

# Foreword

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Do we really need another volume on the current and ongoing global financial crisis (GFC)? As I sit in my home study facing a clutter of GFC-related books, reports, articles, conference materials, and enacted and proposed legislation and rules, my visceral reaction is ‘enough is enough’. Yes, it is important to decipher the various ‘causes’, to sort through the sundry public and private failures, to learn appropriate lessons and to ponder new, appropriate laws, regulations, standards and practices; but, much of this has already been done over the past three years. As aptly pointed out by Professor Lastra, much of the GFC literature and actions are about fighting the last war.

On a personal level, I have developed a large lump of cynicism in my craw as I re-read *Reinhart and Rogoff (2009)* to understand more fully that the GFC, in many (but not all) ways, is really not that different in historical perspective from prior financial crises and that ‘all the red lights were blinking in the run-up to the crisis’. Indeed, ‘the real problem is that the global economy is badly overleveraged’, and that we are probably in for a decade of ‘painful deleveraging and slow growth’.

Also, when I reflect upon the value/non-value of my over three decades of comparative study of domestic, regional and international financial law and policy initiatives, I am left with a ‘What’s it all about, Alfie?’ moment. Over the past several decades and on the domestic, regional and international levels, much thought, energy and international collaboration have been generated by well-meaning policy-makers, governmental and intergovernmental bodies, the legal and accounting professions and the Academy in terms of developing and fostering appropriate risk-based and law-based frameworks respecting putting in place and sustaining viable and stable financial sector infrastructures around the world. Yet, we still did not foresee the GFC – the ‘Second Great Contraction’.

Further and presently, particularly with the current, polarized political environment in the US Congress and contracting federal budgetary constraints, I have come to harbour increasing doubts whether the 848-page Dodd-Frank Act (with the approximately 400 enacted or

contemplated related regulations, 67 studies and 22 periodic reports) and the 298-page proposed ‘Volcker Rule’ will ‘connect all the dots’ in any meaningful, enforceable way, particularly as to (i) the resolution of the ‘too-big-to-fail’ (TBTF) dilemma (which supposedly, in the US, was set to rest in rigorous 1991 federal legislation, which legislation also had provided for a comprehensive ‘prompt corrective action’ framework) and, as to (ii) the establishment of an effective Financial Stability Oversight Council to oversee excessive macroeconomic risks to the US financial system (that is, a macro-prudential regulator, although its 1988 predecessor, the President’s Working Group on Financial Markets, had proved itself wholly ineffective).

Moreover, as I read in the press today (30 May 2012) more about Mr Dimon (supposedly ‘the best US banker’, a trusted adviser to and Board member of the New York Fed, and the Chairman and CEO of the ‘best managed’ and recently ‘stress-tested’ major US bank, JPMorgan Chase (effectively a ‘systemically important financial institution’ (SIFI), with over 400 bank supervisors embedded throughout this bank on a regular basis) and the unspotted USD2–4 billion loss on derivatives activities out of Chase’s Chief Investment Office in London; as I muse again over the incredibly cavalier and uninformed 2010 testimony of former US Treasury Secretary Robert Rubin (whom President Clinton estimated to be the best Treasury Secretary since Alexander Hamilton), former Chairman of Goldman Sachs, and (at 2009), a senior-counsellor to and Board member of Citigroup; and, as I flip through Jon Corzine’s (former Chairman of Goldman Sachs, US Senator and New Jersey Governor) clueless 2011 Congressional testimony concerning the financial collapse and bankruptcy of MF Capital, a major global financial derivatives broker he founded and managed and a primary dealer of US Treasuries, my confidence level bottoms-out as to senior financial institutions executives’ and to the financial institution regulators’ ability to manage risks and otherwise to instil and to maintain prudent governance within complex financial institutions (SIFIs) bottoms-out.

Add to this the high-risk tentacles being generated internally and externally by the current Eurozone crisis (including even possible impact on the November 2012 US presidential elections), and one could easily foresee a bleak global landscape over the next decade (we are already 3–4 years into the GFC). This landscape most probably will portray future domestic, regional and global financial stress and crises, and an absence of the required individual and collective country political-will to redress the fundamental economic disequilibria built up since the 1970s and underpinning our current domestic, regional and global financial systems and economies.

Yet, when I step back and take a deep breath, I see that John Raymond LaBrosse, Rodrigo Olivares-Caminal and Dalvinder Singh, in fact, have assembled another special collection of fresh and thought-provoking insights by leading governmental, intergovernmental, practising and academic experts. This 2013 volume (*Financial Crisis Containment and Government Guarantees*), emanating from a special fall 2011 symposium at the OECD celebrating its 50th anniversary, is most impressive in itself; but, it is even more so when considered in light of their 2009 volume on *Financial Crisis Management and Bank Resolution* and 2011 volume (nearly 30 excellent chapters) on *Managing Risk in the Financial System*.

