

Three macro reasons why I am excited by the LSE-FMG / AXA research project

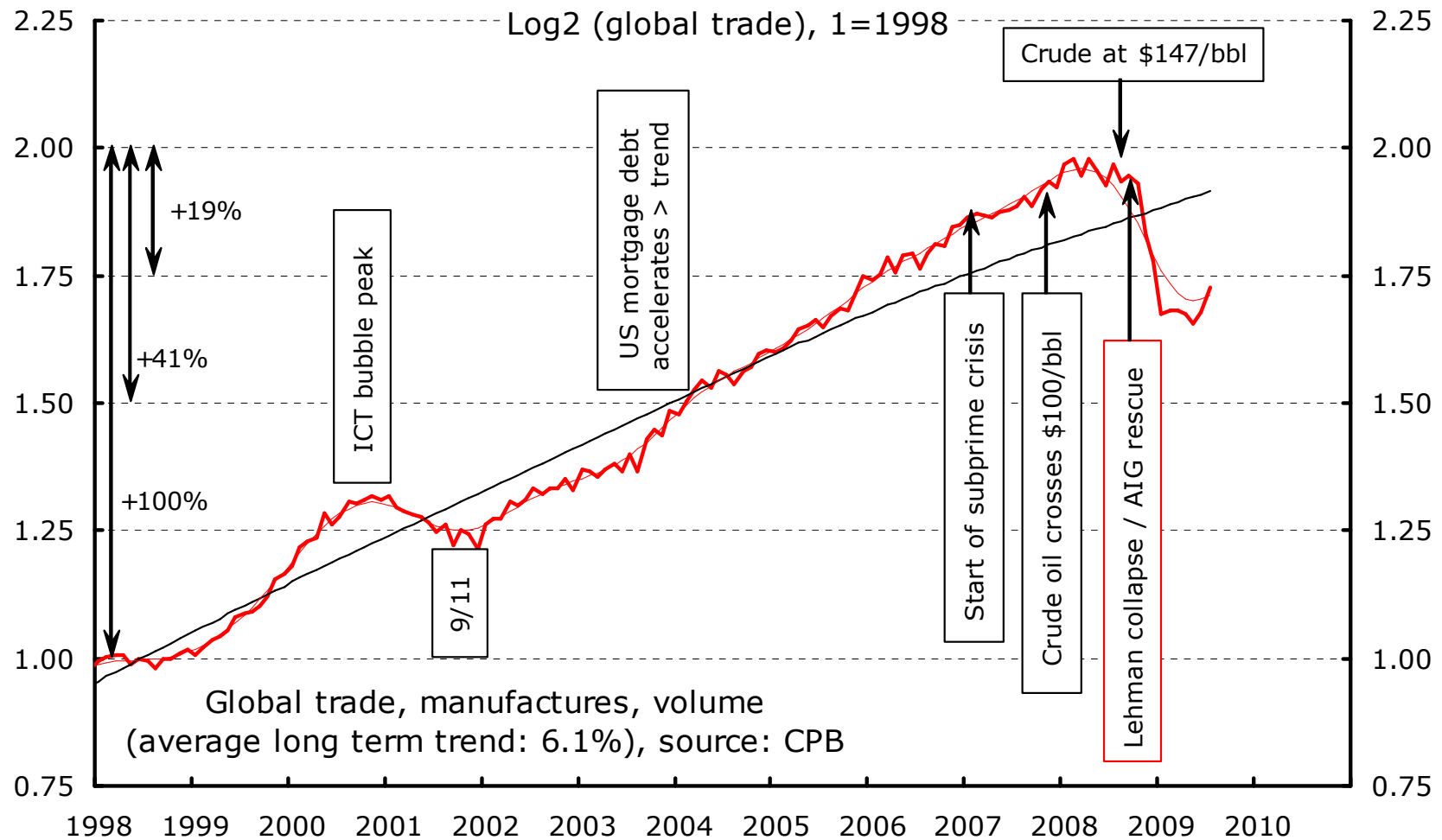
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between finance and real world

Global trade collapsed immediately after Lehman (-21%). What



Source: CPB; AXA IM research. Long term trend: HP filter with 2015 projection of a standard recovery ($\lambda=5.10^5$); short term trend: idem with $\lambda=70$

2. Help policy makers avoid unwanted consequences of re-regulation

- Policy makers call for broader re-regulation of the financial sphere
- Capital requirements: rationality, economic model, link with accounting standards?
- Competition between credit institutions is pro-cyclical by nature. Anything wrong there? Is there a market failure?
- Competition between financial regulators is normal (national mandates) but yields a Nash equilibrium. How to align incentives?

3. Hey, we desperately need ideas to prevent globalisation from turning chaotic

- G20 acknowledged that micro-regulation won't be enough to enhance macro stability. Good news but...
- Challenge #1: National central banks are reluctant to take on board the global component of inflation.
- Challenge #2: National regulators tend to defend their respective (financial) constituencies
- Result: global economy overheating, global supply of credit unchecked
- What should be the principles of global macro-prudential regulation?
- Is the FSB the ultimate macro-prudential stabilizer?