Managing Financial Crises[1]

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In the Berkeley Hills, where I live, summer is followed not just by fall but by fire season. Many houses, including mine, are perched in the trees. And because all the rain we receive is in the winter, by autumn everything has turned tinderbox dry. Every 20 or so years we suffer a devastating fire. In the most recent of these, in 1991, some 3,000 housing units were destroyed and more than two dozen souls perished.

Not surprisingly, Berkeley residents invest heavily in fire prevention. While some measures are voluntary, others are mandatory. Roofing must be fire-retardant. Homeowners must clear the brush from around their property.

But while there is broad-based agreement on the kind of measures needed to prevent fires, there is less agreement about how to respond to them when they occur. In 1991 several homeowners perished after ignoring the order to evacuate and continuing to water down their roofs. The fire department was criticized for abandoning some structures in favor of establishing a perimeter rather than attempting to save each and every home.

You will have guessed that I see urban wildfires as a metaphor for financial crises. For several years now the international policy community has devoted considerable time and effort to initiatives to better prevent and manage crises. But there is an imbalance in the progress that has been made on the crisis-prevention and crisis-management fronts. On prevention, a number of useful steps have been taken. In terms of how to manage and resolve crises, in contrast,

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confusion continues to rein, and disappointingly little of substance has been achieved.

Progress on Crisis Prevention

There may be disagreement on the particulars, but there is a broad consensus about the nature of the measures needed to limit the frequency and severity of crises. The three most significant initiatives, in my view, involve strengthening market discipline, improving the supervision and regulation of banking systems, and rationalizing exchange rate management. While these initiatives have not eliminated crises -- for this is almost certainly an unattainable goal -- they have at least gone some way toward making the world a safer financial place.

Market discipline is the market economy's first line of defense against crises. Financial markets can help to prevent national economies from becoming overextended by limiting the provision of credit before debts rise to unsustainable levels. They can do so, however, only if investors have adequate information about economic and financial conditions in the borrowing country. Hence the first set of initiatives. The IMF has established a Data Dissemination System and Special Data Dissemination Standard to encourage governments to release more and better information about their financial affairs. It is working with private-sector bodies like the International Accounting Standards Committee and the International Organization of Securities Commissions to develop standards designed to encourage banks and firms to do the same.

Even under the best of circumstances, however, the information available to the markets is incomplete. Borrowers always know more about their true intentions than their lenders. Even when investors are well informed, they still must process and evaluate whatever information they acquire. Processing information, like obtaining it, is costly; this creates a tendency for investors to emulate the actions of other investors who may have better information or at least a better evaluation of it. Hence, the application of market discipline is uneven. A few investors changing their minds may be enough for the markets swing from irrational exuberance to excessive pessimism. When they do so violently, serious financial problems can result.

The second set of crisis-prevention initiatives has involved strengthening banking systems. Throughout history, banking-sector problems have been at the root of serious financial crises. It is thus reassuring that there has been progress over the last decade in strengthening supervision and regulation. To be sure, that progress has been most dramatic in the industrial countries. Contrast the 1980s, when my own country suffered its Savings & Loan crisis, Sweden and Finland had devastating banking crises, and the stage was set at the end of the decade for a major banking crisis in Japan, with the 1990s, when no comparable events occurred. We are now experiencing the sharpest synchronized OECD recession in 30 years, and we have experienced a sharp drop in securities prices, yet no new banking-sector problems of a serious nature have arisen, at least to date. This is impressive evidence of improvements in supervision and regulation.

Progress in emerging markets has been spottier, but countries like Chile, Argentina, Brazil and South Korea have all taken steps to strengthen their banking systems. The Capital Accord promulgated by the Basle Committee of Banking Supervisors in 1988 and its Core Principles for Sound Banking Supervision issued in 1997 have given regulators a road-map to follow. To be sure, some countries have fallen short. Turkey, which experienced a banking crisis late last year, is an example; it created an independent bank supervisory agency and brought prudential standards and accounting rules into line with international norms but failed to give that agency the capacity to hold the banks to those norms and rules. Still, the fact that there have not been more banking problems during the current slowdown is impressive testimony to the progress.

