

Towards a Sustainable Financial System



International Seminar organized by the Swedish House of Finance, Global Utmaning and The Financial Markets Group at the London School of Economics.

Date: September 12th-13th, 2013

Venue: Grillska Huset, Stockholm, Sweden

Day One: Thursday, September 12

08.00 – 08.30	Registration
08.30 - 08.40	Welcome Ulf Dahlsten , Senior Advisor Global Utmaning, Research Associate London School of Economics
08.40 – 09.10	Towards a Sustainable Financial System – an introduction Riksbank Governor Stefan Ingves
09.10 - 09.40	The future of financial supervision and regulation The financial crisis caused huge socio-economic effects in the world. It raised questions about the role of the financial markets and the role of supervision and regulation. What lessons did Sweden learn from the crisis? How are we putting the lessons into practice when shaping future financial supervision? Martin Andersson , Director General at Finansinspektionen
09.40 - 10.10	Plenary: Shadow Banking– a Systemic Risk? Shadow banking has developed outside the regulated financial industry. What does the system look like and what is the role of hedge funds and the financial departments of major companies? The IMF has warned about the systemic risks involved. How serious are they and what are the remedies? Moderator: Professor Alexander Swoboda , The Graduate Institute, Geneva Speech: Nicolas Véron , Senior Fellow at Bruegel and Visiting Fellow at the Peterson Institute for International Economics in Washington DC Comments: Adj Professor Pehr Wissén , Managing Director, Swedish Institute for Financial Research (SIFR)
10.10 - 10.40	Coffee
10.40 - 11.10	The Swedish Perspective Peter Norman , Minister for Financial Markets
11.10 – 12.20	Do we have a resilient global financial system? Lord Turner , former Chairman of the Financial Services Authority. (On video. Live questions via link to Beijing)
12.20 – 13.15	Lunch
13.15 – 14.45	Plenary: How to incentivize the Financial System to support Investments in the Real Economy The banks are criticized for not supporting the real economy and for focusing too much on financial investments. Many see a risk that the Western economies will be left struggling if the financial system does not increase its support to investments in innovation

and growth. McKinsey warns about an emerging Equity Gap of 3 trillion dollars in Europe that threatens the creation of new companies as well as the growth of existing businesses. How bad is the situation? Is it an inevitable consequence of liberalization and globalization? Or is it just a rational response to the lack of public and private demand? Or is it due to the overall incentive structure? What, if anything, can be done about it? A so called Tobin tax will be introduced in eleven Eurozone countries to change the incentive structure. What are the pros and cons? Companies find it difficult to raise capital on the stock markets and the private equity funds have taken on a different role. Corporate bonds are seen as an alternative, but many are now warning about an emerging bond bubble. How to solve the emerging Equity Gap?

Moderator:

[Kristina Persson](#), Executive chairman of Global Utmaning and former Deputy Governor of The Riksbank

Speeches:

Professor [Karolina Ekholm](#), Deputy Governor of the Riksbank
Professor [Per Strömberg](#), SHoF

Comments:

[Thomas Fricke](#), Author and former Chief Economist at FT Deutschland
[Sandro Scocco](#), Chief Economist at Global Utmaning

14.45 - 15.45

Plenary: After The Dollar – The RMB The New Reserve Currency?

China is likely to surpass the US as the largest economy before 2020. This will have an effect on the status of the dollar as reserve currency. A "three-polar" world is discussed and a proposal for a new reserve currency has been floated by China. Is a smooth transition possible or is a more disruptive scenario likely? What can we learn from history?

Moderator:

Professor [Alexander Swoboda](#), The Graduate Institute, Geneva

Speech:

Dr [Armin Haas](#), Institute for Advanced Sustainability Studies, Potsdam

Comments:

Professor [Yu Yongding](#), Chinese Academy of Social Sciences
Professor [Lorenzo Bini Smaghi](#), former Member of the Executive Board of the European Central Bank

15.45 – 16.15

Coffee

16.15 – 17.30

Plenary: Glocal Financial Governance?

There is no global financial legislation, no global regulator, global central bank or lender of last resort. Are we missing essential institutions? How should an ideal combination of regulations and regulatory authorities on different levels look like? Is it possible at all

to create an international regime that prevents regulatory capture?

Moderator:

Professor [Alexander Swoboda](#), The Graduate Institute, Geneva

Speeches:

PhD [Stefano Pagliari](#), Lecturer, Department of International Politics, City University London

[Ulf Dahlsten](#), Research Associate at LSE, Senior Advisor at GU

Comments:

Professor [Charles Goodhart](#), LSE

17.30

Plenary: An Optimal Bank Structure?

