 he was appointed by the South African Minister of Finance to be a member of the task group to investigate competition in the South African banking industry. He has been a consultant to the World Bank and the IMF and is currently a member of an IMF international advisory committee on governance in supervisory agencies. David was also a member of the advisory board of the European Banking Report at the Italian Bankers Association. In 2004 he was a consultant to HM Treasury on governance in life mutuals (the Myners report) and was a member of the PricewaterhouseCoopers team investigating the macroeconomic impacts of the Basel II Accord for the European Commission. In 2005–6 he was a member of the Council of Management of the European Money
and Finance Forum (SUERF), a network association of bankers, central bankers, financial practitioners and academics, and was president between 2000 and 2006. This was one of David’s ideal roles: bringing together academics and practising bankers and getting both groups to learn from each other, for their mutual benefit and the benefit of the organisations that they served.

As remarked elsewhere in this volume, one of David’s most influential papers was his overview of ‘The Economic Rationale for Financial Regulation’ (Llewellyn, 1999). Economically rigorous, but also addressed to a wider audience, especially those sceptical of state intervention in financial markets, this paper set benchmarks by which regulators could work and be judged in practice, and it has had a major impact on the thinking and work of the FSA, much of which has inspired regulators worldwide.

As if this activity was not enough, David has always undertaken a full teaching load – even into retirement! In this way David has been an outstanding colleague. Although for many years David taught first year macroeconomic principles, he is best known for his course on financial institutions, systems and markets (timetabled as FISMs) – the only course of its kind in the country. In this course David combined his natural talent as a presenter and lecturer with his intimate knowledge of the financial sector and how it operates in a way that was (and is) accessible to all students with only a basic understanding of economics. His lecturing style was very much of the old school: first and foremost a performance – a very entertaining performance as the nitty-gritty material was interspersed with anecdotes and short stories of his latest visits to foreign parts. This made the dry subject of banking regulation and financial markets fascinating, and many generations of Loughborough students are grateful for David’s treatment of the subject. When we developed a suite of master’s degree programmes in banking, economics and finance in the 1990s, needless to say David devised a postgraduate version of the long-standing FISMs course which became one of the core modules on this very successful programme.

With David’s retirement, economics at Loughborough in many ways has lost, if not its founder (who was Denis Swann), its most well-known and influential figure. Given that the subject matter of much of academic economics has moved in the direction of ever increasing abstraction from the real world, it is likely that we will never again see David’s like in a Department of Economics. To those of us who have directly witnessed the extraordinary impact of his teaching and thinking on generations of students at Loughborough, this is a sad reflection of the current position and possible future direction of academic economics, and one which may well reduce the popularity of the subject for study, and the viability of the discipline in times...
of financial stringency. However, those of us who have journeyed some of the way with David will be forever grateful for the experience.

THE CHAPTERS IN THIS VOLUME

As luck would have it, the June 2009 conference was arranged just as the financial system was feeling the full force of the extraordinary events whose seeds may have been planted years ago but which hit the major industrial nations during 2007–09. All the invited speakers naturally turned their full attention to understanding the crisis, its causes and implications, especially for regulation and private behaviour.

The chapters fall naturally into five parts. In part one, Christopher Green and Geoffrey Dennis outline the events in the run-up to and during the crisis. Green concentrates on its origins in the US mortgage market and the bailouts in the major industrial countries; Dennis looks at how emerging markets fared during the crisis. In part two the contributions provide a general overview of financial regulation. Peter Andrews explains how the FSA has used economic evidence to inform its regulatory thinking since its establishment, especially building on Llewellyn (1999). Richard Herring and Reinhard Schmidt ask how the crisis has or should have changed our view of regulation, especially to improve rather than eliminate it. Any type of intervention involves moral hazard and Charles Goodhart gives a classic overview of the many levels at which the recent interventions are likely to alter the moral hazards faced by regulators and the private sector in the future.

Part three is concerned with ‘macro-prudential’ regulation, a term which was used by only a few until recently but which is now recognised to be a critical issue in understanding the behaviour and regulation of financial institutions to limit systemic risk. In the first chapter, Claudio Borio sets out the key issues involved in macroprudential regulation. The chapters by Franco Bruni and by Forrest Capie and Geoffrey Wood are concerned particularly with the potentially ambiguous relationship between monetary policy and macro-prudential regulation. For example, lender of last resort activities by a central bank are part of monetary policy but may also be critical in times of financial crisis, and there may be conflicts between the two objectives. Bruni discusses the principles of the relationship between monetary policy and regulation, whereas Capie and Wood place the debate in its historical context.

The contributions in part four concentrate on the more traditional ‘micro’ aspects of regulation. David Mayes considers in depth the ‘Prompt Corrective Action’ model for winding up financial institutions and how
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it might operate in a European context, particularly in a setting where so many financial institutions operate across borders: a key problem in the crisis as many of our authors observe. Most of the contributors to this volume argue that some regulatory reform is essential, and while not necessarily dissenting from this principle, the chapters by Robert Eisenbeis and George G. Kaufman and by Shelagh Heffernan also offer a more cautionary view. Eisenbeis and Kaufman point out, with particular reference to Regulation Q, that many well-intended regulations passed in haste have unexpected and undesirable consequences. Heffernan argues that in the case of the UK at least, regulators had most of the necessary tools to prevent disaster but either failed to use them at all, or acted too late despite having adequate timely information. On this view, the regulatory process as much as the regulations themselves needs overhauling.

In the final part, our contributors turn to the users of the financial system. Morten Balling considers how far disclosure and European Union (EU) disclosure requirements in particular can be used to limit the asymmetric information endemic in financial markets. Andy Mullineux looks at the monitoring role of shareholders, particularly in the context of the range of specialised institutions operating in financial markets. The practical difficulty of shareholder oversight is just one of several considerations suggesting a radical rethink of the business of banking, with Mullineux drawing a parallel between the money transmission activities of banks and the basic business of utilities. In the final chapter, Darren Grimsey and Mervyn Lewis evaluate the prospects for public-private partnership financing. In the post-crisis environment, longer-term private financing is more scarce, particularly for large projects, and this suggests that the public sector may need to be more fully involved in the risk-sharing aspects of the finance than has hitherto been the case.

Much more remains to be written on the recent financial crisis and its implications for financial institutions, regulation and indeed the general public. Inevitably, events have moved quickly, and some of the material in this volume might have been rewritten several times between the conference and subsequent publication. However, the editors and authors concluded that the energy of the conference would be best preserved by a relatively light updating of the material so as to transmit effectively the immediacy of the arguments that were presented. In this spirit we hope that the chapters in this volume will make an important contribution to understanding the crisis, how we got here, and where we might go next. We believe that it is particularly fitting that a volume devised to celebrate David Llewellyn's career speaks both to economists and practitioners of the need to redouble our efforts to improve the functioning of the financial system: in difficult times as well as in normal times.
NOTES

1. We thank Denise Simpson for her help in organising the June 2009 conference and Ben Booth and his colleagues at Edward Elgar for their enthusiastic help in the preparation of this volume.

2. The papers by Green, Andrews, Mayes, and Eisenbeis and Kaufman were not presented at the conference but were commissioned beforehand as part of this volume.

REFERENCE