

WILEY FINANCE

# DANGEROUS Markets

*Managing in Financial Crises*

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GREGORY WILSON



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## **WHY MANAGE FINANCIAL CRISES PROACTIVELY?**

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Financial crises are simply too important and too costly to shareholders and societies to leave unmanaged. There is no question that there are *real* dangers in financial crises: Companies go bankrupt, management teams are fired, investors lose their money, employees lose their jobs, pensions disappear, deposits are frozen in time, personal savings get depleted, civil unrest increases, public riots can break out, contagion spreads across political borders, secondary effects appear such as higher risk premiums in other unsuspecting countries, and, finally, governments fall—as they did in Indonesia, Ecuador, Russia, and Argentina in recent years.

Too often, we see companies and entire sectors of an economy that are consistently destroying shareholder value year after year, sowing the seeds of a future crisis. Too often, we find fundamentally weak banking systems, especially in emerging markets where the banks play a disproportionate role in the national economy compared to less volatile capital markets. Too often, these weak national systems are linked inefficiently to global capital markets, increasing the cost of capital locally to all borrowers—individual consumers, businesses, and governments alike. Too often, we see weak corporate governance or inadequate accounting and transparency. Invariably, we find weak financial regulators who lack both the needed skills and political independence to do their jobs adequately. Too often, weak national systems are hooked up to the global capital markets before they are ready, and a lot of money flows in under misguided assumptions, increasing the potential for crisis.

Consequently, financial crises are occurring more frequently, with costs that are measured by as much as one-quarter or one-half of a nation's GDP. They also have long time horizons, measured in years, not months. At different levels, contagion is now a fact of life in the world. Moreover, there is no end in sight. We believe firmly in the net benefits of dynamic market forces and globalization, but the collision of these forces with weak economies and weak financial systems exposes the rot lying below the surface in many countries and, in our view, will only increase the rate and intensity of crises in the future.

*That's why financial crises need to be managed.*