



In FED We Trust: Ben Bernanke's War on the Great Panic

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If I had been standing here three years ago today in September 2006 and I told you that the United States might have another brush with something like the Great Depression you would have rightly dismissed me as a kook. Now, there were people who were predicting that – the kind of people who predict the end of the world every 46 hours and hope that one day they'll be right. But apart from them it seemed like that was not just improbable, it was impossible.

If I had been here in September 2007, the economy would have looked a little shaky. Housing, it turned out, was not going to be our primary way of making money. Housing prices, as you know here in California, do not go up forever. We used to think that they did, but now we know better. I would have told you that housing is in a bit of a funk and that's bad for people who own houses for which they have mortgages that exceed the value of their house or people who live in them. But Hank Paulsen, the Treasury Secretary and Ben Bernanke, the Fed Chairman, told us at the time that this problem was, in their words, "contained." They used that word deliberately. They meant that we were going to have some problems in the economy but we had so many other good things going on that we would not feel much pain.

Then there was good reason to think this. They weren't completely naïve. For one thing, the U.S. economy had proven itself to be extraordinarily resilient. When we think back about the last fifteen years or so we had a couple of wars in Iraq, we had the tech stock bubble bursting, we had the 9/11 attacks – the most frightening moment of my adult life. Yet the economy in each of those instances tripped, slowed down and then came back – came back even stronger. It had gotten to the point where everybody looked at any bit of bad news as just a buying opportunity.

So it looked as though we could shake this off. After all, oil prices were rising and that's a sign that somewhere in the world someone's buying. It's an indicator of strength, or so Ben thought. And it's easy to see why they thought this: that we might have a recession but we wouldn't have a catastrophe.

Now, if I had been here a year ago today, in September 2008, I would have been terrified. I would have told you that not only was I worried but Ben Bernanke and Hank Paulson were terrified; they thought that the U.S. economy was closer to falling into the abyss of a depression than ever before since the Depression itself. We surveyed economists at that time at *The Journal* and we found that the medium economists we surveyed put 35% on the repeat of the Great Depression, which is extraordinary if you realize that it had been zero maybe six or twelve months before.

And then, if you say, "Where are we now," you'd have to say that the patient is out of intensive care but is not healthy. We have 10% unemployment. We have a financial system that in large measure is still propped up by the government. We have an auto industry that's propped up by the government. We have growth, thank God, but very slow growth – so slow that it's not fast enough to bring down unemployment, which is around 10% and likely to stay there. So the economy is by no means healthy, but we are no longer at the cusp of another Great Depression, and that in itself is an accomplishment.

Now, it's not surprising that you don't see the people out there with signs cheering that the leaders of our financial system managed to avoid catastrophe. Barney Frank, the chairman of the House Financial Services Committee – the Massachusetts democrat who is the source of almost all good one-liners about the economy – had a hearing the other day in which he was talking about how economists can talk about if we hadn't done such and such it would have been worse. But he said politicians don't have that luxury. Nobody ever gets elected President or congressman with a bumper sticker that says, "It could have been worse." And that's basically the best that Ben Bernanke can tell you now.

In a sense, the book I wrote is a story about how we got to the point that we were almost at the Great Depression, but more interestingly to me how did we get out of it? How did the first responders in our financial system pull us back from the edge of something that is almost

unimaginable when you think about how bad it already was – two quarters at 6% negative growth; 10% unemployment – and that’s the good news scenario.

I’d like to take you back for a moment. Who is this guy, Ben Bernanke, who was the chief first responder in this financial crisis? Ben Bernanke is a nice Jewish boy from Dillon, South Carolina. His dad and his uncle ran a pharmacy there, and he was notoriously smart. He was the kind of kid whose SAT scores were so high that everybody in town knew what they were. He was a very good speller. He went to the national spelling bee championship in Washington and almost won, but flunked out on the word “edelweiss.” Edelweiss is a little white flower which was very prominent in the movie *The Sound of Music*, but there was no movie theatre in Dillon, South Carolina, and Ben Bernanke had never seen the movie.

Bernanke probably would have gone to the University of South Carolina or the University of Northern Carolina where his parents went if not for the intervention of one man and one of these only-in-America stories. There was a black man from Dillon, South Carolina named Ken Manning who was eight years older than Ben Bernanke. He had been plucked out of a lousy high school in Dillon by the National Presbyterian Church, which was looking to help smart black kids in the South get ahead despite the poverty of their schools. Through a couple of programs he found himself a student at Harvard.

He’s now a professor of the History of Science at MIT. He didn’t know Ben Bernanke, but he knew the family. He had warm feelings towards the family because the Bernanke’s pharmacy extended credit to black people and not all the businesses in that town did. He went to Ben Bernanke and said, “You’re too good to go to UNC. You should go to Harvard.”

Well, Bernanke did very well at Harvard. He got a PhD at MIT and he became fascinated with something that has long fascinated economists: how the heck did we get the Great Depression in the first place? He took the teachings of Milton Friedman and Ana Schwartz very seriously. They taught us that the Fed was largely responsible; they tightened the spigot of credit at just the wrong time, the economy suffered in the ’30s and many banks failed as a result.

