ELSEVIER
Pacific-Basin Finance Journal 10 (2002) 217–226
PACIFIC-BASIN FINANCE JOURNAL
www.elsevier.com/locate/econbase

Resolving systemic financial crises efficiently

Edward J. Kane*

Department of Finance, Boston College, Fulton Hall 330A, Chestnut Hill, MA 02467, USA

Abstract

Systemic crises occur when governmental strategies for preventing and resolving financial-institution insolvencies fail massively. This paper outlines market-mimicking strategies for preventing and managing financial crises. Efficient prevention focuses on enforcing adequate levels of bank capital and being prepared to resolve institutional insolvencies expeditiously when they arise. Efficient crisis management requires officials to develop, staff, rehearse, update, promulgate, and commit themselves irrevocably to a market-mimicking plan for managing systemic banking disasters. By adopting these strategies, a government would make itself accountable for preventing, identifying, and resolving bank insolvencies at miminum long-run social cost. © 2002 Elsevier Science B.V. All rights reserved.

JEL classification: G21; K23

Keywords: Bank runs; Financial crisis; Insolvency resolution

A systemic financial crisis occurs when widespread depositor runs reveal that most or all of the accounting capital in a country's banking system is illusory. To resolve a systemic crisis efficiently without outside help, a national government needs the three A's: adequate tax-collecting capacity, accurate policy advice, and appropriately skilled personnel. A country's top regulators must not only know what sequence of policy actions would be optimal, they must also be confident that the personnel and financial resources they command have the capacity to perform these actions in timely fashion.

During the 1990s, most crisis governments lacked the prerequisites for undertaking optimal action. What these governments did possess was ready access to external assistance. Like most offers of help, crisis assistance came with strings attached. Multilateral and bilateral assistance brought with it suboptimal policy advice that protected the interests of foreign creditors by directing recipient governments to play for time, without stopping to measure or adjust the depth of the inadequacies in their fiscal capacity and supervisory systems that brought the crisis about.

* Tel.: +1-617-552-3986; fax: +1-617-552-0431.
E-mail address: edward.kane@bc.edu (E.J. Kane).

0927-538X/02/$ - see front matter © 2002 Elsevier Science B.V. All rights reserved.
PII: S0927-538X(02)00044-6

External lenders espoused the rosy view that, in the midst of crisis, the urgent macroeconomic problem of reliquifying domestic bank deposits could be addressed separately from the microeconomic problem of measuring and distributing the losses that the official balance sheets of insolvent banks still concealed (Fischer, 2001). Fiscally underpowered governments were urged to guarantee the liabilities of insolvent and solvent banks alike. While the credibility of these indiscriminate guarantees turned in the short run on well-publicized lines of credit from supranational institutions, foreign banks, and foreign governments, in the long run a crisis government's ability to fulfill its commitments depended on its ability to carry out a series of unlikely reforms in monetary, fiscal, and trade policies and in the quality of bank supervision.

Recipient governments were persuaded to put aside, until crisis pressures passed, the task of controlling bank risk-taking to concentrate on curtailing disruptive depositor runs. However, this policy sequence embodies a time-inconsistent strategy that successor governments are bound to regret. Blanket guarantees reduce incentives for depositors to monitor insolvent and undercapitalized banks, and backing up these guarantees imposes substantial deferred costs on taxpayers. In the absence of a fair distribution of preexisting losses, indiscriminate guarantees fail to correct whatever combination of corrupt and risk-taking behavior drove the country's banking system to its knees in the first place.

Insurance theory refers to the conflict between the objectives of insureds and the insurers as the problem of moral hazard. Crisis countries should not be advised to ignore the dangers posed by moral hazard. To prevent depositor discipline from being undermined by government guarantees, it is critical to simultaneously adopt guarantee structures and insolvency resolution strategies that promise to make contractual bank stakeholders bear their fair share of accrued losses. When a government's capacity to observe and resolve bank insolvencies is inadequate, the more sweeping its guarantees of bank debt and the longer crisis pressures persist, the more unbooked debt moral hazard loads onto the ordinary taxpayer's economic balance sheet.

Creditor institutions have not advised crisis governments to calculate the costs of moral hazard, nor have they urged these governments to track the opportunity cost of the fiscal resources that would be required to make good on blanket guarantees. The result is that crisis governments have not made themselves accountable for assuring that the benefits of quickly halting depositor runs equaled or exceeded the costs that playing for time has on the country's unbooked fiscal deficits and increased exposure to future crises.

The next two sections of this paper outline market-mimicking strategies for preventing and managing financial crisis. The final section summarizes how governments that promulgate and adhere to these twinned strategies will render themselves accountable–in crisis and out of crisis–for preventing, identifying, and resolving bank insolvencies in an economically efficient manner.

1. A market-mimicking strategy for crisis prevention[1]

Institutions become economically insolvent when their tangible and intangible assets can no longer generate enough income to fully service their obligations to creditors.

[1] This section and the next draw heavily on Kane (2001a,b,c).

دریافت فوری ← متن کامل مقاله

ISIArticles
مرجع مقالات تخصصی ایران

- ✓ امکان دانلود نسخه تمام متن مقالات انگلیسی
- ✓ امکان دانلود نسخه ترجمه شده مقالات
- ✓ پذیرش سفارش ترجمه تخصصی
- ✓ امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
- ✓ امکان دانلود رایگان ۲ صفحه اول هر مقاله
- ✓ امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
- ✓ دانلود فوری مقاله پس از پرداخت آنلاین
- ✓ پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات