15th Anniversary Lehman Collapse Conference

Wednesday, September 13, 2023, 9:30am – 5pm

PANEL DISCUSSION: Looking to the Future: What Reforms Are Needed to End TBTF?

Benjamin Schiffrin, Better Markets
Hi, everyone. I don't know about you, but I have found these discussions fascinating. I'm Ben Schiffrin, Director of Securities policy at Better Markets. We've reached our final panel of the conference. It's now time to look forward and consider what reforms are needed to end Too-Big-To-Fail.

We are lucky to have Louise Story as our moderator for this panel. Louise has done almost everything anyone can do in the news business. She is a veteran of the New York Times. Wall Street Journal, and National Public Radio. She has worked on groundbreaking projects as an investigative reporter that led to multiple billion-dollar financial settlements, government reforms, and legal convictions. She was also one of the superstar reporters during the financial crisis, and her byline was on the front page, day after day. She is currently an author, consultant, and lecturer at the Yale School of Management. She has recently completed work on a book about the black, white wealth gap, co-written with journalist Ebony Reed read. It's due out in early 2024, and I can't wait to read it. We were thrilled to have you on this panel.

Louise Story, Journalist and Media Executive
Glad to be here. And thanks for such an insightful day. I think this is going to be a very smart panel. We'll get right into it. I first want to give brief introductions of the four excellent speakers we have here and please check out the website for a lot more bio information as well as many books that they have written. I'll introduce them in the order that we're going to go with their presentations.

First, we have Reed Hundt. He's the co-founder, Chairman, and CEO of the Coalition for Green Capital. He was the Chairman of the FCC in the 1990s. He's done a lot of things in private equity and venture capital and written numerous books. The one that is very relevant for today is from 2019. It's called a *Crisis Wasted*: *Barack Obama's Defining Decisions*. We'll then hear from Thomas Hoenig, and he's the former President of the Kansas City Federal Reserve. He is the former chair of the FDIC during many of these central important years that we're talking about here, and he's a distinguished senior fellow at the Mercatus Center at George Mason University. Then we'll hear from Gerald Epstein. He's a Professor of Economics and the founding co-director of the Political Economy Research Institute at the University of Massachusetts, Amherst, and he has a forthcoming book called *Busting the Bankers Club*. Finally, we'll hear from a Anat Admati, and she is a Professor of Finance and Economics at the Stanford Graduate School of Business. And she's written many things, especially relevant today is the *Bankers New Clothes*. So, with that, we'll turn it over to Reed. And we look forward to your questions afterwards. Please post them. We'll be watching for them and take it away Reed.

Reed Hundt, Coalition for Green Capital
Thank you, Louise. This is the book that Louise was talking about. Authors should really never talk about their books; the book should speak for themselves. But I was invited to talk about the book. So, I'll violate that rule.

I was on the Obama transition team in 2008, and 09, and I knew or already knew or met the people that were crucial to the decision making in that winter, 2008 and 09, and after they made the decisions. In 2010 and 11, I interviewed about four dozen of them. Those interviews are at the University of California, San Diego for anyone that wants to do the research. But I couldn't figure out what to write in the book because I couldn't figure out the denouement. And I kept waiting for the plot to unfold year after year. And as the recovery was so incredibly slow, and drawn out, and then there was the question of whether the President Obama would even be reelected. At this point in time a year in advance of the election, a very significant percentage of the country didn't even want him to run again, an effect that's being repeated in history right now. So, I just couldn't figure out the end. And then the end was that Donald Trump got elected.

That was the end of a lot of hopes. That was the end of my hope that my classmate from Yale Law School would get to be the first woman president. But it was also the end of a hope that what I think we could call the neoliberal approach of 2008 and 09 actually would receive popular support. The answer is that it didn't. And that whatever you call Trumpism and put aside all of the fraud and the chicanery, and the deceit. Put that all aside. The desire to have everything be different, was clearly expressed in the vote for him in the vote against Hillary. So, then I was able to write the book with this disappointing end, and I will now just spare you having to read it by telling you the conclusions.

First, TARP, the bailout, should have been passed the day before the Lehman bankruptcy and not just a couple of weeks after. That was not impossible. In the summer of 2008, Barney Frank and Congress met with Hank Paulson. We don't know exactly what was said, but we have a pretty good idea about it from their different accounts. Barney said, what's really on your mind and the Treasury Secretary said that he'd been told a couple of months earlier that Fannie Mae and Freddie Mac were insolvent, they were going to go bankrupt. And Barney said, what are we going to do about it? And Paulson said, well, if that happens, it's a disaster for the economy. It could cause a financial crisis. And the two of them agreed right away to pass a law called HERA, which gave the government the ability to seize them and take them under government control, which is what happened. That was the exact moment when Hank Paulson decided not to apply the same remedy to anyone else in the financial system, even though he knew that Lehman Brothers had a very good chance of going bankrupt. He knew that every day from the summer all the way to September, and by Labor Day, two weeks before the anniversary that we're marking here today, it was absolutely crystal clear. And his policy decision was that the government should not intervene. And then when it went bankrupt, the government had to intervene because it was immediately realized that the consequences were far, far more devastating than then had been imagined. Henry James says the key to life is an imagination of disaster. That's not what was the case at that particular time. So, we know now that if the government is going to have to act, better than it has the authority to do so before the crisis, as opposed to scrambling afterwards.

A number two, fairness matters. In TARP, the government should have insisted on warrants in the banks that were certain to go back up in terms of their market cap, or it could have insisted on a refunding of the TARP money in a big way, such as by a transaction tax on financial transactions. These are the things that Henry Waxman asked for. He was told by Paulson, we don't have time to have fairness in this bill, we just need the bailout. That was a mistake. The popular reaction to that stretched out over time and does in fact lead to Trumpism.

The third rule, the stimulus bill ARRA. It should have been a twice as large as it was. Actually, that was known approximately two days after it was announced. Meaning in early January, when the economic results from December were reported by the Bureau of Labor Statistics, it was crystal clear that the stimulus was under sassed, and the administration decided to do nothing about that. Paul Krugman, who in my experience, is either a paid attention to or not on a 50/50 basis by people in the government ,on that particular occasion he published in the New York Times the following, the stimulus is about half the size that it needs to be for the recovery. The administration's decision was, it was better to hurry up and get Congress to endorse a stimulus that was too small, rather than to redefine the scale of the problem and run the risk that everybody would become frightened. Everyone became frightened anyhow. And it would have been better to have the stimulus be twice as big.

And then lastly, the macro thinking. Kenneth Rogoff came up with a book at that time that said that the proportion of public debt to the GDP was a critical ratio that absolutely defined the limits of debt that the government could take on it. It was later pointed out that some of their math was wrong. But the larger policy point is that that ratio has nothing to do with the actual capability of the government to act. Because what matters for the government's action is trust in the currency and in the ability of the country to fund it in step.

