Economic Governance in the Post-Crisis World:
Balancing Regulation and Risk

By Shalendra D. Sharma[1]

It is a familiar story. Following every economic crisis, policy-makers hurry back to their drawing boards to rethink and redraw the rules governing both the national and international economic order. This task has now acquired renewed urgency given the severe devastation meted by the current global financial meltdown. Indeed, crises create their own dynamic and offer rare opportunity to think outside the box. This is clearly happening now: established orthodoxies are being vigorously challenged and bold new "lessons" prescribed that are so unprecedented in scope that they were simply unthinkable just a few months ago. Economics Nobel laureates, Joseph Stiglitz and Paul Krugman, among many others, have already concluded that the era of laissez-faire economics and the free-market capitalism it ushered in is now over and that prudence dictates greater government regulation and oversight.[2] Even in the United States – the bastion of free-market capitalism – ideas long considered anathema such as government involvement in the economy, including the nationalization of troubled banks and financial institutions, are now considered mainstream.[3] Of course, behind this narrative is the larger story: namely, that the hands-off American or "Anglo- Saxon" model of regulation (or "regulation-lite") has failed with disastrous consequences and needs to be replaced with clearer regulatory and supervisory rules and laws that can more effectively govern financial markets and institutions at both the national and international levels. Ian Bremmer captures this sentiment lucidly when he notes that

> [T]he free-market tide has now receded. In its place has come state capitalism, a system in which the state functions as the

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> leading economic actor and uses markets primarily for political gain…. Now, the champions of free trade and open markets have to prove these systems' value to an increasingly skeptical international audience…. In the United States, lawmakers have intervened in the economy despite the public's historic mistrust of government and its faith in private enterprise".[4]

> Although greater regulatory oversight is necessary over both financial markets and financial institutions, policymakers must be extremely careful not to cross the line where regulations become too restrictive and an impediment to innovation and entrepreneurship.

Yet, even if one agrees that prudence requires support for greater regulation and oversight of financial markets, the specifics remain contested – in part, because the crisis was the result of both market and government failure.[5] For example, what should this regulation entail? Who should make the rules and regulations? Who should have the authority of supervision, implementation and monitoring compliance? What is the most efficacious way to integrate and coordinate the various domestic or national rules with an overarching international regulatory and supervisory system? No doubt, these exceedingly complex and important questions demand careful deliberation, as the stakes are too high to do any less. The following pages argue that although greater regulatory oversight is necessary over both financial markets and financial institutions, policymakers must be extremely careful not to cross the line where regulations become too restrictive and an impediment to innovation and entrepreneurship. Politicians and policymakers must resist knee-jerk temptation to use the proverbial sledgehammer to reform markets; rather, the surgeon's scalpel is a more appropriate tool. While it may be more time-consuming and not always garner political brownie points for politicians and policymakers eager to show their resolve to an impatient and angry public, a balanced and nuanced reform agenda that strengthens market incentives will pay greater long-term dividends. It is essential that instead of succumbing to the currently prevalent "anti-market" sentiment, the United States must play a lead role in reforming the current international economic order. The United States is not only the world's largest economy with a range and depth that no other can match, the American economy has repeatedly demonstrated a remarkable ability to recover and lead. America's distinguished history of scientific and technological innovation that has generated tremendous worldwide prosperity was fundamentally due to its commitment to a free-market system. The current crisis provides an opportunity for the United States and the G-20 countries to create a more balanced and equitable economic order.

Smart, Not Heavy-Handed Regulation

Historically, crises provided opportunities for policymakers to profoundly restructure the economy – sometimes for the better. In the United States, the panic of 1907 led to the Federal Reserve Act of 1913 and the creation of the Federal Reserve as the central bank. The Great Depression of the 1930s led to the Glass-Steagall Act that established the Federal Deposit Insurance Corporation and prudent separation of the commercial from investment banking. More recently, the crisis in the late 1980s led to the enactment of the Federal Deposit Insurance Corporation Improvement Act (FDICIA) of 1991, which established clearer standards for bank supervision, regulation and capital requirements. While the current financial crisis has shown that greater regulatory oversight is needed, the palpable pro-government and anti-market sentiment - not only in the United States but around the world - is troubling. It is important that policymakers strike a proper balance between these two models because over-regulation of markets would have long-term disastrous consequences.