The third useful innovation has been the abandonment of crisis-prone intermediate exchange rate regimes for hard pegs and more freely floating rates. This has helped to eliminate one important source of financial vulnerability, namely, fragile currency pegs. This point will come as no surprise to my Swedish audience tonight. To be sure, more flexible rates -- the alternative opted for by most emerging markets -- are no panacea. In times of economic weakness, the currency depreciates, which in turn fans inflation. Depreciation can cause serious problems for a country with substantial amounts of foreign-currency-denominated or indexed debt. Brazil is experiencing these problems as we speak. Still, the country's problems are less severe, and its policy options are more extensive, than would be the case if in addition the Brazilian authorities had to defend a fragile currency peg. This is one more basis on which it can be argued that good progress has been made on crisis prevention.

Confusion On Crisis Management

It is hard to offer comparable praise for efforts on the crisis-management front. Here disagreement and confusion rein. While some argue that the IMF should provide more assistance to crisis countries, others argue that it should provide less. Some suggest that it should intervene more regularly, others that it should resist the temptation to intervene. These different points of view could not be more incompatible. Given the absence of agreement on the basics, it is not surprising that few significant steps have been taken to improve the way we manage crises.

Consider first the critics who argue that the IMF should provide less assistance to crisis countries. The Fund's financial operations, they argue, allow investors to escape without losses, which in turn encourages them to lend without due regard to the risks. Repeated rescues create moral hazard, in other words, weakening market discipline. The solution, in this view, is to reduce the size of IMF rescue packages. It is for the IMF to lend less often and when it lends for it to require investors to provide new money or write down their claims. The private sector, rather than being bailed out, should be bailed in. Or, as the point is also put, the official sector must find a way of ensuring "private sector involvement" in the resolution of crises.

Others argue that the IMF should lend more rather than less. When investors panic, they argue, it is essential for the Fund to restore confidence. When it contributes only limited amounts of money, the IMF signals that it lacks confidence in the crisis country. The observed pattern where official finance simply replaces private finance -- where the injection of public funds simply finances the exit of private investors -- is symptomatic of this lack of confidence. If the IMF put more money on the table, it is argued, there would be no question about its support or about the ability of the crisis country to meet its obligations. Investors then would have no reason to flee. Similarly, the official community's insistence on private sector involvement only creates anxiety among investors and increases the likelihood that they will rush for the exits at the first sign of trouble. Thus, there have also been a variety of proposals for allowing the IMF to act more like an international lender of last resort that would lend freely to crisis countries. Such options would clearly involve a greatly expanded, not a reduced, role for the IMF.

The reason why different observers are led to different conclusions is that they start from different assumptions. My goal here being to offer practical guidelines for crisis management and for changes in the procedures and institutions through which such management takes place, I should therefore specify my own assumptions.

First, I side with those who regard the moral-hazard problem as serious. A regular pattern of large-scale IMF rescues will not make the world a safer financial place. Regularly loaning crisis countries enough money to simply pay off their creditors -- even if this was feasible, something about which I have my doubts -- would simply encourage investors to lend without regard to the risks. One cannot but be impressed by the number of highly-compensated investment bankers whose job it is to forecast how much money the IMF will lend to a crisis country, and when, so that their clients can put on or take off positions accordingly. Investment bank newsletters provide compelling evidence of the moral hazard problem, in other words. And moral hazard can be dangerously destabilizing, as the second half of the 1990s has shown. We need to find ways of making it feasible for the IMF to stand aside when this is what is called for.

At the same time, and this is my second assumption, the IMF, and the international policy community generally, feel intense pressure to intervene. An involuntary suspension of debt-service payments and devaluation of the currency can have serious financial consequences for the crisis country. It is at least conceivable that it will threaten the global financial system. Politicians are risk averse. This creates a reluctance on their part to have the "natural experiment" that can provide evidence on the magnitude of those costs occur on their watch. Hence, faced with the latest crisis, officials, despite their desire to do otherwise, tend ultimately to back down and lend.

But, and this is my third assumption, the size of multilateral assistance packages will remain limited. Countries remain jealous of their sovereignty. They will remain so for the foreseeable future. Except perhaps for you Europeans, we will continue to live in a world of nation states. And nation states depend on their own national policy-making institutions. The world is not going to follow the members of the European Union anytime soon in establishing a trans-national central bank. This means that there will be limits on the amount of money they allocate to the rescue operations of the IMF. Governments are reluctant to allow the hard-earned tax dollars of their citizens -- their "plumbers and carpenters," as U.S. Treasury Secretary O'Neill put it -- to be used without limit to bail out Third World countries. This makes the use of overwhelming force (the application of the Powell Doctrine to international finance), however attractive in principle, infeasible in practice.

