# Summary and Next Steps

Remarks by

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September 4, 2014

Through a surfeit of amiability and a complete lack of focus as to what I was agreeing to, I discovered that I had accepted to be the rapporteur for the conference, and to spend a half an hour encapsulating what everyone has said over the course of the last two days. I am not going to do that.

The discussions have been far too rich. They've been of far too high quality across far too many fronts for a recapitulation like that to be anything other than that YouTube video of Shakespeare in 15 minutes, which is actually Shakespeare in 13 minutes, and then they do Hamlet again in two minutes, which is hilarious, but not Shakespeare.

On the other hand, reflection, like a musical coda, like a final exam, is good for the soul. So let me offer just a handful of reflections on the last couple of days – brief - and then some discussion of next steps. In no particular order, not intending to be comprehensive, a constant theme of the monetary policy discussions, whether it was the foreign exchange system or the international monetary system, the evolution of reserve currencies has been, unsurprisingly, the emergence of China and the eventual role of the renminbi as a major reserve currency. What effect will that looming event have on the dollar, on the US economy, on the yuan, on the Chinese economy, on the rest of the exchange system, on the geopolitical system more broadly?

And there was a certain degree of consensus, as much as could be expected in a strong-minded group like this one, which I found surprising, that the answer was not much, and not soon. The extent of America's exorbitant privilege is less. The intrepid Robert McCauley would argue that it was virtually nonexistent. The burdens of a dominant reserve currency are greater, and in any event, the time it will take for China to be ready to convert the renminbi is longer than is common in the more "hair on fire" discussions of the issue that I at least have been more frequently familiar with.

Another theme that ran across a number of the panels was the importance of and difficulty of increasing official sector focus on liquidity - in the regulation of financial institutions, of course, but also in the management of the international financial system more broadly, how to provide liquidity, how to limit liquidity, how to coordinate these efforts internationally, how to even measure liquidity on a global

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level. And that focus on liquidity leads us to a factor that also ran across a few panels in the discussion of financial institutions, which is leverage.

On the leverage front, Paul Tucker gave a convincing demonstration of the degree to which financial institutions – I think this was particularly true in Europe – had become wildly over-leveraged, even more than is currently focused on, in a regulatory system that permitted leverage of up to 200 to 1, and a competitive system that encouraged all institutions to take full advantage of that permission.

And a corollary of that insight is that the required changes in the capital regulatory system are necessarily effecting a dramatic reduction in the financing capacity of a given level of capital. It's not a question of 50 percent more capital. It's not twice as much capital. The new system is requiring 10 to 12 times as much capital as banks, particularly in Europe, had been operating on to support their current asset level. And as Charles Goodhart noted, regulators have insufficiently focused on the fact that there are two ways to increase a fraction. You can raise the numerator, the capital, but you can also reduce the denominator, assets. And where the required change in the numerator is so great, the second is much easier than the first without some substantial incentives to do otherwise.

Another significant threat, again, across a number of discussions was the importance of stocks, as well as flows, the importance of national balance sheets as well as national income statements, including the importance of affecting those balance sheets through calculated policy where they reflect growing imbalances, whether internal or external.

And a final important thread ran through many of the panels, but unlike some of these other threads, it was more implicit than articulated, but in the end, I think it's one of the most important of the common elements that have characterized our discussions, and it's the debate on rules versus discretion. For the last 20 years an increasingly prominent thread in discussions about financial system policy, whether were talking about monetary policy, financial firm regulation, crisis resolution, has been the importance of rules-based regulation. And the limitation of discretionary intervention by government officials from the Taylor rule to collective action clauses, to any number of provisions in Dodd-Frank, and people have differing views about the desirability and effectiveness of all of those rules-based measures.

Paul Tucker, cogent and categorical as always, argued explicitly, and many others argued implicitly, that strongly rule-limited regulation is a chimera. Regulatory discretion in each of those areas is critical because of the limitless ingenuity of man in taking advantage of regulatory arbitrage, and this creates a need to respond nimbly to this ingenuity through regulatory discretion and global coordination. The question is: what is the cost in uncertainty of this increase in nimbleness. What does this position do to John Taylor's opening discussion of the "Nice-Squared" world where an emphasis on domestically focused rule-limited policy gave us a non-inflationary, consistently expansionary, and near internationally cooperative equilibrium for decades?

So from my point of view and without sliding the important details of what I think quite genuinely have been fascinating discussions of all the various panels, this dichotomy is the fundamental issue in the regulation of the international financial architecture in the post-crisis world. And which side we come down on – and we have not yet come down on a side – will shape the world we live in more than any other issue, including some that have received far more focus for the next generation. We didn't solve that issue in our time here in New Hampshire, but the discussions deepened and sharpened this debate among many others, and given the nature of the participants here, will contribute importantly toward the ultimate outcome, whether for good or ill.

So, what are the next steps? When Larry began discussing the idea of this conference with the board members of the Center for Financial Stability, we were all enthusiastic, but we also encouraged the effort be directed to concrete and actionable outcomes. So always being careful of the Chatham House Rule agreements for some of our participants, the Center going forward, will be more formally summarizing the discussions here, and developing a proposed action program. And we'll hope to seek the advice of many of you here as that's developed over the next few weeks. And we'll take that action program to discussions with the official sector, whether the Bretton Woods institutions themselves, Capitol Hill in the United States, and broader continuing discussions among interested parties. Our hope, intention, and program, is that this will not be simply an interesting two-day discussion and a pleasant sojourn in the White Mountains, but an ongoing and consequential program managed by the CFS.

So I will actually be earning my keep as a rapporteur, which I have not done this afternoon, notwithstanding the pointless sile of this summary. And we hope that your participation here doesn't end with your final hike to the falls tomorrow morning before leaving for your plane.

One final reflection: nearly every panel has had some discussions of the implications of this site, from the rooms in which we've slept, each identified with a delegate in 1944, to the remembrances of the descendents of the original participants, three of whom have been with us in the last two days, down to the copies of the daily updates of the war in 1944 that were distributed on our tables and were distributed to the people in this room 70 years ago, the conference has been informed by history. Now everyone here has a lot of our psyches tied up in being disciplined professionals. We are expert in the arcane of the financial sector. We are rigorous in our pursuit of precise analysis, and relentless in our unsentimental adherence to the view that the only way to make the world better is to be strictly driven by things as they are.

But a final theme that has run through our deliberations here and I think it's a part of the brilliance of Larry's idea to have this conference here, is that it's possible even for such hard-bitten cases as ourselves to be inspired, to be inspired by this beautiful place, and to be inspired by the history of which our presence here makes us a part. And I do hope that the inspiration that's helped inform our discussions here carries forward with us as we go forward, and informs our continuing engagement on these issues in the coming months and years, and that we, like the people who were in this room 70 years ago will be mindful of the Greek proverb that:

> *"A society grows great when old people plant trees whose shade they know they will never sit in."*

And I definitely think that all of us should give credit to Larry, and to the fellows and staff of the CFS for having drawn us together into a truly special event, and having pulled it off marvelously.