• May 1, 2009. Speech. <u>"The U.S. Financial System and Macroeconomic Performance," (arkansasdaywithcommissioner27april2009pdf)</u> delivered at the 119th Annual Arkansas Bankers Association & Tradeshow, Day with the Commissioner, Hot Springs, AR.

St. Louis Fed's Bullard Addresses Future of Financial Regulation at Arkansas Bankers Association Annual Meeting

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HOT SPRINGS, Ark. — St. Louis Fed President James Bullard said Friday that while history shows important financial crises have resulted in new reformoriented legislation—and that the current crisis is likely to follow this pattern—the design of an effective reform is far from clear at this point.

In his presentation " [The U.S. Financial System and Macroeconomic Performance](https://www.stlouisfed.org/-

/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/arkansasdaywith commissioner27april2009.pdf) ," given at the 119th Annual Arkansas Bankers Association convention, Bullard said that parts of the regulatory system have proven to work well, such as the monitoring practices and fairly clear rating system currently in place for smaller banks.," given at the 119th Annual Arkansas Bankers Association convention, Bullard said that parts of the regulatory system have proven to work well, such as the monitoring practices and fairly clear rating system currently in place for smaller banks.

"Deposit insurance and prudential regulation have proven to be successful in avoiding small bank panics," he said. "Supervision allows the regulator to anticipate potential bank failures and prepare accordingly."

He also pointed out that with smaller banks, "a clear resolution regime is in place," and that the U.S. has a system for closing banks in a way that does not damage others in the industry.

"The system is not designed to keep banks in business at all costs, or to tell owners how to run their businesses, but rather to turn potentially disorderly failures into orderly failures," he said. Bullard suggested that the industry should learn from the success of this system.

The problem areas in the crisis have centered on large banks and especially large non-bank financial firms, which makes monitoring far more difficult and the resolution regime unclear. Thus, two of the elements that make smaller bank regulation successful are missing for larger financial firms, he said.

These firms are often thought to be too big to fail, but Bullard said that they are only too big to fail quickly. He argued that one goal of a successful reform should be to find a method to allow failure, but in a way that does not cause significant market disruption. He stressed that a good resolution regime for these firms must be credible, so that all market participants understand what will happen in the event of failure.. He argued that one goal of a successful reform should be to find a method to allow failure, but in a way that does not cause significant market disruption. He stressed that a good resolution regime for these firms must be credible, so that all market participants understand what will happen in the event of failure.

Bullard also discussed the Federal Reserve's role in a new regulatory landscape. He said that the Fed is the nation's lender of last resort; so, it needs to be involved in the regulation of firms that have access to the discount window. He also said that the Fed needs to know the condition of the financial system to run an effective monetary policy, and that this also argues for a substantial Fed role in the regulatory structure. Both of these needs have been underscored in the current crisis.

Bullard said that the Fed has been the nation's de facto systemic risk regulator. He named three important systemic risk calls made by Fed officials in recent years. He argued that systemic risk regulation has come to mean many things to many people, and that the debate needs to be sharpened substantially before progress can be made.systemic risk regulator. He named three important systemic risk calls made by Fed officials in recent years. He argued that systemic risk regulation has come to mean many things to many people, and that the debate needs to be sharpened substantially before progress can be made.

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- **April 1, 2009**. Article. <u>"Fed's Bold Actions Harken Back to Volcker</u> <u>Era,"</u> Federal Reserve Bank of St. Louis *The Regional Economist*, April 2009.

President's Message: Fed's Bold Actions Harken Back to Volcker Era

Elsewhere in this issue, you will find an article titled "This is not your father's recession ... or is it?" It compares today's recession with those of the past 40 years. In the same spirit, I would like to compare today's Fed, and the challenges we face, with the Volcker Fed of 1979.

[[1]](https://www.stlouisfed.org#endnotes)

During the 1970s, monetary policy had followed a gradualist approach: fine-tuning interest rate moves in an effort to avert economic slowdowns. By 1979, it had become apparent that such a strategy was inadequate as inflation and inflation expectations continued to march upward and the real economy deteriorated. Inflation rose steadily from about 2 percent through much of the '60s to more than 13 percent in December 1979. The Federal Reserve was not seen by the public as credibly fighting inflation.

A drastic change in the approach to monetary policy was needed by the Fed