There is much truth in the oft-noted cliché that to over-regulate markets is to slowly stifle and eventually destroy. Specifically, to make a market completely safe (that is, to remove all risk) would mean curtailing its dynamism and innovation. As Adam Smith pointed out centuries ago, without risk-taking and competition there is no market economy and no capitalism – and history and experience tell us that there is no alternative to capitalism. It is the only economic system that can create and allocate wealth efficiently and distribute the fruits of growth more widely and evenly. China and India are concrete testimony to the power of the free market's ability to lift millions of people out of poverty and enable millions more to dramatically improve their living standards in less than a generation.[6] However, what makes market economies so dynamic also makes them susceptible to excess and cycles of boom and busts. Bordo and Eichengreen have identified some 139 financial crises between 1973 and 1997 (of which 44 took place in high-income countries), compared with a total of only 38 between 1945 and 1971.[7] This is because economic globalization has made markets even more volatile and unpredictable and the unprecedented changes in financial markets means that they may not always work as efficiently due to externalities, coordination failures, information asymmetries, including well-placed firms and individuals using their power and privileged access for private gain.

Effective regulation and oversight can compensate for these inherent market limitations both nationally and globally. In fact, a vast body of research confirms that financial markets function more efficiently when there is symmetry of information available to both buyers and sellers.[8] Regulation and oversight to ensure timely disclosure and transparency can help reduce these information asymmetries and thereby the problem of systemic risk. This is even more important now, as financial innovation and integration have exponentially increased the speed and extent to which shocks can be transmitted across asset classes and economies throughout the world. Yet, much of the prudential regulation and supervision remain largely geared at individual financial institutions and do not adequately factor in the systemic and international implications of domestic institutions' actions. The current crisis, for example, vividly underscores that not only were many of the highly structured financial products far from transparent and the disclosure of their originators often lacking, the weak regulatory and supervisory frameworks in the United States (but, also in other advanced economies), failed to prevent excessive risk-taking by market participants.[9] Clearly, regulation (both at the national and international levels) that places constraints on imprudent individual behavior and prevents the build-up of dangerous speculative bubbles makes sense.[10] Of course, the national regulatory structures need to be adequately aligned with the regulatory mechanisms at the global level.[11]

The crisis also underscores that current macro-prudential tools do not sufficiently take into account business and financial cycles. This failure led to an excessive buildup of leverage. Although a feature that the current crisis shares with previous ones is the apparent fragility of the financial system (with a build-up of leverage in good times when investors tend to underestimate risk and the subsequent unwinding of this leverage when conditions deteriorate), this crisis is also unique for the key role of assets that are held off banks' balance sheets and the extent to which credit problems have affected the liquidity of the entire financial system. This not only means that credit rating agencies need to more clearly differentiate structured products from more standard financial instruments in their assessment of risks; market participants also need more information and transparency to better price risk and reduce uncertainty at times of market disruption. Thus, it is essential to establish rules and regulations that reduce systemic risks and improve financial intermediation without imposing unnecessary bureaucratic red tape. In particular, more transparent capital and liquidity requirements for financial institutions and more accessible data on over-the-counter derivatives and minimum capital requirements that cover all financial assets and organizations would greatly enhance the resilience of financial institutions and reduce reckless risk-taking as it provides better information to market participants regarding assessments of systemic risks. Put more bluntly, regulators must impose stronger capital requirements and limit the ability of the banking and financial sector - including the so-called "shadow banking system" made up of investment banks and financial insurance providers such as AIG - to make risky investment bets with borrowed money. Additionally, regulators must be given enhanced authority to regulate hedge funds and private equity firms and to oversee consumer protection – especially in regards to consumer financial products such as mortgages and credit cards.[12]