Simple Analytics, Complex Problems

How then should we think about what the Fund should do? Conventional thinking about when the IMF should lend distinguishes between solvency and liquidity crises. When a country's crisis is the result of investor panic and not of deep problems with fundamentals, this conventional thinking goes, we have the case of a pure liquidity crisis. The IMF should then lend generously in order to prevent the creditors' rush for the exits from doing unnecessary damage to the country's economic prospects. Indeed, if the markets believe that the Fund is ready and able to respond in this way, it may not have to lend at all, since investors who might otherwise have an incentive to be first through the door on the grounds that the financial resources of the national authorities are limited, so that those who are last through the door suffer the greatest losses, now have no incentive to scramble out at all.

In contrast, if there are problems with fundamentals implying that the country has to restructure its debts, then IMF assistance simply effects a transfer from domestics to foreigners and from debtors to creditors. Some share of IMF disbursements will be used to pay foreign creditors who would not be paid otherwise. And since the IMF is ultimately paid back, the bill is paid by the consumers and taxpayers of the crisis country. This is undesirable on equity grounds.

The idea that if a country is illiquid the IMF should provide a bailout while if it is insolvent the Fund should insist on a "bail-in" (it should refuse to lend and leave the country to restructure its debt) is appealing because it resonates with Walter Bagehot's classic dictum regarding the behavior of a lender of last resort. According to Bagehot, the lender of last resort should lend freely against good collateral at a penalty rate -- that is, it should lend to borrowers who are fundamentally solvent but whose economic prospects may be damaged unnecessarily if they are forced to dump assets at fire-sale prices as a result of temporary illiquidity. If, on the other hand, the agent in distress lacks good collateral, then the problem is one of solvency and the lender of last resort should not lend.

But the distinction between illiquidity and insolvency, while well defined for banks and corporations, is problematic for countries. Countries do not go bankrupt. There is some level of future taxes that will generate a revenue stream with a present value sufficient to service the debt, and if the markets believe that a country is willing and able to commit to those taxes, they will provide the additional finance needed to bridge a short-run gap. On the other hand, raising taxes or cutting public spending by the requisite amount may be political suicide, and any government that attempts to do so may find itself quickly thrown out of office. The country is able to service its debts in principle but not in practice. Is it then insolvent or illiquid?

While it is undoubtedly true that the concept of debt-servicing capacity is less well defined for a country than a corporation, and that for countries the limits of that capacity depend as much on political as economic factors, this does not mean that the IMF can set aside the question of whether or not the country is capable of mobilizing the resources needed to keep current on its debts when deciding whether or not to lend. If its judgment is that the country is committed to paying its debts promptly and in full, then there is a strong argument for lending in order to prevent it from having its market access disrupted. Conversely, if the judgment is that political as well as economic considerations prevent the country from meeting its obligations, then an IMF rescue loan is simply a transfer from the debtor to its creditors, which is not desirable in and of itself. In other words, the IMF when deciding whether to lend has no choice but to think in terms loosely analogous to insolvency and illiquidity.

This way of conceptualizing the IMF's lending decision has a number of uncomfortable implications. First, deciding whether to lend necessarily involves a considerable element of judgment. The IMF will have to make a judgment not just about the evolution of economic conditions but also about the political constraints. This is troubling, since social scientists in general, and the macroeconomists responsible for IMF decision making in particular, are not skilled forecasters of political outcomes.

Second, simple rules like "do not lend to countries where the debt exceeds a certain level or where the gap between the real interest rate and the real growth rate is more than a certain number" are unlikely to be appropriate, since a given debt ratio or growth shortfall are less alarming the stronger is the political consensus in favor of meeting the nation's financial obligations. But since this evaluation necessarily rests on a forecast of future political conditions, it vests with decision makers with considerable discretion. This will frustrate those who prefer to have IMF lending dictated by hard and fast rules, because they worry that bureaucrats in the business of lending have a tendency to lend too freely, or because they fear that a discretionary process is disproportionately influenced by the Fund's largest shareholders.

