

19 September 2013

The Limits of Surveillance and Financial Market Failure: Lessons from the Euro-Area Crisis

An International Conference
organised by
The International Policy Studies Association
in co-operation with
La Maison de l'Europe de Paris

Date: Monday 23rd September 2013

Place: La Maison de l'Europe de Paris, 35 rue des Francs Bourgeois, Paris 4e

What this seminar is about ?

The euro-area crisis, which erupted only a few years after the outbreak of the global financial and economic crisis originating from the US housing market debacle, has revealed weaknesses in the regional as well as global frameworks for financial and economic crisis prevention.

In fact, neither regional surveillance within the European framework nor global surveillance by international institutions such as the IMF and the OECD were effective in preventing such large-scale crises in developed countries. Can more effective surveillance be put in place to prevent their recurrence?

In addition to limits to effective surveillance, the repeated financial crises have shed light on deficiencies in the current prudential and monetary policy frameworks. How should they be changed to secure financial market stability and minimize economy-wide disturbances arising from financial market imbalances while maintaining general price stability at the same time?

After discussion of these issues, not only in the context of the euro area but with a broader global perspective, the seminar will focus on specific policy issues: how (i) to contain, and prevent the future re-emergence of, excessive intra-regional imbalances; and (ii) to achieve greater convergence in the euro area, an indispensable condition of the better management of the euro area. This part of discussion will cover a broader set of political economy and governance issues including coordination of fiscal and structural policies in the euro-area with a single monetary policy.

This international conference will gather first-class economists with rich experience in domestic and international economic and financial policy-making as well as policy advisory work in Europe, the United States and Japan and aims at in-depth discussion of these fundamental issues of our time with a view to finding ways for better management of the euro-area and the global economy more generally.

It has been initiated as a non-bipartisan, non-political voluntary activity by Kumiharu Shigehara, President of the International Economic Policy Studies Association and former Deputy Secretary-General and chief economist of the Organisation for Economic Co-operation and Development (OECD).

Agenda

Session 1 (9.30~10.15):

The Limits of Global and Regional Surveillance: the case of the euro area

Why has global surveillance by international institutions such as the IMF and the OECD as well as regional surveillance within the European framework not been effective in preventing and containing the euro area crisis? How should more effective surveillance be achieved?

Chair: Kumiharu Shigehara

Initial Speakers: André Icard, Leif Pagrotsky, Val Koromzay

(Open discussion)

Session 2 (10.15~11.00):

Strengthening the Micro-prudential Policy Framework

How should micro-prudential control be strengthened to prevent local and global financial market failure? Discussion in this and the next sessions will take place not only in the context of the euro area but with a broader global perspective.

Chair: Robert Raymond

Initial Speakers: Paul Atkinson, Jeffrey Shafer, Carol Sirou

(Open discussion)

Session 3 (11.00~11.45):

Coordinating Macro-prudential and Monetary Policy Management

How can macro-prudential and monetary policies be used to secure financial market stability and minimize economy-wide disturbances arising from financial market imbalances while securing general price stability at the same time?

Chair: Philip Turner

Initial Speakers: Stephen Axilrod*, Adrian Blundell-Wignall and Caroline Roulet, Charles Goodhart*

*Views expressed in their written commentary notes (see below) shall be orally presented by the chair.

(Open discussion)

Session 4 (11.45~13.00): More Effective Management of the Euro Area

How should the euro area be managed to contain, and prevent the future re-emergence of, excessive intra-regional imbalances and to achieve greater convergence? Discussion in this concluding session will cover a broader set of political economy and governance issues

including coordination of fiscal and structural policies in the euro-area with a single monetary policy.

Chair: Kumiharu Shigehara

Initial Speakers: William White*, Gunter Baer, Robert Raymond, Carles Gasòliba

*Views expressed in his written commentary note (see below) shall be orally presented by the chair.

(Open discussion)

Chair's questions (to be raised at the beginning of Session 4)

1. Is the characterisation of the euro-area crisis as a **sovereign debt crisis** right?

This view, dominant immediately after the outbreak of the crisis and still held fairly strongly in some parts of the euro-area, both William White in his paper and the Chair in his main issues paper think, is simply wrong.

How do you think about it?

2. Suppose for a while that the euro-area crisis is essentially a **sovereign debt crisis**, is it then right to put emphasis on fiscal deficit reductions in debtor countries only?

Do you think there is a need for fiscal policy adjustment in surplus/creditor countries as well? If your answer to the latter question is “yes”, in which direction and to what extent? (Note that these countries also are in the process of ageing which is bound to increase fiscal pressure in decades to come.)

3. If you agree with William White's and the Chair's views that the euro-area crisis is essentially a **balance-of-payments crisis** as a combined result of **fiscal imbalances** and **private-sector saving/investment imbalances** in member countries, what do you think needs to be done in debtor countries in the euro- area with a single monetary policy?

Do you think creditor countries should also do something, and if your answer is “yes”, what should be done?

4. In the main issues paper, the Chair argues that “(A) principal underlying cause of the external deficits was nominal wage increases far above labour productivity growth and the resulting inflation of unit labour costs leading to a significant erosion of competitiveness against trading partners and in particular Germany” (page 1).

There seems to be now growing consensus that labour market and other structural reforms are needed in debtor countries. However, the ECB's outright monetary transactions (**OMT**) may have been involving the risk of reducing incentives for structural reforms by lowering the yield curves of bonds issued by the governments of Spain, Italy and some other debtor countries (see the Chair's main issues note: endnote 22, page 7).

How do you think motivations for structural reform in debtor countries can be secured or strengthened? After all, given political constraints in democratic societies, would it not be under severe financial market stress only that politicians could enforce needed but unpopular structural reforms disliked by the general public?

Such enforcement mechanism of financial market pressure would not work in creditor countries which also need to implement structural reform according to the IMF and the OECD. The limits of surveillance by these institutions were discussed in Session 1. How do you think the international community can effectively influence structural policy making in creditor countries? What should be the role of the **G8/G20** process of global political leaders as well as that of **G7**?

Stage Management of Session 4

The Chair would tentatively suggest the stage-management of Session 4 along the following lines.

Initial interventions

1. Chair (5 minutes)
2. Gunter Baer (15 minutes)
3. Robert Raymond (10 minutes)
4. Carles Gasòliba (10 minutes)

The first pre-assigned discussant will be asked to discuss "what are the shortcomings of the approach presented in the Delors report/Maastricht Treaty and what could be done to improve it".

The following two pre-assigned discussants will be asked to respond to the four questions to be raised by the Chair (see above). If they wish to discuss other issues as well, they will be asked to do so in the context of the second part of "open discussion" and not to do so in this part of the Session.

Follow-up discussions (10 minutes)

The Chair may encourage follow-up discussion among the three pre-assigned discussants about any differences of views that may emerge from their initial interventions.

"Open discussion": Part 1 (15 minutes)

The Chair will give speaking priority to those participants on the floor who wish to address the four issues raised by the Chair.

"Open discussion": Part 2 (10 minutes)

The Chair will first invite the three-assigned discussants to address any other issues

they may wish to discuss than those addressed in their initial interventions. Participants on the floor will then be asked to intervene.

Before closing the Session, the Chair will ask the pre-assigned discussants if they wish to make some final remarks.

The entire session should end by 13.00 PM

Additional information

The working language is basically English. However, participants on the floor can raise questions and make oral remarks in “open discussion” parts of the conference in French as well as in English. There will be no simultaneous translation at the conference.

Participants are advised to read conference papers in advance as oral presentations of papers by the authors will need to be kept to a minimum in order to secure sufficient time for comments by pre-assigned discussants and interventions of participants on the floor (see below).

