The Evolution of the Financial Stability Mandate from its Origin to the Present Day

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Introduction

• Reviews evolution of the FSMs in six countries:
  – Canada, Columbia, France, Italy, UK and US.
  – (Why these countries?)

• A lot of detail; less "big picture."
  – What can we learn from country differences?

• Will do two things:
  1. Draw some speculative conclusions.
  2. Raise some additional questions.
Expected 4 conclusions

1. Common trend but diverse country experiences.
   • Is there a pattern to these country differences?

2. FSMs have been reactive and lagging behind.
   • Three stages: (i) safeguarding currency; (ii) ensure soundness of individual banks; and (iii) guard the overall financial system.
   • Growth of finance and measures to circumvent regulation drove the gradual expansion of FSM.
3. Occasional discrete changes:
   - Episodes of financial instability and crises.
   - Broader political developments (eg. war-time finance).

4. The modern FSM is a recent invention:
   - Historically, micro focus (notes and banks); now macro focus.
   - The long period of financial stability after WW2 not due to purposeful FS policy but side effect of other policies.
     - Facilitate government finance.
     - Maintenance of fixed exchange rates.
     - Greater government control of the economy after WW2.
Additional questions

• The incidence of crises and the design of FSMs influenced by political factors:
  • These factors vary across countries and time.
  • Consider housing bubbles:
    • High rates of house ownership political objective but implies FS risks because of "marginal borrower."
    • Makes bubbles popular, as are their effects on governments' fiscal position.
    • May be reflected in the design of the FSM.
    • Seems likely that political backing is crucial for success.
• Better understanding of changes in FSM:
  • Reinterpretation of the legal mandate or changes in that mandate?
  • Role of personalities?

• What are the lessons for current policy?
  • "Improve [our] understanding of why central banks and policy regimes in the past succeeded or failed to meet their FSM."