Third, willingness and ability to pay are not exogenous. The sacrifices that a society is prepared to accept in order to meet its financial obligations will be affected by how much assistance it receives. The decision of whether and how much to lend cannot be predicated on an unconditional forecast of the political system's capacity to undertake the policy adjustments needed to restore debt sustainability, in other words, but must be based on a conditional forecast that takes into account how that decision will be affected by the Fund's decision to lend. And conditional forecasts are even more difficult than unconditional ones.

The Catalytic Approach

The bottom line is that the IMF must make a judgment of whether limited assistance will help a country surmount its financial difficulties and resume business as usual, in which case it should lend, or whether it is unlikely to have this effect, in which case the Fund should stand aside, allowing the currency to be devalued and/or requiring borrowers to restructure their debts.

But this advice presumes positive answers to two further questions. First, can limited assistance in fact help a country overcome its crisis, or are limited amounts of assistance worse than none at all? Second, is it really feasible for the Fund to refuse help for a systemically-important country, forcing force it to devalue and/or default on its debts in disregard of the repercussions?

As we have seen, modestly topping up a country's reserves may only provide the authorities the resources with which to pay off a few additional investors, and the knowledge that their additional resources are limited may actually accelerate the scramble to get out. Investors will behave differently only if they see sharp reductions in policy uncertainty. If political and economic reforms are adopted as a result of the multilateral intervention and quickly enhance the country's willingness and ability to pay, then the incentive to exit will be removed. International assistance will "catalyze" capital inflows (to use the official parlance) rather than facilitating additional outflows.

Under what conditions will IMF assistance achieve a sharp reduction in uncertainty, therefore having this catalytic effect? My reading of history is that this happy outcome has been achieved only where there existed a strong domestic constituency for reform and where multilateral assistance tipped the balance in its direction. This was recognized by one of the IMF's early managing directors, Per Jacobsson, as early as 1959, when he observed that "programs can only succeed if there is the will in the countries themselves." Why, for example, did the Marshall Plan funds work after World War II to help bring about inflation stabilization, fiscal consolidation, and market-friendly reform rather than being frittered away? The answer is that European governments were strongly predisposed to adopt these policies, and the Marshall Plan tipped the balance by limiting the short-run pain and sacrifices that had to be imposed on their constituents. Europe already had long experience with the market, which inclined it toward the adoption of market-friendly reforms. It had suffered devastating hyperinflations after World War I, which now predisposed it to monetary and fiscal stabilization. It had democratic governments with checks and balances that prevented U.S. aid from being diverted into the pockets of elites. And many European countries had single-party governments or strong coalitions capable of credibly committing to the relevant reforms.

Where, on the other hand, has IMF financial assistance not worked? The answer is where there did not already exist a strong constituency for reform, where the government was weak, and where democracy was absent or the government otherwise lacked the capacity to commit to the relevant reforms. Thus, the failure of IMF assistance to produce quick results in Thailand in 1997-8 is ascribed to a flawed constitutional design that generated weak coalition governments and incohesive parties unable to commit to reform. The severity of Indonesia's crisis is attriubuted to the weakness of democratic institutions, which vested arbitrary decision making power in the hands of one person, Suharto, who could as easily change his mind as stay the reformist course.

The implications for crisis management are straightforward. Lend to countries where there exists a domestic constituency for reform and where political institutions are strong enough for the government to commit to its implementation. Do not lend in other cases, for doing so will neither produce sustainable reforms nor restore investor confidence.

The Concerted Approach

This analysis suggests that the conditions in which multilateral assistance will resolve a crisis are limited. It follows that IMF assistance should be the exception, not the rule. But this presupposes other ways of resolving crises. The unfortunate fact is that the alternatives are difficult, messy and uncertain. Attempting to implement them only raises the specter of even greater difficulties for the crisis country. It fans fears for the stability of the global financial system. The politicians' reluctance to run these risks is why they attempt to aid crisis countries even when the likelihood of success is low. It is why so many IMF interventions fail. It is why moral hazard has grown so severe.

The best of all worlds would be one in which the creditors, recognizing that a country's debts were unsustainable, agreed to write down their claims. They would collectively agree to take, say, 60 cents on the dollar. But creditors have no incentive to volunteer for this haircut so long as they hold out at least some hope that they will be paid in full. They will wait until the debtor suspends payments to negotiate for their 60 cents, since until he does so they continue to receive their full 100 cents on the dollar. Only if the debtor stops making his contractual payments -- that is to say, only if the restructuring is involuntary -- do the creditors have an incentive to accept less. Captive domestic institutions -- pension funds and banks that are subject to political pressure, as in today's Argentina -- can sometimes be arm-twisted into accepting less than full value, but the same is not true of foreign investors.

