

11 December 2018

Address on the presentation of the 17th King Juan Carlos Economics Prize

Banco de España

Pablo Hernández de Cos
Governor

Your Majesty, Madam Minister for the Economy and Enterprise, ladies and gentlemen:

Firstly, your Majesty, I wish to thank you for your presence here today at this presentation ceremony for the economics prize bearing your name. You have accompanied us on this occasion since 1986, and it is an honour for this institution to have your Majesty here again today.

The King Juan Carlos economics prize was instituted by the José Celma Prieto foundation. I should like to thank the foundation's president, Mr José Celma, for its long-standing and generous patronage. This biennial prize is awarded in recognition of the academic and professional career of a Spanish or Latin American figure in the field of economics.

It has been my honour to preside for the first time the prize jury, made up of Mr Álvaro Rodríguez-Bereijo as vice-president, Mr Juan Velarde, Mr Rodolfo Martín Villa, Mr José Luis Feito, Mr Álvaro Cuervo and Mr José Ramón Álvarez Rendueles.

The jury, meeting on 21 September, decided to award the 2018 edition of this prize to Ms Carmen Reinhart, a US economist of Cuban origin, for her outstanding research and teaching in the field of macroeconomics and international finance, which has made a highly notable contribution to improving our ability to understand financial crises and the determinants and effects of international capital flows.

Carmen Reinhart is Professor of the International Financial System at the John F. Kennedy School of Government at Harvard University and has pursued her professional career primarily in academia, international organisations and, to a lesser degree, the private sector.

Having received a Ph.D. from Columbia University, she commenced her career in 1982 at Bear Stearns, where she was Chief Economist and Vice President from 1985 to 1986. She then worked for eight years as a Senior Economist at the International Monetary Fund and, after several years away at the University of Maryland, she re-joined the IMF in 2001 as Senior Policy Adviser and Deputy Director of the Research Department, a post she held until 2003.

More recently she has pursued her career in academia, first at the University of Maryland where she was Director of the Center for International Economics, then at the Peterson Institute, and since 2012 at Harvard University.

Carmen Reinhart is also Research Associate at the National Bureau of Economic Research and adviser to various institutions, such as the Congressional Budget Office and the Federal Reserve Bank of New York. In addition, she has been on the editorial board of prestigious economic journals, including the American Economic Review, the Journal of International Economics and the International Journal of Central Banking.

For more than three decades, Professor Reinhart has made important intellectual contributions, mainly in the area of international economics. The analysis of the various types of financial crises and the relationships between them has been a particularly prominent area in her prolific research activity. This work has been recorded in numerous books and articles published in the most prestigious academic journals.

The work of Professor Reinhart lies behind numerous economic concepts that today form part of the everyday toolkit of academics, central bankers and economic analysts. Allow me to mention some examples of her contributions, from a long list.

First I would like to refer to the concept of “twin crises” introduced in an article she published with Graciela Kaminsky in the *American Economic Review* in 1999, to describe how banking crises typically precede currency crises, and how they fuel each other.

The second example is the concept known as “fear of floating”, a term coined in a paper published in 2002 in the *Quarterly Journal of Economics* with Guillermo Calvo.

This paper describes how many emerging market economies, which officially claimed to operate under flexible exchange rates, were actually using monetary policy mainly to smooth exchange-rate fluctuations.

The third example is what is known as the “debt intolerance” syndrome, whereby emerging market economies often face high risk premiums even though their debt levels would be considered normal – or even low – in developed countries.

This phenomenon, which was presented by Professor Reinhart in a series of articles published with Kenneth Rogoff and other authors since 2003, arises from the market perception that these economies, which have defaulted on their debts repeatedly in the past, will continue to do so in the future. Fortunately, these articles indicated that this market perception is reversible, although the “adjustment” process is not generally easy and may require so-called “external political anchors” to facilitate the process, a role that for some countries was performed by the European Union.

I do not need to remind you that these themes and concepts – in some cases dating back two decades – are currently at the centre of the political and macro-financial economic debate and testify to the enormous relevance and scope of the research carried out by Professor Reinhart.

The recipient of this prize is also co-author, with Kenneth Rogoff, of the book “*This Time it is Different: Eight Centuries of Financial Folly*”, which has been translated into more than 20 languages and has become a reference work for the history of financial crises. This book is an example of Professor Reinhart’s scientific contribution, from the methodological viewpoint, with her pioneering use of big data to study these issues.

The book is an extraordinary exercise in the compilation and empirical analysis of a variety of economic indicators for 66 countries over the last eight centuries, for the purpose of studying the determinants of financial crises and their effects. Such a historical and geographical range is indeed essential to be able to identify regularities in these infrequent phenomena.

The basic message of this comprehensive work is that financial crises follow a recurring pattern of boom and bust in which the determining factor is the excessive accumulation of debt during boom years.

This is a pattern common to different types of crises, be they sovereign debt, banking or exchange-rate crises since, as is well known, excessive indebtedness makes economies more vulnerable to crises of confidence.

In spite of the existence of macroeconomic, financial, external sector and other indicators, which can alert us to future crises, it is not easy to determine the precise moment at which one will occur.

In this respect, the author reminds us that, faced with signs of a possible new crisis, there is always the temptation to think that this time will be different and that the situation is under control because we have learnt from past errors and are better prepared.

Accordingly, among the recommendations made by this book, I would like to draw attention to the need to have available detailed, complete and comprehensive information on indebtedness, both for the public and the private sector, and to monitor housing prices to anticipate potential banking crisis scenarios. In this respect it is worth recalling that, at the global level, debt levels are today once again at historic highs.

In my opinion, Carmen Reinhart's exhaustive and systematic analysis of financial crises is a manual that has without doubt contributed to a better understanding of these episodes at a really opportune moment, following the outbreak of the international financial crisis. Indeed, ten years on, lessons are still being extracted from it. Ambitious international regulatory reform has been undertaken, supervisory measures have been adopted and, in particular, supervisors have been given macro-prudential tools to protect the economy from financial excess.

We trust that the alert indicators provided to us by the history of financial crises, so magisterially compiled by Carmen Reinhart, will serve as a guide for the appropriate evaluation of risks and for the timely application of the correct measures to mitigate them, so that next time will indeed be different.

Your Majesty, thanking you once again for your presence at this ceremony, and with your permission, it only remains for me to ask the prize winner to step up to the dais to receive the 2018 King Juan Carlos Economics Prize.