How best to respond to the growing public demand for more and tougher (if not punitive) regulation? Although, the unprecedented pace of change in the financial markets makes it difficult for the bureaucratic world of regulation and supervision to keep pace, it is important to keep in mind that the U.S. financial services industry is not without its fair share of laws and regulations. In fact, numerous laws and micro-prudential regulations are already on the books and a plethora of government agencies, notably the Securities and Exchange Commission (SEC) in America and its British equivalent, the Financial Services Authority (FSA), have significant powers to implement and supervise these rules. Of course, we now know that the SEC was asleep at the wheel – not only failing in its responsibilities to regulate investment banks, but also in reining-in grossly fraudulent activities by the likes of Bernard Madoff. Arguably, if the SEC followed-up only half of the prudential rules already on the books – that is, carried out effective implementation and supervision - serious problems could have been mitigated.

However, what must be avoided is politically driven legislation and punitive overregulation. Rather, targeted supervision in the area of intermediation to guarantee effective reconciliation of the economic needs of businesses and individuals for long-term credit on predictable terms is critical. To the authorities in charge of banking regulations, this means that if a bank is "irresponsible" they should require the bank to take immediate corrective measures, and if it does not, they must close the bank, and if the bank is too large to fail, it should be taken over by the authorities.[13] This would go a long-way in instilling confidence. Similarly, policymakers must avoid indiscriminate regulations. Rather, they need to double their efforts to identify the core market imperfections that gave rise to the incentives for excess risk-taking. Strengthening and streamlining the prudential oversight of financial and capital markets and enhancing transparency of market instruments and transactions would go a long way to mitigate future problems. Moreover, in the United States and elsewhere, there needs to be greater regulatory oversight of the financial system - including strict federal rules for hedge funds, credit rating agencies and mortgage brokers - as well as transparency over the use (or more aptly misuse) of complex financial instruments, such as over-the-counter derivatives (including credit default swaps), that triggered the current crisis. At a minimum, elimination of conflicts of interest - such as those originating at credit rating agencies that gave top investment grades to the ultimately shaky financial instruments - need to be checked, and there must be both enhanced disclosure and increased capital requirements for banks providing credit to hedge funds.

To its credit, on July 21, 2009, the Obama administration finally proposed legislation to better regulate the rating agencies. If this proposal is made into law, it will create greater transparency and mitigate the conflicts of interest by requiring rating agencies to disclose their fees, ratings history and methodologies for how they reach their conclusions. Perhaps most important, the proposed legislation forbids these agencies from doing consulting work for their clients. The latter is essential to prevent "ratings shopping", while greater disclosure rules will make it easier for investors to hold these agencies accountable.

Financial Regulation in a Globalized Economy

Completely shielding national financial systems from the recurrent bouts of speculative excesses and painful economic contractions is not going to be easy given the internationalization of financial markets. The crisis has painfully shown that the existing international regulatory agencies are far behind in keeping up with market innovations and must be strengthened if they are to be effective. For example, in order to reduce market distortions and improve transparency and risk management, the supervisory and regulatory frameworks must require more transparent disclosure and reporting rules and must be globally coordinated to ensure effective supervision. Such comprehensive harmonization of national and international regulations and the consolidation of surveillance and supervision will make implementation and enforcement much easier as it reduces incentives for banks and financial institutions to move their operations off-shore to more lax jurisdictions. Clearly, international bodies, including the International Monetary Fund, the Bank for International Settlements, the Financial Stability Board, and various "standard setting" bodies such as the Basel Committee on Banking Supervision, the International Organization of Securities Commissions, the International Association of Insurance Supervisors, and the International Accounting Standards Board, must further harmonize their rules and regulations for more effective supervision and implementation.