Access to papers:

The Main Issues Note (with Annexes 1 and 2): Kumiharu Shigehara

http://office.shigehara.online.fr/en/Agenda_Paris_seminar.pdf
http://office.shigehara.online.fr/en/Shigehara_Annexes_to_Main_Issues_Note.pdf

Commentary Notes (in the order of presentation in the seminar):

André Icard <http://office.shigehara.online.fr/en/Icard.pdf>
Leif Pagrotsky <http://office.shigehara.online.fr/en/Pagrotsky.pdf>
Paul Atkinson <http://office.shigehara.online.fr/en/Atkinson.pdf>
Stephen Axilrod <http://office.shigehara.online.fr/en/Axilrod.pdf>
Adrian Blundell-Wignall <http://office.shigehara.online.fr/en/Adrian.pdf>
Charles Goodhart <http://office.shigehara.online.fr/en/Goodhart.pdf>
William White <http://office.shigehara.online.fr/en/White.pdf>

Profiles of authors of the notes listed above, chairs and pre-assigned discussants (in the alphabetical order):

Paul Atkinson: Executive Director and Senior Fellow of the International Economic Policy Studies Association. Former Deputy Director of the Directorate for Science, Technology and Industry at the Organisation for Economic Co-operation and Development. Former editor of OECD Economic Outlook.

Stephen Axilrod: Consultant. Former staff director for monetary and financial policy at the US Federal Reserve Board and also staff director and secretary of the Federal Open Market Committee. Author of "Inside the Fed: Monetary Policy and Its Management: Martin through Greenspan to Bernanke, Revised Edition" (MIT Press 2011) and "The Federal Reserve: What Everyone Needs to Know" (Oxford University Press 2013).

Gunter Baer: Former Secretary General of the Bank for International Settlements. Former Secretary General of the Committee of EEC Governors. Rapporteur, together with the late Tommaso Padoa-Schioppa, of the Delors Committee.

Adrian Blundell-Wignall: Special Advisor to the Secretary-General on Financial Markets and Deputy Director of the Directorate for Financial and Enterprise Affairs at the Organisation for Economic Co-operation and Development.

Carles A. Gasòliba: President of Barcelona Centre for International Affairs (CIDOB). Chairman of the Spanish Committee of the European League for Economic Cooperation (LECE) and of its Mediterranean Committee in Brussels. A former chairman of the Senate Committee for the Economy and Treasury. Former member of the European Parliament in the Economics and Monetary Committee.

Charles Goodhart: Professor Emeritus and member of the Financial Market Group at the London School of Economics. Former member of the Bank of England's Monetary Policy Committee. Developer of Goodhart law, an economic law named after him.

André Icard: Former Deputy General Manager of the Bank for International Settlements. Former Directeur General des Etudes at the Banque de France. Co-editor, together with Jack Boormann, of the final report on the reform of the international monetary system prepared by the Palais Royal group initiated by Michel Camdessus, Alexandre Lamfalussy and the late Tommaso Padoa-Schioppa.

Val Koromzay: Former Director of the Country Studies Branch of the Economic Department of the Organisation for Economic Co-operation and Development.

Leif Pagrotsky: Former member of the cabinet of the Swedish government, former Minister of Industry and Trade, and former Minister of Education, Research and Culture. Former Vice Chairman of the General Council of the Riksbank.

Robert Raymond: Former Director General of the European Monetary Institute. Honorary Director General at the Banque de France. Former Chairman of CPR Bank. Advisor to the International Economic Policy Studies Association.

Caroline Roulet: OECD economist and analyst.

Jeffrey Shafer: Consultant. Former Vice Chairman of Citigroup Global Markets. Former Undersecretary of the U.S. Treasury for International Affairs. Former staff official of the OECD and the Federal Reserve (Board of Governors and New York Bank).

Kumiharu Shigehara: President of the International Economic Policy Studies Association. Former Deputy Secretary-General and chief economist of the Organisation for Economic Co-operation and Development. Former chief economist of the Bank of Japan.

Carol Sirou: President of Standard & Poor's Credit Market Services France.

Philip Turner: Deputy Head of Monetary and Economic Department of the Bank for International Settlements.

William White: Chair, the Economic and Development Committee of the Organisation for Economic Co-operation and Development. Former Economic Adviser and Head of the Monetary and Economic Department of the Bank for International Settlements. Former Deputy Governor of the Bank of Canada.

Contact points

For enquiry about the conference: Ursula Serafin, Directrice du développement et de l'administration de La Maison de l'Europe de Paris (Tel/Fax: 01.44.61.85.90; Email: u.serafin@paris-europe.eu) and Renaud Léon (Email: europe1@paris-europe.eu).