So those are the four lessons, and we know that they are probably right, because we had a rerun of the Lehman crisis when COVID took the place of a bank failure. And those four lessons were applied by the Democratic Congress and working with President Trump in 2020. And then applied big time with by the Democratic Congress working with President Biden in 2021. By applying these lessons, let's have the stimulus be really, really big. Let's have it be that it covers many, many issues. Let's not be hampered by hypothetical concerns about the debt to GDP ratio. These lessons were applied not because the Biden people read my book. I interviewed many of them for the book. They might have known of the title at least. But the real reason they applied these lessons is that they learned from their own experience. They came into the post COVID crisis with a vivid sense of their own ability to have delivered a rapid recovery before and they weren't going to repeat that. When the Biden people announced their economic policy, Larry Summers said that it was the worst economic policy in history. So far, there's little evidence to support that statement. But what is true is that the Biden plan was pretty close to the opposite of the plan that Larry Summers as the head of the National Economic Council, strongly and successfully urged on President Obama. Well, I haven't written the book about A Crisis Not Wasted, which is the Biden solution. But I thought that I would go ahead and give you the six lessons by way of conclusion.

First, it's very, very important for the administration to be bold in its first dealings with Congress. The Obama administration decided that whatever they asked Congress to do, it had to they had to be completely successful, and they sequenced every event. So, the sequence that they chose was first the stimulus, then the health care package, and then the environmental package. The Biden people decided, it's more important to ask Congress to do everything all at once in parallel. Fill every committee with an agenda, and be prepared to ask for twice as much as you'd be happy to get. The reason I know that that's the case is that's what the Chief of Staff Ron Klain, told me would be the plan at the beginning of 2020 when he didn't know he would be the Chief of Staff. But he did tell me that was the plan. And that's what they did.

Lesson number two is that the government can mobilize additional private capital by engaging in stimulus and produce a tremendous amount of public private investment.

Lesson three is that if you turn the economy off, as we did in the COVID, the service sector will turn back on very, very quickly. But the manufacturing sector won't. So, you will have shortages, and you will have inflation in produced goods, and it won't last all that long.

Fourth, because the United States does stand behind its debt obligations, and because it is an open economy, where we can attract capital from anywhere in the world, or when we need it.

Fifth, the political party that wants to do the most for the most people has the upper hand. If you narrow your focus to just restoring the banking sector, you're going to lose political capital.

And lastly, it is necessary for the United States to gain the trust of old world and of its own society that it's going to be able to pay its bills. And what that means is that the United States has to have an appropriate effective tax rate for the wealthy, which we do not have. Thank you.

Louise Story
I'll turn it over to Tom now.

Thomas Hoenig, Mercatus Center at George Mason University
Thank you, Louise, and I want to thank Better Markets for the opportunity to address this group and, and I am going to talk about Too-Big-To-Fail.

I think the first thing I would tell you is Too-Big-To-Fail, is more entrenched in our economy today than it ever has been. The firms are now larger and more complex. And they're more powerful than today than they were in 2008 and 09, and that's going to continue. Dodd Frank did not end Too-Big-To-Fail, it did have lots of regulation. It did raise the cost in terms of bank regulatory costs, and it didn't increase barriers to entry. It also did some regulatory reforms that were necessary, but it did not solve Too-Big-To-Fail, we need to acknowledge that. With that in mind, I'm going to say some things that that said earlier, and that is equity capital, I think is the key to mitigating and eliminating and mitigating the effects of Too-Big-To-Fail. And we need to focus on that going forward. And in recent days, the Too-Big-To-Fail banks have made their voices heard regarding recent capital proposals. And so, I want to discuss the topic of capital and its importance. And I want to emphasize the advantage of judging capital using the leverage ratio, not the Basel capital standards that are out there.

And I would start by saying regarding that, I will start by saying that Basel capital program is not a rule to be followed, it is a game to be played, and the Too-Big-To-Fail banks are masters of the game. I start also by saying Too-Big-To-Fail banks would have you believe they are burdened with too much of their own money, funding their activities, because capital is after all, investor money, not borrowed funds, and it is the most stable source of banks can have. So, with that model capital game allows the Too-Big-To-Fail banks to shrink their balance sheet and thereby increase the perception of how much capital they have when it's not there. And Basel distorts the allocation of capital within the economy, because it puts arbitrary risk on assets and therefore directs capital to flow according to what the regulators think, not what the market thinks, and the market does in the longer run, get it more right more often than the regulators do. That's not an overwhelming endorsement. But it is certainly better than what we have with the Basel rules.

I have argued also for years that the calculation of equity to total assets, the so-called leverage ratio tells the banks, it tells the regulators, and it tells the public more about the strength of the bank than does the Basel rule. I would be quite willing to discuss what is an acceptable level of for leverage ratio. But that's a different than saying it is the more useful because it tells you how much loss absorbing capacity you have before a bank. It's number one, a liquidity crisis and number two insolvency. For example, US GSIBs, the global systemic banks, rely on equity to fund only 7%, not 14%, 7% of assets on average of their assets. On average, regional banks over $100 billion have ratios that are closer to 9%. And smaller regionals have about 9.5%, and community banks have well over 10%. The most systemically important banks in other words are far more leveraged, and less well capitalized than all the other groups. And I think we need to remember that. Since they are the systemically important banks in the economy. The regulators know this, but they insist they know best about risk than the market does. And I beg to differ. Results matter. The leverage ratio, while not perfect, is simpler, is more likely to be enforced, not just by regulators, but by investors in the public. When you see the amount of capital absorbing capacity shrink, you react if your regulator, you react if you're the market, and you react if you're the public, and it keeps a greater degree of discipline in place.

Now, the Too-Big-To-Fail banks. I understand they spend billions of dollars on lobbying. That's their right. They spend billions of dollars on advertising. That's perfectly okay. They pay billions of dollars in fines. That's the cost of doing business according to some, but they insist that putting more of their own funds at risk is unaffordable. I think that's a little bit of a logical inconsistency. The Too-Big-To-Fail banks also say that stronger capital makes them weaker competitors with foreign banks. Maybe if they were racing the bottom, but not in terms of performance level. Let me give you an example.

As of 2022, European Canadian and Asian GSIBs are required have their investor put in as much as 4% or 5% of their own money as a relationship or as a ratio to their total assets. The US banks, as I said, have 7%, still marginally capitalized, but better than they were. In contrast then the US GSIBs price to book ratios, at the time that I gave you these ratios in 2022, was above one to one. All the European banks were half of that, and the Asian banks even less. And on a tangible book basis, the disparity was even greater. So, I think my point is that I think investors prefer stronger to weaker balance sheets, and stronger than weaker companies, as proven by these kinds of ratios. The US banks, even as they're marginally capitalized, relative to the others, represent a stronger force, stronger competitive force in a global marketplace, not weaker.

Finally, I want to say something about the FDIC's insistence on having long term subordinated debt as part of capital. Because there's too little equity in the banks, the regulators are suggesting the banks hold more long-term debt and doing so they reduce the losses the FDIC would absorb, should a bank fail. That assumes that the choice is more debt or nothing, rather than more debt or more equity, and I go with more equity. While such a proposal would reduce the losses to the FDIC in a bank failure, it does not enhance the resiliency of the bank itself, or the financial stability of the industry, as less equity. Long term debt on the balance sheet must be service from earnings. Even when earnings are under pressure in a recession. Failure to service the debt, places the organization in default and likely failure and accelerates panic. It doesn't decrease panic, and it has systemic consequences. Thus, by increasing the debt the institution holds, the proposal actually weakens the resiliency of the bank and the industry, and they should stop it going that direction.