During their April 2009 meeting, the G-20 countries adopted the "Declaration on Strengthening the Financial System" or "G-20 Action Plan" consisting of "47 concrete measures designed to reform all systemically important financial institutions and instruments based on five principles": strengthening transparency and accountability; enhancing sound regulation; promoting integrity in financial markets; reinforcing international cooperation; and reforming international financial institutions.[14] Table 1 provides an overview of the core regulatory measures.

No doubt, these ambitious and appropriate measures, if effectively implemented, will go a long way in mitigating future crises. However, the G-20 declaration does not adequately spell-out the implementation mechanism. Rather, its recommendations seem to suggest reliance on voluntary and self-regulatory approaches instead of obligatory rules and regulations. This is unfortunate because many of the reform measures articulated in the G-20 declaration have long been noted in official documents of the Financial Stability Forum and the Basel Committee of Banking supervision but were never seriously implemented given their voluntary nature. Moreover, since the implementation of such an ambitious agenda will take time, policymakers should emphasize the most pressing aspects first. For example, requiring banks and financial institutions to set aside more capital against complex structured products and provide more disclosure on their off-balance sheet vehicles, including securitized products, should be at the top of the agenda.

This crisis has also painfully demonstrated that both nationally and internationally, significant weaknesses remain in the areas of crisis preparedness and contingency response. Here, multilateral financial institutions like the IMF and the World Bank can play a significant role in reducing these risks. However, if these institutions are to be effective in responding to a global crisis, their lending capacity needs to be enhanced and emerging economies given more influence and voting power. At the outset of the crisis, John Lipsky, the IMF's Deputy Director called for a doubling of the Fund's lending capacity to $500 billion; interestingly, a number of developing countries saw this request as too modest and called for a tripling of the resources.[17] This may seem counterintuitive as developing countries have long accused the IMF of having too much power and influence over their domestic policies. However, this crisis has created strange bedfellows. Specifically, as the resultant global credit crunch dried up private capital flows to developing countries, monies from agencies like the IMF and the World Bank are once again in high demand. Facing a real prospect of being shut out of international capital markets, many developing countries, especially the Least Developed

Table 1: The G-20 "Declaration on Strengthening the Financial System"[15]

Financial Stability Board
• Establish, as a successor to the Financial Stability Forum (FSF), a new Financial Stability Board with greater capacity, expanded participation, and a stronger mandate for promoting financial stability[16]

International cooperation
• Complete the creation of supervisory colleges for significant cross-border firms in 2009
• Implement the FSF principles for cross-border crisis management
• Support efforts to develop an international framework for cross-border bank resolution
• Prudential regulation
• Maintain current international standards for minimum capital levels until recovery is assured, but then strengthen them
• Once recovery is assured, increase buffers above regulatory minimums, enhance the quality of capital, and develop guidelines for the harmonization of the definition of capital and for minimum capital levels internationally
• Implement recommendations to mitigate procyclicality, including anticyclical buffers
• Supplement risk-based capital requirements with an appropriate leverage ratio
• Improve incentives for risk management of securitization
• Progressively adopt the Basel II capital framework in all G-20 countries
• Develop a global framework for promoting stronger liquidity buffers at financial institutions

Scope of regulation
• Amend regulatory systems for macro-prudential risks and develop suitable tools for controlling such risks
• Ensure that national regulators are able to gather relevant information on all material financial institutions, markets, and instruments to assess systemic risk
• Produce guidelines for assessing whether a financial institution, market, or instrument is systemically important
• Require that hedge funds be registered and subject to oversight, including through disclosure to supervisors
• Require that institutions with hedge funds as counterparties have effective risk management
• Establish central clearing counterparties for credit derivatives that are subject to regulation
• Regularly review boundaries of the regulatory framework and promote good international practices

Compensation
• Endorse and ensure significant progress in implementing the FSF principles on pay and compensation in significant financial institutions by the 2009 remuneration round
• Require supervisors to monitor firms' compensation policies and intervene where necessary

Tax havens and non-cooperative jurisdictions
• Encourage all jurisdictions to adhere to international standards on combating tax evasion, money laundering, and terrorist financing
• Develop a toolbox of effective countermeasures for non-cooperative jurisdictions

