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Introductory Remarks

Dealing with the current crisis is the major current policy challenge. The issues have stirred many heated debates both in the general public and in the academic community. In these debates some fundamental questions about the future of the market economy, the role of financial regulation and of economic policy more generally have been raised. I am very happy that we have today six distinguished academics to share with us their views on some of these issues.

We have chosen a format where we have two statements for each of the following three topics: The role of governments and markets, financial regulation and finally monetary policy issues.

Governments versus Markets

While there are many controversial issues in the debate about the crisis there is a fairly broad consensus that the global financial system is damaged and that it must be fixed. What are the reasons that the financial system is broken? Is it true that the build up of the crisis was the consequence of excessive deregulation in the financial sector, the deliberate retreat of the public sector from finance and financial markets, where it should have played a much more active role as a regulator and monitor? This is an argument made frequently in the public debate. Or is the build up of the crisis rather a policy failure a consequence of wrong regulation based on flawed regulatory principles? Arguments of this kind are also frequently made. Some commentators even go so far as to conclude from the current crisis that the whole balance between government and markets that has shaped the policy environment during the last 20 years has to be fundamentally redesigned.

We are very happy to have two distinguished speakers here to shed light

on this general issue of redrawing the boundaries between government and markets: *Josef Falkinger* and *Dennis J. Snower* will give us their views in the first session.

Rethinking Financial Regulation

Failures of current financial regulation have attracted particular attention and stirred much academic debate. The *Geneva Report (The Fundamental Principles of Financial Regulation* by Markus Brunnermeier, Andrew Crocket, Charles Goodhart, Avinash Persaud and Hyun Song Shin) and the *NYU-Stern Report (Viral Acharya and Matthew Richardson (eds.), New York University Stern School of Business (2009) Restoring Financial Stability: How to Repair a Failed System, Wiley, March)* are particularly well known and cover most areas of financial regulation. Also various policy initiatives in this direction have been taken. The debate seems to have identified a few areas where reform is particularly urgent: Systemic Risk, the issue of large and



complex financial institutions, pro-cyclical capital requirements, rating agencies and the so far unregulated sectors of hedge funds and private equity. Are these the major areas or do we have to extend the debate to other issues? What are the key issues of financial sector re-

form? What are the deeper reasons why financial regulation in place has failed?



Martin Hellwig and Javier Suarez are going to discuss these issues in the second session.

The Role of Monetary Policy

Monetary Policy has been also in the focus of the analysis of the genesis of

the current crises. The claim that loose monetary policy in the US fuelled the massive credit expansion that led to a bubble and the subsequent crisis has frequently been made in the past. It has also been controversial. But also today central banks are key players in fixing the crises and monetary policy is one of the important policy instruments. What contribution can monetary policy make to fix the crisis, how does it interact with regulation and does it have to be reformed in the future?

These are indeed difficult questions. Fortunately, we are happy to have today two speakers here who both have been working and thinking about these issues deeply and for many years: *Axel Leijonhufvud* and *Adam S. Posen*, will give us their views on these issues in the last session. I am looking very much forward to the discussions and perhaps also controversies of this afternoon.