Are universal megabanks a necessary consequence of globalization or an unnecessary systemic risk? Banks have become too big to fail and too central to fail. Do we need a new bank structure? The Vickers and Liikanen reports discuss the possible break-up of banks into commercial and investment arms. Others propose a return to partnerships for the investment funds. What is the right way to go?

In times of crisis local banks have been merged into larger banks. There is a growing feeling that local knowledge is starting to be lost and that it has become more difficult for small and medium-sized companies to get funding. Should recreation of local banks with licenses limited to the local area be encouraged? Initiatives to create new banks in support of local business have been taken both in France and the UK. Should the complexity of the financial system generally be reduced?

Moderator:

Adj Professor [Pehr Wissén](#), Managing Director, Institute for Financial Research

Speeches:

[Adrian Blundell-Wignall](#), Special Advisor for Financial Markets to the Secretary-General, OECD

Professor [Stefano Battiston](#), Zurich University

Comments:

[Magnus Ugglå](#), Head of Handelsbanken International

Professor [Charles Goodhart](#), LSE

20.00

Dinner, hosted by Handelsbanken at the Executive Dining Room, Kungsträdgårdsgatan 2.

Dinner speech: What can we learn from the Swedish economists approach to the crisis in the 1930s?

Professor [Lars Jonung](#), Chairman of the Swedish Fiscal Policy Council

Day Two: Friday, September 13

08.45 - 09.00

Morning Coffee

09.00 - 09.45

Introduction to Day Two: The Risks for Monetary Policy

Professor [Lorenzo Bini Smaghi](#), Harvard University, former Member of the Executive Board of the European Central Bank

09.45 - 11.10

Plenary: The Risks with Excessive Money Creation

The dominant monetary theories make a distinction between the exogenous and endogenous creation of money. While endogenous demand driven creation has become the most accepted way in Western countries exogenous supply side policy is the applied format in e.g. China.

The European bank system has since 1990 grown from 128 percent of GDP to 365 percent of GDP, without expanding its support to the real economy. The International Monetary Fund has raised a red flag about the excessive short-term borrowing in US dollars by the Swedish Bank system, a borrowing that has been driven by the expansion of their total volumes. The Riksbank has warned about systemic risks.

Proponents of a modernized Chicago Plan question the benefits of the private creation of money. What are the pros and cons?

Periodically booming credit markets, followed by extended periods of slow credit, is a recurring phenomenon of modern finance. This boom-and-bust pattern can cause great harm to the financial system as well as exacerbate business cycles, especially in credit-sensitive parts of the economy such as construction and infrastructure. An important driver of cyclicity in credit markets is "reaching-for-yield" when institutional investors willingly take on risk in an effort to produce higher yields and returns. If reaching for yield is prevalent in good times and reversed in recessions, it can amplify credit market swings. What are the signs of reaching, what are the causes and consequences, and how does regulation and policy affect it?

Moderator:

Professor [Charles Goodhart](#), LSE

Speeches:

[Huw Pill](#), Chief Economist at Goldman Sachs, London
Professor [Yu Yongding](#), Chinese Academy of Social Sciences and former member of the Policy Committee of the People's Bank of China.

Dr. [Michael Kumhof](#), Deputy Division Chief, Modeling Division, Research Department, IMF
Professor [Bo Becker](#), Stockholm School of Economics

11.10 - 11.30

Coffee

11.30 - 12.40

The Risks with Excessive Money Creation (cont.)

12.40

Plenary: The future of the Eurozone and of the European and global financial markets

What is the expected outcome of the discussion about a new European regulatory regime and a bank union? And what would be desirable? The Eurozone is no isolated island. Are we lacking global regulations and institutions? Do we need a new, "modern" version of Bretton Woods?

Moderator:

[Ulf Dahlsten](#), Senior Advisor at GU and Research Associate at LSE

Panel:

Professor [Lorenzo Bini-Smaghi](#), former Member of Executive Board of ECB

Professor [Charles Goodhart](#), LSE

Professor [Alexander Swoboda](#), The Graduate Institute of International and Development Studies, Geneva

[Huw Pill](#), Chief Economist at GoldmanSachs

[Anders Wijkman](#), Former MEP and Chairman of the Club of Rome

14.00 (approx)

Farewell Lunch