Accounting *standards*
• Reduce the complexity of standards for financial instruments and improve standards for provisioning, off-balance-sheet exposures, and valuation uncertainty
• Strengthen accounting recognition of loan loss provisions by including more credit information
• Achieve clarity and consistency in the application of valuation standards internationally
• Make progress toward a single set of global accounting standards
• Improve the involvement of stakeholders in the process of setting accounting standards

Credit rating agencies
• Subject all credit rating agencies whose ratings are used for regulatory purposes to oversight that includes registration and is consistent with the International Organization of Securities Commissions (IOSCO) Code of Conduct Fundamentals
• Ensure that national authorities enforce compliance by credit rating agencies and require changes to their practices when needed
• Require that credit rating agencies differentiate ratings for structured products and provide full disclosure of their ratings track record and the information and assumptions underpinning the rating process
• Review the role of external ratings in prudential regulation and address any adverse incentives.

Countries, had little option other than financing from these multilateral financial institutions.[18]

Therefore, this crisis has underscored the necessity of an official emergency lender (or a "lender of last resort") which can act expeditiously to provide liquidity to calm panicky global markets. By all accounts the International Monetary Fund has proven to be an effective crisis-responder. Although it was ultimately the G-7 and G-20 decision to dramatically increase the IMF's lending capacity to $750 billion (a threefold increase from the pre-crisis period), which in turn, enabled the Fund to provide the much-needed liquidity for a global fiscal stimulus, it is important to note that it was the IMF which presciently advocated the need for "coordinated global fiscal stimulus" long before the idea became fashionable. In the end, the IMF's action, coupled with the resolve and confidence with which it has responded to the crisis, proved critical in arresting the financial panic and global economic meltdown.[19] The Fund should now utilize its new-found respect and legitimacy to champion the need for a more balanced global growth. In particular, as the markets stabilize and economic activity picks-up, the IMF must do more than simply dole out money; it should be proactive in preventing the build-up of global financial imbalances (i.e. the huge international reserves in emerging countries and massive deficits in rich nations) that contributed much to this crisis. Of course, for the IMF to be a truly global lender, the voice and representation of the emerging and developing economies, including the poorest nations, must be significantly increased. The IMF and other multilateral economic organizations must reflect the changes in the world economy if it is to effectively respond to global challenges.

Similarly, it is also in the common interest of the G-20 to counter the growing forces of protectionism, especially in the advanced economies. Among other things, this means that the United States, the EU, China, India and Brazil put aside their largely narrow differences and salvage the Doha Round of trade negotiations. The failure of Doha has the potential to reduce world trade by billions of dollars, especially if countries abandon the voluntary tariff restraint. India, and to a lesser extent, China - who bear much responsibility for bringing the Doha round to an abrupt end in summer of 2008 by insisting on protecting their farmers through tariffs - will need to be more flexible if Doha is to be concluded. It also means that the Obama administration, in charge of the world's largest economy, must end the ambivalence and stop sending mixed signals regarding its commitment to free trade. Its practice of acknowledging on one hand the benefits of trade, while on the other, criticizing free trade is counter-productive when knee-jerk protectionist and nationalist sentiments are running high. The U.S. administration can allay these concerns by declaring unambiguously that any U.S. government bail-out programs and subsidies will be WTO-consistent. Failure to do this, especially with the "Buy American" provisions in the economic stimulus program and the recent politically-motivated tariffs on Chinese-made tires, has the potential to lead to the kind of tit-for-tat protectionism that helped deepen the Great Depression. More substantively, for Doha to progress, the U.S. and the EU must make meaningful reductions in its support of trade distorting agricultural subsidies. Of course, this is now a challenge as governments throughout the world are forced to increase support payments to farmers with the collapse of global commodity prices. In addition, in the spirit of cooperation, governments can better coordinate their stimulus packages. At a minimum, stimulus packages must be built around common principles of multilateralism and openness to trade, even if they differ in the details. Indeed, U.S. backing for a successful end of Doha will not only underscore its commitment to free trade, but adherence to an institutionalized rules-based trading system under the WTO will also mitigate the more subtle tricks - if not insidious protectionism - countries use to protect domestic industries.

