

THE 2007-20XX FINANCIAL CRISIS:
EXPLANATION (ONE FEASIBLE MODEL) AND
PREVENTION (A PHARMACEUTICAL MODEL OF
REGULATION)

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Dubrovnik Seminar
September 29, 2010

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Figure 1: Social organization of Financial System

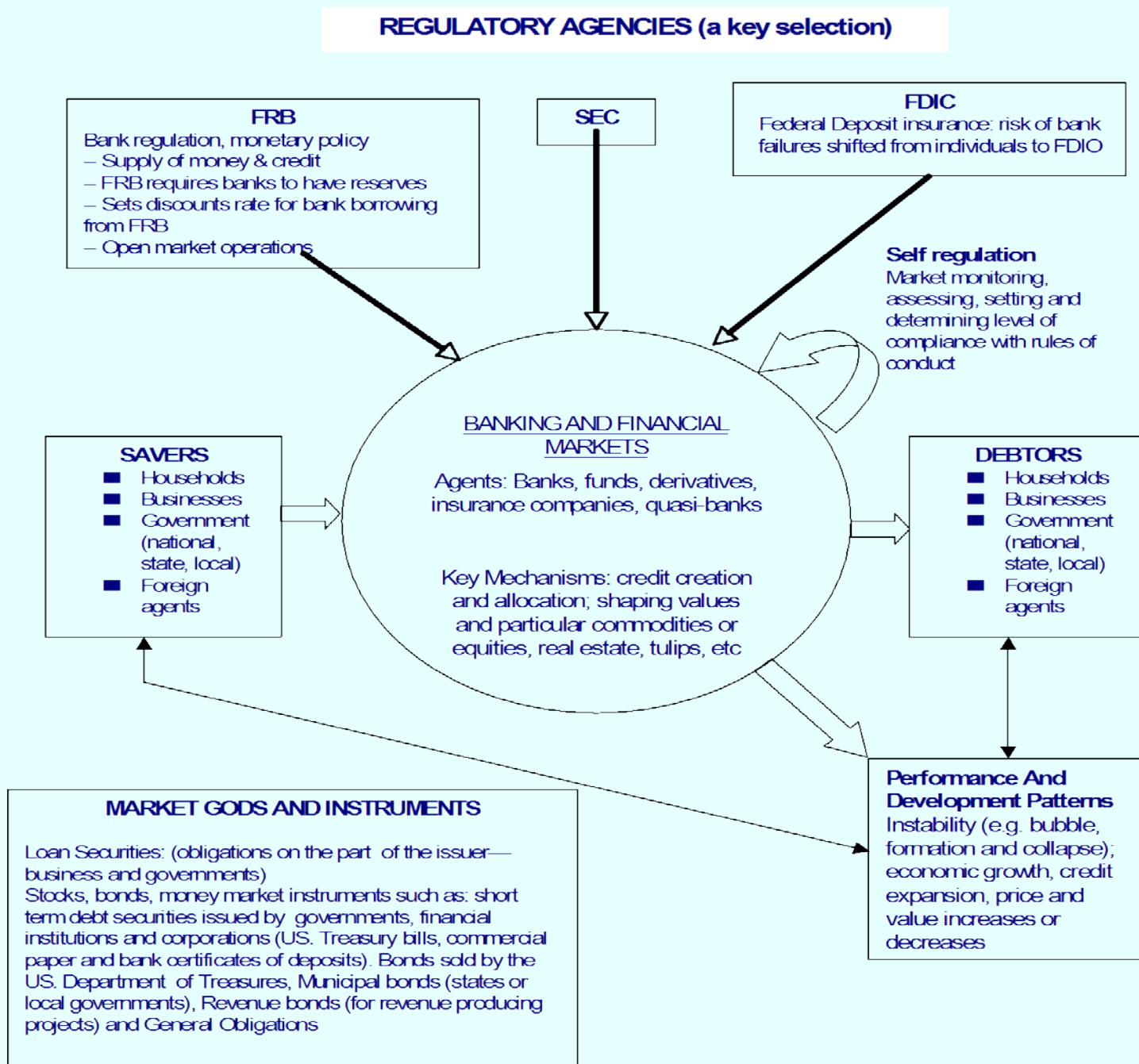


TABLE 1 : SELECTED CRISES

- Spain: 1977-1985
- Norway: 1987-1993
- USA: 1984-1991 (Savings and Loan collapse : 1400 S&L failures, 1300 Bank failures)
- Finland: 1991-1994
- Sweden: 1991-1994
- Japan: 1992-1997
- Asian Crisis: 1997-1998 (HongKong, Indonesia, Korea, Malaysia, Philippines, Thailand)
- USA & International: 1998 (Collapse of Long-term Capital Management)
- Colombia: 1998
- 2001: Argentina
- 2007-: Iceland
- 2007-: UK
- 2007-: Ireland
- 2007-2008: Austria, Hungary

TABLE 1 : SELECTED CRISES

	Before 1980	1980s	1990s	2000s	2007 --
IDEOLOGY/ REGULATORY PARADIGM	Moderate regulation, laws, policies	Radical Deregulatory Paradigm: Markets are supreme; regulation destructive: anti Regulatory Zealots in charge of key regulatory and policy making agencies in the USA			
FEDERAL RESERVE BOARD OTHER AGENCIES REGULATION	Rate flexibility		Rate Cuts: Chinese (and Middle East) purchase bonds so more cash available	<ul style="list-style-type: none"> ■ LTCM Bailout ■ Repeal of Glass- Steagall 	
FINANCIAL AND BANKING AGENCIES: ALSO NON DEPOSITORY:				FRB Leaves non depository lenders unregulated	
- Financial leverage				SEC changes net capitalization requirements allowing banks to leverage up 40x (it was 12x)	
- Derivatives				2001-2002 Wall Street drives up derivatives business	
- Mortgages and secularization				Commodity Future Modernization Act 2000, exempts derivatives from negotiation, supervision, exchange and reserve requirements	
- AIG Insurance				In 2006 AIG writes 500 billions on credit default swap ("insurance")	
DEBTORS Households, business, governments: Housing mortgage: stocks, commercial paper, Sovereign debt	Sales of homes increase and prices go up. Stock markets rapidly grow in value. Sovereign debt increases massively			2006 Price and volume of home sales fall. Sales drop 25%.	
ECONOMY		Easy money drives gold, oil, stocks, corporate profits housing and stocks values high		2006 JPM, Lehman, Bear Stearns have 1000 trillion in derivative exposure	Financial crash and economic depression (business, households, and governments have difficulties covering debts and obtaining credit)