Now, most GSIBs, for example, carry long term debt that's approximately 6% to 9% of assets depending on how you calculated. If GSIBs were required to fund themselves with an equivalent amount of equity in place of this debt, the institution would be less prone to failure in the first place. And should it fail, the losses to the FDIC would be no greater than they had held long term debt in its place.

So, equity serves a much greater stability and purpose than does long term debt. Also, I want to note, the FDIC in the past has been, understandably, one of the most critical opponents to the use of long-term debt in the form at that time and the last crisis of trust preferred securities within the banking industry and its capital structure. In an article it published in 2010, following the great financial crisis, the FDIC emphasized that these so called TruPS or long-term debt were nothing but long term debt and were a major source of instability during the financial crisis. The FDIC emphasized the importance of equity capital and mitigating the moral hazard within the banking industry by ensuring that the owners, who reap the rewards when a bank's risk taking is successful, also have a meaningful stake at risk should it fail. It emphasizes that the effect of accumulating interest on debt actually makes raising capital when you need it most difficult. Therefore, it's counter-productive in the most crucial times.

So, I want to emphasize number one, a simple measure of leverage, ratio of equity to assets. It's extremely important that we turn to that. We're not going to eliminate Too-Big-To-Fail, but we can mitigate it by reducing the likelihood of failure with more equity. Capital enhancement is the way to do it. Leverage ratio are much better to use then risk weighted assets by far. And I think, as we learn and go forward, we need to have, if anything, we need to remember equity is the best solution to a problem that otherwise seems unsolvable for Too-Big-To-Fail. Thank you.

Louise Story
Thanks, Tom. We'll turn now to Jerry.

Gerald Epstein, University of Massachusetts Amherst
Thanks, Louise. And first of all, I want to thank Dennis Kelleher and Better Markets for putting on this excellent conference and also for fighting the good fight, to try to make our financial system better, more egalitarian, and safer.

So how to end Too-Big-To-Fail? Some discussion this morning, suggested that perhaps this is not possible. Bill Cohen emphasized that our financial system is inherently fragile, and that we don't have any real alternative to our banking and financial system that we may just have to live with it. I do agree that the financial systems are fragile, but I think we can and we must do a lot better than that. First of all, as I tell my students, even if you have to sometimes bail out the banks, you don't have to bail out the bankers. Now, Bill and Jennifer and others have talked about accountability. How we can bring more accountability? Senator Warren talked about clawbacks and she has a bill now to increase clawbacks from banks that were accessible to kind of excessive risk, and so forth. We also have to remember that when General Motors was on the verge of bankruptcy, and around the time of the great financial crisis, the government removed the management and insisted on new management in those banks. So, we do not have to bail out the bankers, even if sometimes we have to rescue the banks.

Now, we do have policy tools to make this kind of fragility, less important. And, Tom, and I know Anat are going to talk about capital and equity and leverage requirements. This is crucial. There are other important ideas. Arthur Wilmarth didn't talk about it today, but he's proposed a new Glass Steagall Act to separate investment and commercial banking. There are many other important ideas out there. And we need to implement some of them. But in the end with a fragile banking system, we will have to undertake some rescues. And so, I'm kind of asking a somewhat different question that we've asked so far. What are we, the taxpayers and the society getting in compensation for all the rescues we're undertaking? What are we getting back from that? What kind of financial system, what kind of banks are we getting from that? How are they allocating credit? What are they doing? And are they really furthering, the social ends that we need further in our economy? Are they helping us to solve the major problems that we face now?

These are questions, for example, that were asked by the reformers in the New Deal. They wanted to make sure that not only were they going to restructure the financial system, but that the financial system would allocate credit more productively and more equitably. They have restrictions, portfolio restrictions against certain kinds of speculations. They had a mission guided approached to different segments of the financial sector, have different missions, housing, commercial lending, etc. And the idea was, what are you going to be doing for us? We seem to have lost sight of that a bit. There's this lemon socialism, or crony capitalism that we seem to have created.

So, for example, an important goal, an important problem, that we need help with from the banks is climate change. We know that climate change is an existential threat. We know that leads to fires, floods, droughts. We've seen that everywhere. There have been at least $24 billion disaster events this year so far, and there's going to be more. And this is related to Too-Big-To-Fail. These kinds of disasters are going to get worse, and they're going to create more financial instability. So, they're going to create a need for even more bailouts, even more rescues in the future, not only of our economy, but of our financial system, as well. Is our financial system doing what it needs to do to help fight this kind of catastrophic climate change? And the answer is no. Our major banks are among the world's largest investors and lenders into fossil fuel, the major cause of climate change. They should be funding instead, green energy and alternative energy. We have many tools that we could use to get our banks to do this. The ones that we’re supporting. The ones that we’re bailing out. Portfolio limits, asset backed reserve requirements, differential capital requirements, and so forth. To help them lend more for alternative energy.

But we also need to do more to limit our dependence on these banks. Bill Cohen said, what's the choice? We need these banks. We don't have any alternative to them. Well, I think that's not entirely true. Saule Omarova started talking about this in response to a question earlier, we need more what I call banks without bankers. We need more public options in the financial sector to reduce our dependence on the private banking system. So, for example, a number of people have proposed Fed accounts. That is accounts at the Federal Reserve system that can hold our savings and can facilitate our payments. Some people have suggested that this be connected with postal savings accounts, which we used to have to help especially marginalized borrowers who don't have other options. So, this is an example of a public option that can make us less dependent on these major financial runs that we were talking about with Silicon Valley Bank, and so forth.

What about public banking? There are many attempts by groups around the country to have public banks, city banks, state banks, and so forth, to provide credit for important needs for like housing, infrastructure and so forth. A Green Development Bank. This is something that we one thing we do have now, the Inflation Reduction Act, the IRA, included a small, green development bank that has seed money to build into a bigger one. We need public banks of this kind to serve some of these needs that the private banking system is not serving. Another example is public asset managers, which my colleague Lenore Palladino has proposed. So, what stands in the way of getting these public options and bringing the Too-Big-To-Fail banks under more control.

But of course, we've already talked about it to some extent the wealth and income that these banks use to lobby politicians. But it's not just the banks. They have what I call a whole bankers club. Of some lawyers, economists, that's my profession, and others who support their activities, who defend them, create an ideological context for them to thrive. And an important tool that the banks use to solidify this group of the bankers club is offering them not only money, but jobs. We have the revolving door, in and out of Congress, regulatory agencies, and so forth. Jennifer Taub refers to this as capture. And this is very powerful in terms of solidifying the power of the bankers club. So not only do we have to think about what the banks are doing in terms of their credit allocation, we have to try to end, or at least control this kind of corruption, the revolving door and the capture, if we're going to have much of a chance of, of reforming our financial system.

Thankfully, we have club busters, people who are fighting against the power of the bankers club. Better Markets, and is one of the most important we have. Others, such as the Americans for Financial Reform, and many others have people around at this conference today, who are club busters. So, my hat goes off to the club busters and to Better Markets, and we just have to keep fighting as much as possible. Goodbye, thank you very much.

Louise Story
Thanks, Jerry, we'll turn now to a Anat.