Finally, the cost of fighting the crisis has been unprecedented. Public debt is rising as governments around the world are hemorrhaging red ink.[20] The massive stimulus programs coupled with the upfront costs of financial rescues - including the recapitalization of banks, guarantees for troubled assets, and tax revenues lost from growing unemployment and falling output and asset prices - mean that fiscal deficits will increase. The IMF expects OECD countries' combined fiscal deficit to rise to 7 percent of GDP in 2009 (from less than 2 percent in 2007), while emerging economies will see their budget surpluses grow into a deficit of 3 percent of GDP.[21] In the United States, according to the Congressional Budget Office (CBO), the 2009 federal deficit will grow to about $1.6 trillion or 11.2 percent of GDP – the highest since WWII.[22] Although such massive deficit spending was deemed necessary to help revive the economy from recession (because prolonged recessions can have far more serious consequences than the fiscal bailouts designed to combat them), public debt can only rise by so much without any implications.

In the United States, the cost of the stimulus packages and the bailouts for the financial system has already resulted in "trillion-dollar deficits." In the short term, if the government debt ratios increase sharply, it could lead to a sharp drop in the value of the currency and inflation -- with real consequences for many who have already seen their nest-eggs disappear. Over the long-term, it could potentially lead to a perpetual debt burden on future generations. Not surprisingly, the markets, especially foreign markets, are increasingly concerned about the growing debt and potential inflationary risks in the U.S.

To calm and reassure markets, the Obama administration must articulate a clear regulatory framework and the government's likely exit strategy from the economy once the economy picks up.

Conclusion

During the midst of the great depression, John Maynard Keynes warned that free markets will not always "self-correct" and government intervention is necessary to protect the capitalist system against its own excesses.[23] Currently, we are witnessing such a profound a crisis of confidence in capitalism that it has forced champions of laissez-faire to implement policies and programs that were simply unthinkable just weeks ago. Who could have imagined that the United States government would have intervened in markets by bailing out private banks through recapitalizations, or buy assets directly from private firms with tax-payer dollars and provide blanket guarantees to bank deposits. Nevertheless, as Milton Friedman cautioned long ago: government intervention must be strictly regulated because over the long-term markets are far more efficient than bureaucrats.[24] The United States – the champion of the post-war global economy – must continue to play an important role in the reconstruction for a more balanced and equitable international economic order.

- Mai Truong served as the lead editor of this article.

NOTES

1 I would like to thank Zachary Scalzo for his excellent research assistance.

2 Peter Clarke, Keynes: The Twentieth Century's Most Influential Economist (New York: Bloomsbury, 2009); Paul Davidson, The Keynes Solution: The Path to Global Economic Prosperity (New York: Palgrave Macmillan, 2009); Paul Krugman, The Return of Depression Economics and the Crisis of 2008 (New York: W.W. Norton, 2009); Jeff Madrick, The Case for Big Government (Princeton, NJ: Princeton University Press, 2008); Robert Skidelsky, Keynes: The Return of the Master (New York: Allen Lane, 2009).

3 Richard Posner, A Failure of Capitalism: The Crisis of '08 and the Descent into Depression (Cambridge, MA: Harvard University Press, 2009).

