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William A. Allen

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## *International Liquidity and the Financial Crisis*

Most policy-makers did not anticipate the financial crisis of 2008. Nevertheless, in contrast to their performance during the Great Depression, central banks around the world, led by the Federal Reserve, acted decisively following the collapse of Lehman Brothers and provided huge injections of liquidity into the financial markets, thereby preventing a far worse outcome. *International Liquidity and the Financial Crisis* compares the 2008 crisis with the disaster of 1931 and explores the similarities and differences. It considers the lasting effects of the crisis on international liquidity, the possibilities for an international lender of last resort, and the enlargement of the International Monetary Fund after the crisis. It shows that there is no clear demarcation between monetary and macro-prudential policies, and discusses how central banks need to adapt to a new environment in which global liquidity is much scarcer.

WILLIAM A. ALLEN worked in the Bank of England from 1972 to 2004, where he was Head of the Money Market Operations Division, Head of the Foreign Exchange Division and Director for Europe. Since 2004 he has been an honorary senior visiting fellow of Cass Business School in London and has published widely on central banking and international finance. He is a specialist adviser to the House of Commons Treasury Committee and a consultant to the International Monetary Fund.

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## Preface

This book draws very heavily on a programme of work which Dr Richhild Moessner of the Bank for International Settlements and I embarked on in late 2008, to explore the effects of the financial crisis on international liquidity flows and the ways in which central banks and governments were responding to the crisis. Our work has been released in articles in economics journals and working papers, details of which can be found in the references at the end of the book.

The purpose of the book is to provide a coherent account of the effects of the crisis on international liquidity. Dr Moessner and I have been equal partners in the research on which the book is largely based. She has very generously allowed me to draw freely on our joint work and has been characteristically supportive of the book project. I therefore owe her a great deal. The book also contains some material and expresses some views which are mine alone and for which Dr Moessner bears no responsibility.

I am very grateful to the Bank for International Settlements for its hospitality, and for allowing me to use material which it has published. The views I express in the book are mine and do not necessarily reflect those of the BIS. The book also draws on papers published in *Central Banking*, the *Financial History Review*, the *Journal of Financial Transformation*, *Revista de Economia Institucional* and *World Economics*. I am grateful to the publishers for permission to use this material.

Many other people have assisted the work programme by means of comments on papers, discussions at seminars, statistical advice and conversations on the subject matter. They include Bob Aliber, Edmund Allen, Lucy Allen, Rosalind Allen, Naohiko Baba, Peter Bernholz, Bilyana Bogdanova, Claudio Borio, Maria Canelli, Matt Canzoneri, Forrest Capie, Stephen Cecchetti, Jae-Hyun Choi and other officials of the Bank of Korea, Henning Dalgaard, Petra Gerlach, Homero

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I owe a very great debt to the late Michael Dealtry, who spent much time in teaching me about the international monetary system.

My greatest debt is to my wife Rosemary, for her steadfast support through thick and thin and for tolerating my frequent physical and mental absences. The book is dedicated to her.