In most cases, then, debt restructuring means involuntary restructuring, where the first step is the suspension of payments. So why don't we see more restructurings? One reason is the danger of lawsuits inflicting damage on the indebted economy. Governments and the IMF are both reluctant to see a country be declared in default for fear that creditors would attempt to attach the foreign assets of the government and of domestic corporations, including their goods in transit. Seeing other investors obtaining full payment through legal means and leaving nothing to be doled out to the less litigious, no investor would have sat back in the hope of eventually obtaining 60 cents on the dollar.

Under U.S. law, individual bondholders can sue the issuer if the latter alters its contractual terms of payment. A single lawsuit can trigger cross-default clauses in the country's other debt instruments, in turn activating acceleration clauses requiring those debts to be repaid immediately. Unlike syndicated bank loans, bonds lack sharing clauses requiring individual creditors to share any amounts recovered with other bondholders and thereby discouraging recourse to lawsuits. There are no counterparts to the central banks and regulators who used their powers of moral suasion in the 1980s to encourage cooperative behavior by the members of commercial bank syndicates. Neither do sovereign issuers have recourse to a bankruptcy filing under which they would be protected from lawsuits and in whose context terms could be imposed on noncooperative creditors.

The other reason that the international community is reluctant to contemplate restructurings is the fear of contagion. Russia's default created serious problems for a few large investors, most notably Long-Term Capital Management. To raise liquidity, these creditors had to sell other securities of the same asset class, including claims on other emerging markets, spreading the crisis internationally. There was the widespread perception that the global financial system was at risk. Similar concerns are being voiced at the moment, about an Argentine default, since Argentine bonds account for nearly a quarter of all emerging market debt securities.

What to Do About It

Thus, the available alternatives to IMF lending are too difficult and risky. Faced with another crisis, the IMF regularly succumbs to the temptation to lend. The consequences include more crises (as investors learn that they can escape losses and engage in more risky lending in response) and damage to the effectiveness and legitimacy of the multilaterals (as Third-World taxpayers end up footing the bill for failed IMF programs).

The solution, obviously, is institutional reforms designed to create feasible alternatives to this pattern of IMF lending. But what reforms, exactly? Here the international community must take a decision of whether to trust bureaucrats or markets. Many recent proposals -- for an IMF-run standstill mechanism, a new IMF facility to backstop bond markets, or an international bankruptcy court, as mentioned by U.S. Treasury Secretary O'Neill in Congressional testimony last September, and by the report of the "Emerging Markets Eminent Persons Group" in November -- propose to solve these problems through more intervention and regulation. This is ill advised, in my view. Creating a new international institution was the powers to override contracts, or vastly expanding the powers of the IMF to do so, is undesirable on its face, and ultimately it is a political non-starter. Better would be to change the terms of lending contracts to enhance the ability of the markets to resolve these problems on their own.

The best of these bad ideas is that for an IMF-sanctioned standstill to halt the creditors' rush for the exits. If the IMF could declare a temporary standstill on payments, the argument goes, investor panic could no longer precipitate a crisis. Investors would have time to collect their whits, and the government could signal its continued commitment to strong policies. This proposal is the "solution de jure." But, in fact, this idea is either unnecessary or undesirable, depending on the type of crisis it is designed to address. If there is no issue of debt sustainability and the problem is investor panic, pure and simple, then the affected government can declare the temporary standstill on its own; there is no need for the IMF to do this for it. When the country has the clear capacity to pay 100 cents on the dollar once the panic passes, there is no incentive for creditors to sue. Once the panic passes, the standstill can be lifted, and business as usual can resume. IMF endorsement of the government's action, and reassurance that there was no fundamental problem of debt sustainability -- if extended judiciously and credibly -- would help to produce this happy outcome. But the IMF already has the power to issue statements on whether a government's actions were justified or not. This is something it already does. There is no need to amend the IMF's Articles of Agreement to give that institution the power to impose the standstill.

