

The New Yorker's author of How Markets Fail

John Cassidy

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Notes by:
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Interview: Matt Cooper, Gary Cohen, & Adam Paul
& Co - Major causes?

"never going to have a monocausal explanation"
"talking several continents hard to think
one cause"

Symptoms rather than causes

- on street "crooked + greed"
- economist - akerlof "Behavioral" / disaster myopia
- Bad incentives
 - ↳ "rational at individual level but add to"

"Have to look at what motivated people all along the mortgage market"

"Have to address incentives no good to tell people don't be crooks"

→ "One big reason people got bad signal is that Fed let speculative bubble develop"

"None of this is particularly original cl've been doing it for so long, but it all came together"

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"Have to give some credence to Greenspan / Bernanke argue of 'Wall of \$' from abroad"

"Asymetric policy did add up to a type of Greenspan part"

"Over 10-15 yrs, Fed - not just Green - let them get into an overall policy framework that was conducive to speculative bubbles"

"Overall the Fed allowed itself to get trapped in a damaging framework"

↳ Copp - what should we know?

"Puzzled as to internal deliberations of big banks"

↳ See the UBS internal report

City, Merrill, Goldman

"Mystery why Citi got in so big, so late"

"A lot of smart bankers made very unwise decision"

"Did they realize a lot of this stuff could come back to them"

Mystery - Sammie - Freddie - figures are complicated

"unresolved on amount of subprime"
"joining rather than leading the herd"

Co - Balance innovation & regulation

"compensation - what's a real innovation
what's designed to produce compensation until
the guy moves across the Street"

"If something is a real innovation
profits 5-10 yrs, not just 5-10 quarters"

Prisoners dilemma - no one can do on its own

→ See Blankfein & Mack

"No genuine def alt innovation & trickery"

Co - Cohen - The Why?

↳ compensation

"In upside securitization looks great,
until downside when cycle peaked"

"Great defense of F. Markets - benefits & costs
go to ^{the} people; not true in Bubble
right

↳ Cohen-Panic?

"Rational to panic"

"If to front of que get all their \$ out"

"all maturity transformation gives possibility to panic"

↳ Co-Bear & Lehman

"at time supported bailout Bear & wanted to bail Lehman"

→ Fed, Treas ~~and~~ ~~were not~~ ~~that~~ ~~early~~
wish they had acted earlier

Bad bank

"The US, given chronic, w/ Congress Paulson may have gotten the funds"

- had a repressed financial system from
I don't think we want to go back
↳ advent of big universal banks w/
"implicit guarantees cannot sustain"

- Break up large banks

More capital

"It's the fragility of the structure.
Even Lehman had enough Tier I
Basel capital."

"Take a granular look at crisis"
Bank of Spain - old fashioned
loan control

- Go back to Volker he was a
bank regulator. Now all PhD
economists. Regulators get relegated & realize
people at top are not interesting"

"Monstrous task"