Anat Admati, Stanford Graduate School of Business
Thank you. I really appreciate Better Markets, and I very much appreciate being allowed to speak last. I've had the experience of speaking first and then steaming throughout and not getting to respond to what was said. So now I get to thank the people who took the words out of my mouth, and I get to go after some people who I think were not helpful necessarily in this.

So I started saying the crisis was wasted. But I want to say it was wasted because, not in that they led to all these political crises, which they did, but they will somehow because the bailout was not enough, and now they bailed out better. But because they didn't really engage in why it happened and really how to fix it, and they could have, but they just wouldn't. I mean, a little bit here and there, a little tweaks.

But you know, certainly we started the day after the brilliant talks after Elizabeth Warren talked about accountability and after Martin Wolf talked about the breakdown of democracy, post financial crisis, with hearing the usual narratives about how we don't have any choice and about all the runs that happened and the liquidity and panics. That's not what this was about. Why did we have the panic, whether it's a social media panic, or people standing out online to get their money out because the bank is insolvent? That was true for Washington Mutual, and it was true for SVB and it was true for First

Republic. And what was true now is that very similar to the Savings and Loans, we have bailouts happening right now. And the Federal Reserve is stepping in and the use of the word bailout is now not popular. So, you kind of say, oh, it's not taxpayer. It's just some other people someplace. Well, it's not the original people who took the risk that are bearing the risk, and that's what matters. So that's a problem.

We also heard about Goldman Sachs and how brilliant they are for their return on equity, but Simon Johnson took on some of that talk. And it immediately reminded me of the story that Louise Story wrote after the financial crisis, which was entitled, “The federal program lends a helping hand to bank quietly.” And here it is, and it started the following way: “Eager to escape the long arm of the government, Goldman Sachs is preparing to return $10 billion in taxpayer funds as fast as the ink can dry on the check.” This is precise quote, “but the bank and a number of others is quietly holding on to other forms of public support that come with virtually no strings attached.” And this was a program by the FDIC. Remember, Goldman Sachs doesn't even have deposits, but it became a bank holding company. And if it hates so much of the regulation, maybe it could go back to being a partnership, and that might be better. But instead, they took a program from the FDIC, that allowed it to behave just like Fannie and Freddie and to go raise money in debt markets with a guarantee of the FDIC. Quietly, except for Louise Story’s story. Thank you for that, Louise.

So we every so often get a glimpse of just how much the industry is coddled? So, if you call that free market capitalism, that's the wrong description. This is not capitalism. This is not market. If any word capitalism is attached to it, it's crony capitalism. This is not the market. And so, crying over the fact that you don't actually have a business model that's a problem. If you cannot really fund your investment with equity, what does that say about your business model? You need so much subsidies.

So, we have a very reckless system and everything that's wrong with this system, is due to too much debt and bad incentives and really bad regulations. And that's really a choice that we have that we somehow got stuck in having these messy regulations. So, the central bank is there supposedly to provide liquidity support, but it's not supposed to bail out insolvent institutions, yet it's doing it right now, and it did it during COVID as well. And they have proposals to have debt. Tom Hoenig, thankfully took care of that. That is really frustrating for those of us who have been arguing for equity. Instead, what we get right now is a massive, over 1000 pages tweak of some risk weights. And that's all we're seeing. And that's what a lot of the battle is about. Jeremy Kress said, oh, they'll double the equity of something. Martin Wolf was brilliant, as he wrote about Basel, that it was the lion that didn't roar back in 2010, in which he said tripling almost nothing doesn't give you a large number. So, when you say that there's more 16% more of virtually no equity, to speak of, and very poorly measured, it's almost like you say, oh, the speed limit was lowered from 98 to 94. And I'm not even measuring it correctly.

So, the First Republic Bank and SVB they all had great capital ratios, by these metrics. And throughout the crisis, all this problem banks look just perfectly fine, if that's way you're looking at it and there's no crisis. Market prices would have told you. But we know from research by Andy Haldane and others, that these capital ratios meant absolutely nothing. All of a sudden everybody's running because the market knows the bank is insolvent, especially if they're uninsured. But of course, now everybody is insured. So is that a good life? No.

So anyway, the politics of banking is what I discovered as I just stepped into this space from just my Professor of Corporate Finance, teaching corporate finance at Stanford Business School, and asking myself what just happened here? I thought we had a wonderful system. I was telling my students finances a wonderful thing. And now, what is going on? And I was absolutely horrified at what I saw, what I continue to see, and what I heard and continue to hear, which is really muddled discussion. That includes unfortunately as Jerry said, economists and banking economists. The book that was mentioned earlier by myself and Martin Hellwig is actually coming out, together with I understand two others on this. Jerry's book, which I am just now beginning to read and Louise's book, which I really look forward to. Our book has 200 pages of new material explaining ever more of why the bailouts, how the bailouts happened and why the bailouts happen all the time. And we managed to scramble to include events through May 2023, including SVB, including Credit Suisse, which was our poster child for the current big zombie, systemic bank.

Now, I want to say one more thing about systemic institutional. Word was thrown around a lot. We were debating, but whether it's about size, or it's about something else. Well contagion mechanisms, which we explain very clearly in our book about dominoes include that you get awaken to the weakness of other institutions. So it can be from very small bank, a systemic institution can be a hedge fund like LTCM was. But, you know, we meant to regulate the whole system, and the whole system, shadow banks and others goes back into itself. But instead, systemic became the excuse for bailouts. That's what actually happened. So right now, systemic exception is the buzzword you need to use if you want to bail out anybody. All of a sudden, it's systemic. So, it's a very sad situation that we're here today, 15 years later. And it's more than 10 years after we published our book, and it would come out in January 2024. I don't have the book here, as Reed showed his. It shows some naked people with a ties covering up some of them. And the ties were colored red for the new edition, which has a variation on the old one. And it basically talked on 200 pages of new text explaining about central banks and how they work, removing the mystery about that, and going all the way to democracy and the rule of law. So, the end is Martin Wolf said corruption has become the system, our last chapter is called above the law question mark. And we go through the corporate settlements, and we go through a lot of scandals, London Wahle, and settlement of JPMorgan Chase, robbery of taxes in Europe, Deutsche Bank, we gave a pass to HSBC, which we shouldn't have, and it's about power and the rule of law. And why, as the title of our last 200 pages, is the system undermines democracy and the rule of law. Thank you.

Louise Story
Thank you, to you all. These were excellent presentations. And we'll dive into questions. And just to the people watching, if you put your questions in, I'll be looking at them real time, and we'll try to include some. And also, I hope that the panelists will jump in along with me and ask their colleagues questions as well.

One thing I just want to ask, you know, the title of our panel is, what can we do to end Too-Big-To-Fail? And a number of the panelists have talked about how the bailouts, you know, that it's bad. That they primarily help one sector and they help bankers, and that we're not expecting enough, you know, for the public out of them, but not about how to get rid of Too-Big-To-Fail. And in fact, Tom, you talked about Too-Big-To-Fail as now being a fixture of the US financial system. And so, I just wanted to ask if you all actually think we can get rid of Too-Big-To-Fail? Do you want to get rid of it? Maybe we'll start with Tom. And maybe you could just chime in on just stepping back? Can we end Too-Big-To-Fail?

