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Thank you very much. We have heard a wonderful summary of some of the achievements and problems so far in financial re-regulation, especially with respect to capital adequacy, resolution regimes, and greater clarity about lender of last resort functions. All these are important issues. However, I want to take a road less travelled. In some regards the things that John has spoken of have to do with the problems that were at the centre of the financial crisis that began in 2007/2008 most of which are related to gaps in national financial regulation. All of these need to be corrected, but some of the discussion risks having a little bit of a flavour of generals fighting the last war. That is, 'Let us see what went wrong last time and fix what went wrong last time.'

The theme of this conference is global governance. If global governance means anything, it means that there is a need for the provision of government-like services at a cross-border or transnational level, because national policymakers cannot provide those services on their own. This implies that there are cross-border externalities. As John has noted, so far what has been addressed is mostly *national* measures to improve *national* financial regulation. The cross-border issues have not been a centrepiece. The potential for a banking union in the European Union is another issue, but at the international level we are really talking about the harmonisation and coordination of national regulatory policies. I fear that may not be enough.

If we learned something from past experience, it is that there are certain problems that have a cross-border nature. I will mention three such problems, which are not mutually exclusive and which overlap to some extent. The first is contagion: when financial distress is transmitted from one country to another, from one financial system to another. The second is panic. Gary Gorton and his colleagues have well established that what we experienced in 2007/2008 is the modern equivalent of a bank run. We all thought that bank runs were obsolete, but it turns out that the financial system does not intermediate through banks anymore. It intermediates through markets, and what we saw in 2007/2008 was a run on markets. People, instead of believing that their bank was not going to be liquid, believed that the markets were not going to be liquid, and therefore there was a run on the markets. That kind of panic is also transmitted very rapidly across borders. The third problem, which is a little bit more complex, is pro-cyclical lending. That is, the fact that financial institutions, and investors more generally, tend to lend into a growing economy, which means that we tend to see lending into growth, which leads to greater growth, which typically leads to credit booms, often bubbles, and then busts. Pro-cyclical lending has long been a problem in developing countries, and now we have seen that it also affects developed countries.

All of these interact. For example, in the most recent crisis, pro-cyclical lending exacerbated some of the macroeconomic divergences within Europe, led to problems in the financial markets in Europe, and eventually caused panic and contagion in Europe. To be sure, all of these have national components. That is, all of them can be at least partially addressed nationally, and that has been the focus so far. Nonetheless, what has been done has not addressed the cross-border problems raised by global financial markets and, as we know, contagion, panic and pro-cyclical lending are clearly of cross-border importance and clearly impose cross-border externalities on other countries.

For example, regarding macro-prudential regulation – which has not gone very far but is perhaps the most original, innovative and far-reaching of the reforms that have been talked about – the justification for it is that in the borrowing phase in a particular country, borrowers impose a pecuniary externality on others by driving up the cost of collateral, which then persists into the crisis and leads to fire sales of assets, driving asset prices down even more rapidly and creating a kind of Fisher-style debt deflation cycle. The more general point is that pro-cyclical lending leads to over-borrowing which then can create a deflationary cycle. This is true in spades for the cross-border effects of pro-cyclical lending, so I think it is very much the case, as Europe and other countries outside Europe have found, that the credit cycle we observe, and in particular the pro-cyclical nature of the credit cycle, can create extraordinarily difficult problems for both creditor nations and debtor nations. These problems can be transmitted very rapidly from one debtor nation to another debtor nation. It does not require an assumption of irrationality to get the transmission of sovereign debt, or debt problems in general, from one heavily indebted nation to another. We saw that again in the European context.

There is really very little that national regulatory authorities can do about the cross-border implications of these kinds of cycles, which suggests the need for more than just harmonisation. It suggests the need for something that could be called governance; that is for something above the level of the nation state, for some attempt to either cooperate among national authorities or to create a supra-national entity that could try to deal with some of these cross-border externalities. In saying this, I should say that I am generally a sceptic about global governance. I am a sceptic for very straightforward political economy reasons. It is hard enough to get politicians to focus on financial regulation at the national level, even if it is clear that financial regulation is in the public interest and is going to improve social welfare, for the simple reason that the public interest and social welfare do not vote, while special interests do. This is why most financial regulations, and most of the discussions thereof, tend to be dominated by the special interests involved, as we are seeing now in the discussions about the implementation of Dodd-Frank. This is even more the case with respect to global governance where there is really no organized interest or lobby in favour of addressing these kinds of global issues, therefore very little pressure on governments to deal with them. That is why I am generally a sceptic about the prospects for the provision of global governance.

However, the man sitting to my right [M. Trichet] is himself a strong argument for the fact that in times of crisis and difficulty, it has been possible for governments to work together cooperatively to provide global public goods. It seems to me therefore that if we want to try to avoid the globalisation of some of these extraordinary financial difficulties we need to start preparing for them in advance, instead of waiting until the import of these cross-border problems is seen in full flower and responding after the fact. I think that some of the experience of the last 15 to 20 years is that the cross-border externalities, the international effects, of global financial markets are extremely important, and have not to date been sufficiently addressed by regulatory authorities or national governments.