4 Ian Bremmer, "State Capitalism Comes of Age," Foreign Affairs 88, no. 3 (May-June 2009): 40-55.

5 Of course, market-failure has received more attention. However, lest we forget, government-sponsored entities such as Fannie Mae and Freddie Mac and government policies such as the 1977 Community Reinvestment Act, were just as responsible. See, John Taylor, Getting Off Track: How Government Actions and Interventions Caused, Prolonged, and Worsened the Financial Crisis (Stanford, CA: Hoover Institution Press, 2009). Also, many senior government officials, including Ben Bernanke, Timothy Geithner, Robert Rubin and Larry Summers have some responsibility towards the regulatory failure. See, Johan Norberg, Financial Fiasco: How America's Infatuation with Homeownership and Easy Money Created the Economic Crisis (Washington, D.C. Cato Institute, 2009) and [Richard Posner, A Failure of Capitalism: The Crisis of '08 and the Descent into Depression (Cambridge, MA: Harvard University Press, 2009)].

6 Shalendra D. Sharma, China and India in the Age of Globalization (New York: Cambridge University Press, 2009).

7 Michael Bordo and Barry Eichengreen, "Is Our Current International Economic Environment Unusually Crisis Prone?" in David Gruen and Luke Gower (eds.) Capital Flows and the International Financial System (Economic Group Reserve Bank of Australia, 1999, pp.18-74); also see Franklin Allen and Douglas Gale, Understanding Financial Crises (New York: Oxford University Press, 2009).

8 Charles P. Kindleberger and Robert Z. Aliber, Manias, Panics, and Crashes, 5th ed. (New York: John Wiley,

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[9] Herman Schwartz, Subprime Nation: American Power, Global Capital, and the Housing Bubble (Ithaca, NY: Cornell University Press, 2009).
[10] Ben Bernanke, "Financial Reform to Address Systemic Risk," (Speech given at the Council on Foreign Relations, Washington, D.C., March 10, 2009). Also, Collin Read, Global Financial Meltdown: How We Can Avoid The Next Economic Crisis (New York: Palgrave McMillan, 2009).
[11] Walter Mattli and Ngaire Woods, eds., The Politics of Global Regulation (Princeton, NJ: Princeton University Press, 2009).
[12] The Report by the Committee on Capital Markets Regulations lucidly discusses these complex issues. See Committee on Capital Markets Regulations, "Recommendations for Reorganizing the U.S. Regulatory Structure," (January 14, 2009), http://www.capmktsreg.org/pdfs/01.14.09_CCMR_Recommendations_for_Reorganizing the_US_Regulatory_Structure.pdf.
[13] It has long been argued that in order to limit the "too-big-to fail" problem, regulators could cap the size of these institutions, including requiring them to hold more capital.
[14] G-20. "Declaration on Strengthening the Financial System" (London, 2 April 2009) http://www.londonsummit.gov.uk/resources/en/news/15766232/communique-020409
[15] Constantinos Stephanou, "Declaration on Strengthening the Financial System," (London, April 2009), http://www.londonsummit.gov.uk/resources/en/news/15766232/communique-020409; and Financial Stability Board, "Report of the Financial Stability Forum on Addressing Procyclicality in the Financial System," (April 2009), http://www.financialstabilityboard.org/list/fsb_publications/index.htm.
[16] The Financial Stability Board (FSB) was established in April 2009 as the successor to the Financial Stability Forum (FSF) – which was originally established in the aftermath of the Asian financial crisis in 1999 by the G-7 Finance Ministers and Central Bank Governors. The aim of the FSB was to enhance cooperation among the various national and international supervisory bodies and international financial institutions in order to promote stability in the international financial system. In November 2008, the G-20 countries called for an expanded membership of the FSF, including, strengthening the organization's institutional, regulatory and supervisory capacities. In April 2009, the FSF was re-established as the Financial Stability Board. For details, see http://www.financialstabilityboard.org/about/history.htm.
[17] International Monetary Fund, "As Contingency, IMF Aims to Double its Lendable Resources," IMF Survey Magazine (February 2009), http://www.imf.org/external/pubs/ft/survey/so/2009/POL020209A.htm.
[18] International Monetary Fund (IMF). The Implications of the Global Financial Crisis for Low-Income Countries (March 2009), Washington, D.C.: International Monetary Fund.
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[23] John Maynard Keynes, The General Theory of Employment, Interest and Money (New York: Harcourt Brace, 1936).
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