Thomas Hoenig
Oh, thank you. Good question. I know I don't think we get end Too-Big-To-Fail because we have no resolve to do so. After the last crisis, one of the proposals that I had at least, and others, was to simplify their structure, make them more manageable. And Art in the earlier panel said you'll separate out the investment bank from the commercial bank, again. Because what you did, like allowing the investment bank to come into the bank is extend the safety net. And when you did that, you opened up a greater systemic risk problem. So that was ignored. And what the solution was, was to increase the regulation radically. That's what Dodd Frank is about, managing every aspect of it. Well regulators can't do that. And we've proven that by the last, more recent experiences. So that's not going to solve the Too-Big-To-Fail.

And so, I think we have it, and what Anat and I are saying is, and others before us, is that the one thing you can do is reduce the likelihood that you will have to bail them out. And that takes investors more at risk. More money and risk, a bigger portion of their funding, coming from investors who know their risks, who do take the downside. And that would bring greater discipline and bring more of a market into the system, rather than an administrative body like the Fed, or the FDIC, or the Comptroller of the Currency, who're now managing more and more of these activities. So, I think it's with us, I think the only thing we do is mitigate it. Because we're not willing to take the really disruptive actions of simplifying the structure and making the market more functioning.

Louise Story
I want to come back to that capital point Tom. I think it's an excellent point for you to not talk more about, but before we do, I just want to ask the rest of the panel. Is there anyone who would make the case that we could and should end Too-Big-To-Fail? And how would we do that?

Anat Admati
I can chime in on something actually.

I want to go away from capital and talk about structural reform. In the book, and it was mentioned in an earlier panel, that we actually argue that the system can become too big to save. That these amounts are serious. That, you know, some nations in Europe were unable to bail out their banks. And could it happen in the US? Well, I mean, the numbers are large, let's just say of the system as a whole. And if there are so many trillions and trillions of people expecting their money to be there, it could be cybersecurity. It could be something else, but we're in for a lot. Now, one question we also raised is, Mervyn King once said, If a bank is Too-Big-To-Fail, it's too big. Now, what does that mean? Tom Hoenig has written from 2010 on too big to succeed. And Simon Johnson has talked about and others about breaking up or Glass Steagall and all of that.

One question I want to ask here about this structural issues. Do we need global banks? Does a bank need to live in multiple national jurisdictions? The fact of the matter is that in their resolution authority, , Simon Johnson and Thomas Tom Hoenig knows, we were there together in the Systemic Resolution Advisory Committee of the FDIC, where there was a lot of talk on what's called single point of entry and all these things for global banks. One country, will handle all of it. The home country, their headquarters country. Well that's just not going to happen. Because no country is going to allow, we saw this in SVB, no country is going to allow another country to control things if they can protect their citizens. So that's just not going to happen. So, we cannot resolve it. Global banking in the US, anyway, goes back to a

1919 law called The Edge Act. And you know, too long forgotten, although Graham Steele, currently at Treasury wrote about the Edge Act, Living On The Edge, and we have to question whether the same corporation should have systemic footprints in multiple jurisdictions because they can move the money around across jurisdictions, but then nobody can really control them or let them fail. That is a formula for recklessness and lawlessness that we see in banking.

The other thing that we didn't touch after the financial crisis, and I also meant to say that, but it does need legislation, is to change the tax code, which is a complete shoot yourself in the foot, encouragement for debt over equity in the tax code, which is a first order fact that I studied in my corporate finance research published in top finance journals in 2018 that creates an addiction to debt. Once you have a lot of it, it's addictive. And the tax effect is first order there, of why every highly indebted company would resist reducing leverage and would always increase its especially when it's high, if they can get away with it. And of course, the banks get away with it more than anybody because they have passive creditors, depositors and they have guarantees, and so they just become addicted. So that zero is the capital they will choose zero, and the market might let them. We explain all the dynamics of bailouts and what their effects are in the book. But anyway, the fact that the tax code in many jurisdictions in most jurisdictions encourages debt over equity for corporations, and even for homeowners, which some countries have taken care of. You can subsidize what you want. But you don't need to do it through subsidizing private debt. We have that even in student loans and other heavy private indebtedness that plagues the economy. Bankruptcy code, as well as fragility with Safe Harbor, to derivatives and repos and other things that somehow never got fixed.

Louise Story
Go ahead Jerry if you want to chime in.

Gerald Epstein
Yes. So, I think I have to distinguish between whether we have the technical and policy tools to end Too-Big-To-Fail, and the political will to do it. And I think many people who spoke today, and others know what, technically what needs to be done. And so, I think people are also making us estimates of politically whether it's possible, and it appears so far that it's not. However, Martin Wolf this morning said, look, the political bailouts of these banks time after time after time, is not sustainable. It is not politically sustainable. That is, it generates anger, it generates a feeling of people being left out. You know, we bailed out Wall Street, we didn't bail out Main Street, that was a common cry after the crisis. So, we don't really have that much choice. That is, we have to figure out a way to really rein in Too-Big-To-Fail, or we're going to lose, I agree with Martin Wolf, or we're going to lose our democracy.

So, it really is incumbent upon us to figure out what is giving this political perspective that is making so difficult to reform the system what's giving them so much power. And a lot of it has to do with money. It has to do with the revolving door with the campaign contributions, with the underlying way and in which the banking system was able to buy our political system. And so, we have to think about these kinds of reforms as being absolutely essential to ending Too-Big-To-Fail and saving our democracy.

Louise Story
You know Jerry, one of the things that's so interesting that I remember from 2008 is that many of the actions that were taken were justified, that they should be done by arguing that the whole public needed them. But as many of you will all have highlighted, in fact, it didn't benefit the whole public. And

I'll never forget, in the Fall of 2008, the number of bank executives and lobbyists and people in Washington, who worked for different congressional leaders, and Congressional leaders themselves who told me on the phone, if we don't do this, the ATMs will not give people money. So how are people going to get their money.

And so, the justification was, it was needed by the masses. But that wasn't the result. And I think it'd be great for Reed to address this. In his book, he very eloquently talks about how can you do the most for the most? How can you not just benefit one sector? How can you do the most for the most, and Reed it'd be really interesting to hear how if there are bailouts, how could you see them being done differently, to benefit more people?

Reed Hundt
So, Louise, everybody, you know, the three rules of family life, find fault, assign blame and meet out punishment. So that's the way everybody behaves in their in their normal life. And that was what was missing at the time, right. Now, why was that missing?

It was very seriously discussed. Louise, you know this from reading about it in the moment. And it was Geithner, in particular, who took the following view. We're trying to get all these executives to get the system working again. We cannot be threatening them with punishment at the exact same time. They have to be fully rewarded, fully incentivized to get the system working again. This is not a moment where anyone should be held to account. That is, and this is what I think Jerry just said, that politically is not a sustainable way to approach the situation. It wasn't. It didn't work for Obama. And I think we all agree that however, torture is the line between the election of 2008 and the election of 2016. There is a line the traces over that time period. So, it does seem to me that an appropriate legal paradigm or cultural rule would be one in which, you know, where there is a fault found there's somebody to, you know, to be to be held responsible. Every corporation that I've been involved in, been on the board of, or any way been involved with as an advisor any role at all, where certain conduct doesn't get you rewarded. That's what really stands out about the financial bailout of 2008 and 09, which is the bailout was filled with rewards for the bailout. Only the layman folks was it was not really true, right. So that's thing number one.

