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Opening Address
Conference on The Subprime Crisis and Its International Consequences
by
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Having spent half a century on the transatlantic bridge of economic and political intercourse between the two continents, I am never happier than when I see Americans and Europeans, particularly Americans and French, sit together to discuss common problems and look for common solutions.

Since the initiative to hold this conference came from me, I would like to begin by thanking Daniel Benjamin, Director of the Brookings Institution's Center on the United States and Europe, Claude Bébéar and Philippe Manière of the *Institut Montaigne* as well as Michel Pébereau of the *Institut de l'Entreprise,* for the leadership, energy and resources they have contributed to make this conference possible.

I would also like to thank the speakers and panelists, who came from near and far, for being here today, and especially Governor Paul Volcker and Prime Minister Michel Rocard.

We expected to have here Jean-Claude Trichet, the Governor of the European Central Bank, as well. But unfortunately our date clashed with his obligation to be in Slovenia today for the annual meeting of the 13 Ministers of Finance of the Euro zone.

Trichet asked me to convey his warm greetings to the participants, notably to Paul Volcker, whom he considers an old and good friend.

I was driven to push for this conference not only because I have often acted as counsel to major American and European banks and financial institutions, but also because in my childhood, in the 1930s and 40s, I have lived through the economic collapse of a world and the bloodbath that followed.

That collapse began with an uncontrollable financial crisis which metastasized into crashing markets, hyperinflation, unemployment, panic and, above all, fear. And when fear drowned reason, folly recruited a savior – in uniform and with a mustache. This is how democracies perish.

Mercifully, we are still very far from any such scenarios. But it is worth reminding ourselves that we do live in a dangerously destabilized world, with new and rising economic powers, mighty sovereign funds, serious monetary disorders, flaming oil and raw material prices and myriad other challenges. In this context, the burgeoning sub-prime crisis and its far-reaching international consequences can detonate all kinds of unforeseeable upheavals.

Because the crisis originated in the United States, the burden is in the first instance on the Americans here, to explain what went wrong and how they think it can be fixed.

The subject before us is all the more complex because the nature of the sub-prime cancer has not been, and probably cannot be, diagnosed as quickly as people think. For no one really knows as yet what the tumor is made of and how far it can spread. What we do know is that pernicious influences have somehow penetrated the global financial system and are now contaminating the real economy as a whole. These influences seem to be tainted by greed, speculation, fraud, negligence, incompetence and more. It is as if the markets had suddenly become a kind of gambling casino with colossal stakes.

In 2003, Claude Bébéar and Philippe Manière published a book about those who have succumbed to such excesses. The title of that book tells it all: “They Will Kill Capitalism.”

I also recall the ringing phrase President Sarkozy uttered shortly after the crisis broke out: “Something must be done to moralize capitalism.” I do not think this was an ideological statement. The runaway capitalist excesses, which have recently come to the surface in America, in France and elsewhere -- if they are not hemmed in -- may indeed kill the fertile goose that lays the golden economic eggs for everybody, and do incalculable harm on all side of the socio-political spectrum.

The evidence of a systemic failure is becoming clearer every day, as hundreds of thousands of denuded mortgage-borrowers are an endless chain of financial establishments are bleeding profusely in America, Spain, France, England, Germany or Switzerland.

Yet after UBS announced a few days ago another mammoth write off from sub-prime losses, the markets became euphoric. Some newspapers announced that the crisis was over. This did not surprise me. When word leaked out that our extraordinary gathering of talents and brains was about to meet in the AXA auditorium, the world breathed a sigh of relief.

Meanwhile, the financial, economic and legal inflammations are however spreading. In the U.S., individuals, institutions – even cities and regions – are filing class actions and lawsuits that seek compensation for losses stemming from fraud, conspiracy or negligence. France’s Société Générale is already a defendant of such actions for nondisclosure of its exposure to abysmal losses and from the failure of its internal controls over sub-prime trades.

European institutions are also wondering who is morally responsible and legally liable for their losses -- direct and collateral -- and what redress can be obtained in American courts, from mortgage debt packagers, financial paper issuers and underwriters, credit rating agencies, risk insurers and re-insurers, etc.

This conference is so timely, its participants are so qualified and so independent, that I am asking myself if it could not become a kind of non-governmental incubator of ideas for a new Bretton Woods to explore what drastic reforms are needed in a world economy without any global governance, that has so manifestly outgrown the institutional and regulatory framework established in 1944.

A few months from now, France will take over the rotating presidency of the EU, and the U.S. will elect a new president. While Treasury Secretary Henry Paulson seems to be working hard on a plan to overhaul the financial regulation apparatus erected in the wake of the Great Depression, to contain the immediate dangers, restore a modicum of confidence and reduce the risks of future crises, one wonders how far he will be able to get with a lame duck Administration and a Democratic Congress.

We must address the questions of what could and should be done by way of urgent damage control, and later to reestablish an economic equilibrium without sacrificing innovation and progress. I like to think that our deliberations might spark a joint leadership initiative not only among governments, but also major financial institutions on both continents and eventually worldwide, to begin building effective ramparts against a repetition of the crises we are witnessing today.

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In my capacity as Chairman, and as we move from the specifics of "What Happened" to "What is to be done," I would like to begin by picking up on Paul Volcker's comment that the supervising authorities and their chief executives have lost their grip. This, coming from him, is mind-boggling and must be addressed.

How could all the remarkable institutions and responsible decision-makers have been so blind? How could those who were buying the junk CDOs do so without knowing what was in them and what they were worth? How could they have ignored their duty to do due diligence?

Dan Benjamin wondered if there is a Darwinian evolutionary trend that breeds inevitable unmanageable complexity and opaqueness. I am wondering if there is also a generational gap problem. Is the global economy moving so fast that there is a huge and widening chasm between brilliant young hotshots with their financial engineering, computer wizardry, mathematical models and outrageous incentive bonuses on the one hand. And on the other, staid, super-annuated executives who look to the experience of the past to solve problems of the future, and are unable to keep up with the tempo and complexity of the risks they are meant to manage. The result is that they seem to be unable to fathom or control what is really happening around them, and just let things drift and happen.