Recent turmoil in financial markets has been the first real stress test of the stability and integrity of the world’s financial structure since the global shift away from the traditional bank-based model to a market-based system of financial intermediation.

As recent events have shown, the current system has some critical flaws and unexpected vulnerabilities.

More than 100 central bankers, policymakers and economists examined the recent crisis during the Federal Reserve Bank of Kansas City’s 32nd annual economic policy symposium in Jackson Hole, Wyo. They discussed if changes in financial regulation and monetary policy are necessary to deal with future crises. The symposium, held Aug 21-23 in the northwest corner of the Bank’s Tenth Federal Reserve District, continues the tradition of the symposium focusing discussion on a key policymaking issue.

“The symposium has proven over the years to provide a valuable forum for the exchange of ideas on important policy issues,” says Tom Hoenig, president of the Federal Reserve Bank of Kansas City. “As in past years, we were once again honored to host a distinguished group of individuals who engaged in discussion and exploration of a crucial matter facing central banks around the world.”

In addition to remarks from Federal Reserve Chairman Ben Bernanke; Mario Draghi, governor of the Bank of Italy; and Stan Fischer, governor of the Bank of Israel, sessions for this year’s symposium, titled “Maintaining Stability in a Changing Financial System,” included:

- Financial Crises in Historical Perspective
  An examination of the key features of the
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• The Role of Liquidity in Financial Crises
  The causes and consequences of liquidity strains in financial crises, with special attention to liquidity implications of a market-based financial system.

• Implications for Regulation and Prudential Supervision
  A look at possible areas for reform including those that would correct incentives for excessive risk taking by financial institutions and reforms designed to increase the liquidity of new financial products.

• Central Banks and the Financial Crisis
  Generally speaking, central banks have employed two basic approaches when dealing with financial crises: providing temporary and targeted liquidity through lender-of-last-resort policies and adopting a more accommodative policy stance. Although both were used by the Federal Reserve in recent months, questions have surrounded the actions.

  “Although our Reserve Bank receives much of the credit, the symposium’s stature and success is the result of the individuals who attend and participate by offering their insight and opinions during the conference sessions,” Hoenig says. “Over the years, these individuals have made the symposium into what it is today.”

  Last year, symposium participants focused on “Housing, Housing Finance and Monetary Policy.”

  The origin of the symposium dates back to 1978 when the Kansas City Fed hosted “World Agricultural Trade: The Potential for Growth” in Kansas City. The event moved to Jackson Hole in 1982—the first to use the symposium’s current structure, which focused on “Monetary Policy Issues in the 1980s.”

   BY TIM TODD, EDITOR

Papers presented during the 2008 symposium, as well as complete copies of the proceedings from each of the previous events since 1978, are online at KansasCityFed.org.