But then thing number two, just speaking about the world of practicality, you know, there are certain systems in our economy that simply have to be maintained. And to round this off to really big truths. If we were China, you don't have to worry about bailing out the financial structure. The government controls the financial structure. It's part of the communist apparatus. And what we've seen in the last couple of years is that the Communist Party believes that same thing applies to their relationship to the technology industry as well, right? It's a control system. But in our system, you know, we count on fractional banking to create credit, to create money to decide who gets to run businesses, and who doesn't. We count on private companies to run the communications system. Seven out of eight watts in the energy economy are created and distributed by private companies. This is not a nationalized system, right. This is a privatized system. And so, we cannot with our system, have energy or communications or finance simply disappear. So, if that's what we mean by a bailout, they'll always be bailouts, these systems will always have to be maintained. I think that's not quite what we mean, I think what we really mean is accountability.

Louise Story
Great points, and I think, you know, Reed a number of things that you were just bringing up, are related to point Jerry has made about public banks and about credit allocation. And, you know, one of the things in the work I've been doing around the black, white wealth gap for this book I have coming out where we do cover the effects of the financial crisis on different racial groups in our book is, you know, a look at how private banks, you know, have not always equitably treated credit. So, Jerry, I wonder if you could just explain for us a little bit more about, you talked about the Federal Savings Account and the postal service being but how would a public bank handle Credit Allocation and, you know, keeping in mind that in the past federal government efforts, like the New Deal, you know, we're not always equitable and how they allocated government benefits. So how would you address that now in an equitable way?

Gerald Epstein
That's a great question. And I'd also be interested to hear what you have to say about this. And so, I'm sure you've been thinking about this as well. What gives me hope is that a lot of the activist groups that are trying, excuse me, trying to create public banks are motivated by, among other things, to try to help close the racial wealth gap. And to try to make sure that there's investment in job creation, and in housing and other needed activities in neighborhoods where there have been redlined out or historically have not happened. So, the motivation and the groups of people that are pushing for these things, I think, is one of the things that gives me some kind of hope. But the problem with these public bank initiatives is that it's really hard to get off the ground. And the way I think about it, is that if we think about the kind of bailouts The Federal Reserve has given to the mega banks, but they've given absolutely no support, no creation of infrastructure for these kinds of initiatives. It's really not a level playing field. Now, some Congress people put in legislation to create an infrastructure for public banks, like the ones I just described, to give them access to the Federal Reserve discount window, to make it possible for them to raise capital and like other banks can raise capital and so forth. So, if we're going to bring this kind of initiative to scale, it needs some of the same kind of infrastructure for these kinds of institutions that the Federal Reserve has been giving to our mega banks for a long time.

Reed Hundt
Can I mentioned something about public banks, Louise? So. I don't want to have too much of your time. But in December of 2008, I met with Larry Summers and said, well, as long as you're going to save all these banks, could you create a public bank called a National Green Bank? And he said, no, banks are problems. You wouldn't want to add another problem. So, then I just ignored him and went up to Congress met with then Congressman Chris Van Hollen said the same thing. And he said, I think that's a great idea. I'm going to call it a Green Bank. And I said, well, you know, green and bank are like the two worst were words in politics. And he said, yeah, but people will get used to it. And he wrote something called the Green Bank Act of 2009, which was a public bank. Public capital to co-invest in driving the energy transition from carbon to clean. From 2009, until August of last year, that bill was introduced again and again, and he became a Senator, the co-author, Ed Markey became a Senator. And it is in the Inflation Reduction Act. It only took 14 years. And 28 days from today, our nonprofit will ask EPA for $10 billion of capital to get the first public, environmentally focused bank in the United States created.

Thomas Hoenig
Can I?

Louise Story
Yes, yes, please.

Thomas Hoenig
I know, we're off on this public bank, but I do want to caution you. Public banks have still individual CEOs and others who are involved in this, and they bite at the same bait. Low interest rates, we're going to get loans out, we're going to get volume. And if you think about it, that if you want to go that way, that's fine. But there is not going to end the consequences of Too-Big-To-Fail.

For example, Fannie and Freddie. You can say what you want, I think they were public banks long before they were nationalized. The Small Business Administration, the Farm Credit System, which was bailed out in the crisis of the 70s. As well, the student loan program, public program. So, I mean, that's not going to stop crises. The crisis is back to your point, accountability. Also, what you're seeing with this consolidation, and this heavy regulation that goes on, is community banks, which community and smaller regionals have been mainstays for small business lending, and for new ideas, and for serving the community well, including for minorities. Minority banks have a wonderful history back to the 19th century. So, you know, let's focus on Too-Big-To-Fail and making them function properly, rather than creating more institutions that are Too-Big-To-Fail. Because Fannie and Freddie are Too-Big-To-Fail. SBA is never going to fail. Credit Farm Credit System has been bailed out twice. The Federal Home Loan Bank System has been bailed out once. Now as is re-commissioned itself. So, let's focus on how do we deal Too-Big-To-Fail, and how do we get the market back in the game, rather than crony capitalism. I object to that every bit as much as anyone else does. But get the market back in the game to allocate credit in the best way across communities, as well as national firms.

Louise Story
Great points Tom, and actually you could argue that the existing Too-Big-To-Fail banks are kind of public banks. They aren't there aren't strong expectations that they do public good, and Jerry you're talking about, maybe there should be more expectations on them. But since they're Too-Big-To-Fail, you know, there is that.

I'm wondering, I love the inside story that Reed gave us about the conversation with Larry Summers. And Tom, you've been in a lot of inside tables and regulate with regulators, the Federal Reserve and the FDIC. I wonder if you could share with us on a couple topics, any inside skinny on people who are blocking progress, as you see it, in particular, around requiring more equity capital. That's something both you and Anat would like to see more of, who is blocking that give us the details, and then also an area of interest to the audience, because the audience questions is, why not just bring back Glass Steagall? And so, I wonder, Tom, if you could just share with us anything about who's been the main opponents to both equity capital and Glass Steagall, and we would love names?

Thomas Hoenig
Well, first of all, the industry is of course, but inside, you know, one of the things I think about, for example, capital, I think there's a certain, I don't know what the right word is. I'm going to use the word arrogance within these bureaucracies, like the Fed, the FDIC. Where the technicians, the economists, the financial people, who think they can model everything on earth mean they can model your day for you and tell you exactly what you're going to do five years from now. They control the agenda. And I remember in the early days of the issues around risk weighted capital, oh, no, no, here, we have the

model here. This is how we're going to do it. And that's how we're going to allocate the risk on your assets. And you'd say, well, wait a minute, risk changes by the minute, how are you? Oh, no, we have noticed a proposal, we have this, but we have the right model. So, I think there's a certain arrogance that keeps them tied to risk weighted capital globally.