If, on the other hand, there is a problem of debt sustainability and the country's obligations need to be restructured, then the country can suspend payments -- it can declare a standstill -- unilaterally. In this case, free riders have an incentive to sue, which can prevent an orderly restructuring. Amending the IMF Articles of Agreement to enable the Fund to endorse a country's standstill would not change this fundamental fact. What needs to be changed, rather, is domestic law, specifically the laws that give sovereigns (and conceivably other debtors from the same country) immunity from action in domestic courts and the circumstances under which that immunity can be waived. Sheltering foreign borrowers from legal action in the United States requires changing U.S. law, in other words, not the IMF Articles of Agreement.

But are the U.S. executive, judicial and legislative branches willing to accept a blanket prohibition on legal action? Perhaps they will be willing to accept such a prohibition only if its application is limited to specific circumstances, say that the country is making a serious adjustment effort and engaging in good-faith negotiations with its creditors. But will they be prepared to allow the borrowers to declare the existence of circumstances justifying the application of that ban? Surely not, for this would simply replace moral hazard for investors (what we have now) with moral hazard for borrowers. Here, then, may be a limited role for the

IMF, to declare that the circumstances appropriate for obtaining protection from legal action exist. But the Fund already possesses all the powers it needs to issue such a declaration. Again, there is no need to amend the IMF Articles of Agreement. Again, the need is to amend domestic contract law to impose a stay on litigation when the IMF issues the relevant pronouncement.

Once that occurs, the debtor and its creditors can commence restructuring negotiations. Here is where other changes to domestic contract law could come in. Requiring loan contracts to include majority-voting and sharing clauses would discourage maverick creditors creating obstacles to a settlement beneficial to the debtor and the majority of creditors. Collective-representation clauses that prohibited individual bondholders, as opposed to the representative of a qualified majority, from initiating litigation would reduce the risk of disruptive legal action. Clauses specifying who represents the bondholders and making provision for a bondholders assembly would allow orderly solutions to be reached. An orderly bond workout would be much less difficult to undertake than under present institutional arrangements. A viable alternative to bailouts would then exist.

Some say that such financial engineering is undesirable -- that the authorities should not interfere with the terms of private debt contracts. They fact of the matter is that they already interfere and always have. In the United States, it is precisely government interference, namely the ban on the ability of a majority to impose restructuring terms on a dissenting minority, that makes orderly restructuring so difficult. This majority-voting prohibition was made law in the 1930s in circumstances very different from today's. Then the fear was that corporate insiders would expropriate outside investors if they were able to impose restructuring terms. This was a danger in the Great Depression because the U.S. had no uniform accounting standards or mandatory financial disclosure rules in the early 1930s. The circumstances now are different. The expropriation of corporate outsiders by corporate insiders is not the problem; our inability to resolve sovereign debt crises is. I am not calling for additional government interference in the terms of private debt contracts. I am simply recommending that the regulatory and legal framework be updated to fit the times.

Conclusion

Let me conclude. In 1998, at the height of the Asian crisis, considerable urgency was attached to efforts to strengthen the international financial architecture. What has been done since is generally regarded either as a great achievement or a great missed opportunity, depending on who you are talking to. I would say that it is both. There have been important achievements in terms of crisis prevention. But on the crisis-resolution front, the opportunity has been missed. That it was missed reflects lack of clarity -- even confusion -- about basic principles and therefore about desirable directions for reform.

The most basic of these principles is that while the markets don't always get it right, they are more likely to get it right than bureaucrats. In addition, markets are more accountable than bureaucrats: they are accountable to the investors who inhabit them. An expanded International Monetary Fund would be directly accountable to no one. Thus, we should distinguish between proposals that call for a vastly expanded IMF and for new international institutions (an international bankruptcy court, for example) with vast powers from proposals that give more responsibility for resolving crises to the markets.

But markets cannot work without institutional support. In the present context, this means that governments should modify the laws that specify the circumstances under which legal action can be taken against a foreign debtor. They should remove legal prohibitions on majority voting in bond workouts so that vultures can no longer disrupt restructurings. To contain the tendency for limited debt-servicing problems to ignite generalized crises, they should restrict the use of cross-default clauses. The should limit the use of negative pledge clauses so that borrowers can more easily complete voluntary debt exchanges.

Doing so will not solve all problems. But it will at least begin creating a viable alternative to regular IMF bailouts as a way of dealing with financial crises. Doing so will not be easy, since it will entail overcoming vested interests that will oppose changes in contract law. It will require international cooperation. Few important things are easy. But this is clearly the most important piece of unfinished business for policy makers seeking to make the world a safer financial place.

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