These three co-editors/contributors represent the very best of the current trend toward considering financial sector reform and crises in a forward-looking context and on an interdisciplinary basis and involving the very best academic, governmental, intergovernmental, financial industry and practitioner minds in the ongoing discussion and debate of the basic and ever-moving question, 'Quo vadis?', as to efforts to assure global financial system stability. These editors and the other stellar contributors are helping to set the policy stage for this coming decade by raising the right questions and by putting forward a provocative range of possible solutions/policy approaches/challenges. I am so impressed with the editors'/contributors' ability to bring together under one roof for an open and candid discussion the following experts: Lee Buchheit (Cleary Gottlieb); Christine Cumming (First Vice President, Federal Reserve Bank of New York); Charles Enoch (International Monetary Fund); Gillian Garcia (Gillian G.H. Garcia Associates); Charles A.E. Goodhart (Financial Market Group, London School of Economics); Már Guðmundsson (Governor, Central Bank of Iceland); Mitu Gulati (Duke University); Eva Hüpkes (Financial Stability Board); Rosa M. Lastra (Queen Mary, University of London); David G. Mayes (University of Auckland), Maria Nieto (Bank of Spain); Fabio Panetta (Banca d'Italia); and Christopher Pleister (German Federal Agency for Financial Market Stability), among others!

Indeed, the GFC has spun-off a high level of pessimism as 'to getting things right this time around'. Real degrees of culpability can be attributed to an incredible array of banking and non-bank financial institutions (and their management), of financial sector regulators/supervisors, and of economic policy-makers (at the domestic, regional and international levels). However, the driving and shifting goal of pursuing global financial stability encompassing 'safe and sound' financial institutions and (at the same time) robust and innovative financial markets is too important a *public good* to give up on.

*Financial system stability as a public good* – in fact, as a *global public good* – has been bandied about in governmental/intergovernmental and

academic circles for some time – well before the unfolding of the GFC in 2007–8. In fact, one could well-argue that bank regulators and central banks, while historically placing their primary focus on institutional ‘safety and soundness’ have long been concerned with systemic stability. For example, the development of the G10, the Basel Committee, IOSCO, IAIS, the Joint Forum, the CPSS, the CGFS, IADI, IASB, the numerous EU/EC financial ‘legislation’, the Eurozone, IMF enhanced surveillance and efforts to devise Early Warning Systems, the IMF Article IV consultations and ROSC programme, and the IMF-WB FSAP initiative can be seen as being a part of this policy concern. The formation of the Financial Stability Forum in 1999 (now since the GFC, renamed and revamped as the Financial Stability Board) and the G7/8 Finance Ministers since 1994 and also the G20 Finance Ministers since 1999 have focused on directing and coordinating financial stability efforts, albeit (pre-GFC) primarily with emerging and transitioning economies in mind. Yet, all these efforts to create a ‘New International Financial Architecture’ really did not appreciate the full complexities of, the full set of risks inherent in, and the market interconnections within the so-called global financial system.

Since its creation in the fall of 2008, the G20 (Leaders) has taken upon itself the primary direction of global governmental/intergovernmental strategy on determining, revising, and overseeing the implementation of a comprehensive global ‘Work Plan’ related to global financial stability. Pursuant to this Plan, the recent work of the FSB and its member institutions (including the OECD, IMF, World Bank, and major domestic bank regulators, finance ministries and central banks) indeed has been most constructive and impressive.

In addition, a key long-term task of the G20 (Leaders) is the establishment over time of a global ‘Framework for Strong, Sustainable and Balanced Growth’: this Framework is intended to begin to address the fundamental global macroeconomic disequilibria plaguing the global economy since the 1970s. Most recently, as to the US, President Obama has signed an Executive Order directing the relevant bodies with the Executive Branch vigorously to pursue international collaborative efforts respecting implementation of this Framework.

I will be keeping this third volume by the ‘dynamic trio’ of LaBrosse, Olivares-Caminal and Singh, along with their first two volumes, in the centre of my worktable as I continue to struggle to give a coherent context to the GFC vis-à-vis the US financial system and the related maze of new US laws, regulations and practices. Ray, Rodrigo, and Dal, thank you so very much for ‘keeping the faith’ and for all you are doing; and, I very much look forward, in due time, to your fourth volume concerning further issues relating to global financial stability.