Plus, the industry doesn't object to that, you know why? They can game it; they can game it in an instant. Fact I was, I was in a meeting in Europe, with the European bank, he said. Just give me what the rule is, so I can figure out how to get around it. That's all he cared about. And so that's number one. The incentives are such that, I have a whole infrastructure around building risk weighted capital models. And I hate to see the layoff numbers if you abandon that. So that's part of it. On Glass Steagall, again, I was not inside the Obama administration. I was a Fed. But when I brought it up, it was you can't do it. The government, you know, the government's too dependent on these large banks, for primary dealers. They help issue the debt. They're going to have to be big. You have to have scale. And so, I think there's inside the government this resistance to saying, well, wait a minute, maybe we can do it. Maybe we can simplify the systems more. It doesn't serve their agenda. It certainly doesn't serve the Too-Big-To-Fail banks agenda. And when you're in those debates, if you're in the minority, you are definitely in the minority. You're listened to politely and then ignored. So that's something you just can't get around.

Louise Story
Thank you. Anat, I wonder if you could expand. Both you and Tom have talked about the need for more equity capital, and of course, a lot of people this year, have been watching closely what's happened with the regional banks and SVB. And I wonder if you could expand how having higher equity capital rules might have changed what occurred there?

Anat Admati
Well, the issue is partly how you measure it. So, we got to start with that I mean. The case of SVB, and continuing to today, if the banks have assets whose values goes down, but they claim that they hold it to maturity, like bonds, then you wouldn't recognize the losses, even now, but they matter. Because even if you say you can hold something to maturity, you may not be able to because the depositors are asking for higher interest and your assets are not worth as much so you become insolvent. So, you have to sell or go under.

So obviously, SVB had 20% equity like we recommend between 20% and 30%, which was before we even had such a complicated system was common in banking, even 50% back when they were partnerships with unlimited liability. Somehow these numbers are crazy. And yes, they ignore you so much that right now, as we speak, the banks are lobbying against a little increase they claim in these Basel rules. And the Fed is not citing good academic research for why this is not costly for society at all. It's the biggest bargain, you can have the cake and eat it too. You don't have to give up anything. In fact, as Tom noted, and others it's the risk weights that are distorting. It's the government and the banks that are in symbiotic relationship. It's the government that always wants to give itself a low-risk way, so that the bank always holds its bonds. So, it doesn't lend to businesses, who needed where we need the banks the most. Instead, it just became this crazy game in which nobody can fail. The system itself is incredibly bloated. And we just seem to accept that there's no political will to change it. It's just, again, very sad.

We finished our book back in 2012, when we finished writing it, saying we can have a better system. What's missing is political will, and that was back then. Certainly, we didn't find the political will since then. And we have become ever more concerned with what all of this means for democracy. So right now, we're concerned with political discourse. We're concerned with the breakdown of democracy like Martin Wolf said, and we end the book this time by talking about being able to give more power to truth. And truth seems very elusive these days. We have or live in a post fact world in which we can't even agree on basic stuff. So, we got a long way to climb to begin to diagnose what we need to do and actually do it.

Louise Story
And I think Thomas, you jump in.

Thomas Hoenig
Can I make one point . This a counterfactual, but take, for example, Silicon Valley, grew in one year by 60%. And another year by another 30%. If they had a leverage capital requirement, equity capital, they had to have investors fund of 15%. Then the investors would have said, wait a minute, this thing is growing. Their capital calls would be enormous. And the investors would have said, wait a minute, I want to see what the risk is of this. And they probably would have grown much more slowly if they had to raise real equity, not debt. And we would have slowed that hyper increase.

I think that's something we shouldn't forget as we go forward from here. And you're right Anat because you are allowing them to keep losses off the book on hold to maturity. It says, well, we'll just keep going the way we have, and not bring more equity in early on. And when you need it as they did try it. Silicon Valley tried to issue debt that made the crisis worse. So, the timing was terrible. So, you have to have it set in advance. And it has to be firm and strict. That helps control the unwieldly growth and gives more stability of the system. Doesn’t end Too-Big-To-Fail in that sense, but it brings more discipline to the system and more accountability. Because if you want to if you want to be accountable, you get you get your investors angry at you, if they have enough at stake. They're the ones going to be suing these guys for accountability and civil lawsuits and everything else, management will come under a lot more pressure.

Louise Story
Jerry, go ahead.

Gerald Epstein
I just had some little sentences. But the problem is some people mentioned earlier in terms of these kinds of rules and how to enforce them, supervision is crucial. And what happened at the Federal Reserve Bank of San Francisco really reminds me of what happened with Carmen Segarra. I don't know if Louise, if you follow that story, and the New York Fed, where in response to this report by Columbia Professor Beam, so, we need to think outside the box. We have to put people supervising in these banks, who will stand up to them, and call out if there's a problem. So, you know, she tried to do that, and she was fired.

And partly it's because of this cultural capture. But a lot of it again, is the revolving door that a lot of other supervisors sitting around that desk were hoping that they were going to get a job with Goldman Sachs when all this was over. So, in order to enforce any kinds of these regulations. Yes, there might be some private enforcement and so forth. We really have to do something about the revolving door and about the capture. We can't avoid that.

Louise Story
And, Jerry, just real quick on that. Before I go to kind of a wrap up question, that is something the audience has asked about. They've asked how would we get rid of the revolving door? I mean, do you have a plan to get rid of it? Or does anyone?

Gerald Epstein
Well, I think it could just be a regulatory decision. The Federal Reserve can set up its own rules and say, we're not going to allow this kind of employment behavior. Again, they already have some rules, you know, that you have to wait a year before you get certain kinds of jobs and so forth. I think they have to make it longer and clearer. I think it is regulatory agencies, Tom could speak to this, whether this is correct or not, could establish they're pretty much their own rules about this.

Thomas Hoenig
I would caution you on one thing. I agree, there's cooling off periods afterwards. That's fine. However, most of the highest levels in these regulatory agencies come from industry. They're not going to industry they come. So, you'd have to say you'd have to block them from coming form industry, and then they're going to argue, but they they're the most knowledgeable. They're the ones people that know best, and so forth. So, it's a very legitimate point. I understand the revolving door. So, what you have to do is you have to make the regulatory industry, its own industry. And good luck on that one, too, because I came up inside the Fed. I know what was there. I didn't come from outside the industry. But I'm an exception. I'm an exception.

Gerald Epstein
Well, I just had a couple… So, you know, you probably know, that Paul Volcker and I think what Sheila Bair tried to create this initiative to train financial regulators. I don't know if that's still going on. But it doesn't really make it an industry, but it creates experts in the public interest.

Thomas Hoenig
But remember, who picks? Congress picks? The Senate picks. The President picks, and they always pick who? Someone they know someone from the industry. Someone that someone says is good.

Gerald Epstein
Yeah, well, we know that there are many people at this conference, who were put up and weren't chosen, Saule Omarova was blocked. And she knows as much as anybody. She had jobs in the industry. And so there was an ideological test that she had to go over. And it wasn't lack of expertise. It wasn't because she wasn't from the industry. So yes, it's a political struggle. There's no clear rule, mechanistic rule that can solve this problem. But we can try.

Louise Story
And of course, you know, it's very difficult to get inside people's heads and know their intentions and taking any job. But, you know, if someone's from industry, they could do a phenomenal job in the public interest, or if they're not. You have examples on all different biographies doing great and disappointing

work in government. But I think the key may be just coming back to the point of, who are you serving? Are you serving the public? Are you serving one sector? And you know, keeping that at the forefront?

As we're wrapping up, I'd love to ask you all, one more question. I hope you can all address. You know, since 2008, it's been 15 years. And you know, I covered in real time. And then frankly, you know, until a couple years ago, I hadn't been as focused on I was doing other things. And as I've been doing this book on the black, white wealth gap, I've realized that, in fact, there's new aspects of the financial crisis, I didn't focus on as heavily. And I can see with the distance of 15 years, that the financial crisis, and the responses to it had very big differences in effects by for people by race. And so that's been a new thing that I've probed and come to understand better only recently. And I would love to hear from each of you. You all knew a lot about what to do and what you thought back in 2008, 09, 10. But what do you know now, in 2023, with 15 years of distance that you didn't know, then. Anat, you want to go first?

Anat Admati
I didn't know what other people here knew, even though I'm pretty interested in politics in general, and I follow. I did not realize the politics of banking being so entrenched, so difficult, so intractable. I didn't know at the time, I didn't understand about central banks. Now I do. So, I learned a lot about this system. It's been a traumatic experience, I have to say, personally, just because of how intractable and political it is.

Thomas Hoenig
I can offer the following. I've always had a great respect for human nature and what incense people, but in this, in not just the last crisis, but from the crisis of the 70s and 80s through the great financial crisis to now, I found that there is a pattern of interaction of, should I say interrelated policy mistakes.

The crisis of the 70s, that led to the 80s, and the Volcker period, was a period of very low interest rates, and high fiscal spending. That then became a bait and incented the banks to lend on collateral lend more freely because interest rates were low, and you went forward from there until you had inflation. And then you had to raise interest rates, and we have a crisis. And then we react to the crisis because that's all we can do, and then that was the 80s. And then we come to the great financial crisis, interest rates went to 1%. People were using their homes as ATMs because they were incented to do that. It was cheap to borrow and spend. And we did it. And we went forward from that. We had inflation, we raised interest rates, we had the great financial crisis, and all these wonderful loans, all this ATM that was available to us, suddenly crashed, and we had a crisis and we had to bail it out. And so here we are, again. We had a period where we had a terrible pandemic, on one has to explain me why we spent the money, but then we kept spending, as we've said. And we now have inflation and we've raised rates to from almost nothing to five and a quarter, and now we have the risk of another crisis.

So, I think If we ought to go back and look at our pattern of behavior and say, all right, how do we get this interconnection understood better and monitored and controlled better, so that we don't have this repeated extreme cycles?

Louise Story
Thanks Tom. Jerry or Reed?

Gerald Epstein
I'll go I guess. I think at one level, I sort of knew this, but it has really come home to me how important public engagement is if we're going to solve this problem. As long as it's just an inside ball game, the Washington game, banks are just too powerful. But if we can really involve the public and be part of a group that helps to educate the public on these issues, in any way that we can, and as explained and try to get them to see how important it is for democracy and other things they care about, like climate change, for example, we might have more of a fighting chance to make a difference. So, I think that's why many of us wrote books to try to reach out to the public. But there are many other ways to engage. So that's, I think, become more important to me, as time has gone on.

Reed Hundt
I'll tell you what, I didn't know then that I know now. But I want to preface it by saying I can't understand why I didn't know it then. So, what's the big truth about crises? They cast very long shadows. So, you know, I mean, everyone's read so many books about the depression. Probably many of you have written books about them. I don't know. You know, the economists brought in to advise the Obama administration were experts about it. They were writing about what we generally described as the crash of 29, you know, then cast this world shaping shadow, where it defined politics in America created the opportunity for the New Deal coalition, Franklin Roosevelt put that together. That coalition ruled American politics for roughly 40 or 50 years. The crisis in Europe, of course, you know, led to the rise of fascism, then we have World War Two, all from my financial crisis. Right. Now, you could get into it more, you could talk about, you know, well, it wasn't only a financial crisis, but it was a moment that cast a world circling in incredibly dark shadow. You know, other crises, you know, come to mind.

But then in 2008 and 09, what I remember very vividly is that everybody involved thought that what was happening could not conceivably have been happening. It had been ruled out. The system that was put in place, in response to 1929, now was working so wonderfully well, that it was impossible to have a financial crisis, and yet there was right in front of everybody. And so right in the transition team, and I remember this extremely well, you know, there was hardly anyone who even knew what fractional banking was. And you couldn't find two people on the decision-making floor who knew what a credit default swap was? And I remember Geithner saying, I don't have any staff. And I said, well, why don't I get you somebody? And so, I went to a friend of mine at Blackstone, and I persuaded him to quit right away and become Geithner staff guy. He stayed for the next three years. No one had any idea, any real deep idea about how serious the problem was, but especially because you asked, what did I learn? I don't think any of us understood that crisis would define politics for at least the next decade.

And to turn this over to Anat in one second, and then the only thing that changed that is the COVID crisis, which preempted so to speak as a causal fact. And that COVID crisis in its response, will at least run for the next decade, or at least until the next crisis. So, it's the long duration right, that I couldn't predict at the time didn't think about none of us. I mean, to conclude, you know, Geithner's view was as soon as I get these banks back, everything will be restored to normal just like that. And his brilliant stress test idea, which was truly brilliant, accomplished exactly that. Except for the part about everything going back to normal didn't happen.

Louise Story
Thanks. Anat, do you have another thought?

Anat Admati
I have one final thought which is, you know, we talked about accountability. And we talked about accountability for bankers. But my problem is really that we don't have accountability for the policymakers, for the regulators, for the Geithner's. for the Bernanke is of this world. Because Ben Bernanke was a hero for saving, and he wrote a book called *The Courage To Act*. But he didn't have the courage to stop a dividend. He didn't have a courage to engage on the issues himself. And he's somebody who was my colleague, so he knows very well and he could have engaged but he wouldn't. So, then he revolves. Now revolvers do great. Gary Gensler is a revolver, he is awesome. So it's not a question of where you came from. It's a question of whether you remember what you're supposed to be doing. And that's where it's very tricky to know to put a formula on these revolving doors and all of that. But one thing that's a problem in our political system is just that we've gotten a government and people in it, who are not paid well, who are moving on to the private sector, and we got an attitude problem towards the government. We're saying the government is corrupt. And the government is the problem. That goes back to Ronald Reagan. Instead of owning the fact that the government needs to work for us. And we definitely need to go to the public. That's the reason I wrote my book. And I hope the public gets to understand what the problems are and demand that they are solved.

Louise Story
Thank you. I think these are all really helpful points. And when all of you were just giving these remarks, and Reed was pointing to the depression, too, I think the other really interesting thing about this is we don't really know when the financial crisis period is over, you know. How will historians view this in 100 years with what's gone on with regional banks this year, and the fact that Too-Big-To-Fail is still here. Perhaps we're still in the midst of something larger, that we'll only be used to, you know, understood in a much longer time period. But thank you so much, the panelists for helping us look at it 15 years later into the lineup today. And now I will turn it over to Dennis Kelleher, for closing remarks.