But Bernanke saw the world just a little bit different. Yes, the Fed had been too tight with credit, but those bank failures were not only a symptom of a problem, they were a cause. Big banks failing in the midst of a financial panic makes an economy that's bad even worse.

Now, this was a very interesting lesson; the economic equivalent of being a paleontologist. He was studying "dinosaur bones" and it was very interesting to other people who studied the dinosaur bones. It was intellectually engaging but it was totally irrelevant because we were never going to have another Great Depression. Fast forward a few years and basically we had a paleontologist as chairman of the Federal Reserve. And all of a sudden there was a Tyrannosaurus Rex on this horizon and a Triceratops over there and he said, "I know this story. I've seen it before." And he proceeded to do whatever it took to prevent another great depression.

At first he was accused of seeing what he was looking for; after all, if you've studied the Great Depression and financial panics and you see some disturbances in the financial market, you naturally would tend to think it's what you've studied. People thought he was overreacting but after one weekend a year ago – after Lehman Brothers – I don't think anybody thought he was overreacting anymore. He did whatever it took to prevent us from having a repeat of the Great Depression and as a result we are better off now. It could have been worse had he not been there.

Now, it's kind of hard for a newspaper reporter to write a story about someone in the government and make him into a little bit of a hero. I don't think he's supernatural. I think he made a lot of mistakes. But I think on balance he did a darn good job and we're lucky as a result. Reporters aren't supposed to say those kinds of things. We're supposed to be the cynical guys and say, "Look at all the mistakes he made." But my reading of what happened is that we really owe him and a number of people around him who made the decisions a great deal of gratitude.

One thing that strikes me is how few people there were. The number of people who mattered in this crisis could sit around one of these tables. People think of the federal government as platoons and platoons of people and, of course, they do employ a lot of people. There are a lot of economists, technicians and bank examiners who played their roles in this thing. But the big decisions were made by a very small number of people: Ben Bernanke at the Fed, Hank Paulson at the Treasury, Tim Geithner at the New York Fed and later at the Treasury and a couple of people who worked with Bernanke at the Federal Reserve Board, Don Cone and Kevin Warsh –

one a long-time fed employee and one a former investment banker who worked in the Bush White House. Because of a peculiar set of laws that govern the Freedom of Information Act, the Fed could only have three of its governors at any meeting at any one time without making it a formal meeting. So these three guys, Cone, Bernanke and Warsh – plus Tim Geithner, who didn't count towards that number because he was the president of the New York Fed – became the four Musketeers. With Paulson they basically were in charge of making all the decisions – all the good ones and all the bad ones that were made over the last year and a half.

So, when I started this book I was writing about Bear Stearns – a remarkable event in American financial history. For the first time since the Great Depression the Feds pulled the emergency cord – a cord written into the law that said the fed can lend to anybody it wants as long as it deems the circumstances to be, in the words of the law, “unusual and exigent.” The Fed decides when those circumstances apply, and they don't need anybody's permission. If missiles attack the U.S. this afternoon, President Obama could push a button or go to the secret code on his Blackberry and fire missiles back. But the President of the United States – whether it was George Bush then or Barack Obama today – does not have at his disposal the money you need to fight a financial virus, a financial attack, like the one we have. Only the Federal Reserve has that power.

Bernanke decided that if Bear Sterns was allowed to fail it would have been a surprise; it was not anticipated. It would have had big ramifications, so he spent \$30 billion of Fed money – your money – to subsidize the purchase of Bear Sterns by JP Morgan Chase. It was a big deal because it changed the rules by which business is done in America. This was an institution the Fed did not supervise, had no responsibility for. But it could go on in and lend them \$30 billion – or actually bought \$30 billion worth of crap off their balance sheets that JP Morgan didn't want. And they're holding that on your behalf. If the price of those assets goes down, the Fed – and indirectly the taxpayers – will take the loss. If they go up, the Fed will make the profit.

Where I judge Paulson and Bernanke particularly harshly is that they didn't come up with a plan to deal with the next big financial institution. They didn't go to Congress and say, “We need new powers.” They didn't go to Congress and say, “We need some money to repair the financial institutions of America; to rebuild their capital foundations.” They say that if they'd gone to Congress, Congress would have shot them down. It was an election year and going to Congress and getting shot down would have been worse than not asking at all. Maybe.

But also internally they did not come up with a game plan for how to deal with the collapse of another big financial institution that didn't happen to be organized the way a bank is. We have rules for what to do when a bank gets in trouble. The government could come in and take over and sell off the good assets and hold the bad assets and decide who gets paid back and who doesn't. But we didn't have rules for things like Lehman Brothers, Bear Sterns, money market funds or any of the other institutions that were very important to our financial system but were not organized as banks.

So they come into this weekend in the middle of September and the economy is falling apart fast and the redwoods on Wall Street are beginning to sway and it's very frightening. They call together the leaders of all the big firms on Wall Street at the Federal Reserve Bank of New York building – I don't know if any of you have ever seen it. It's a wonderfully solid building; it's a symbol of how stable and solid we thought our financial system was. It was built in the '20s, it's modeled on a Florentine Palazzo. It's such a symbol of security and such an actual fact of security that they have a vault in the basement on the bedrock of Manhattan that holds the gold for most other governments in the world who have decided that the safest place in the world to put your gold is not in your own vaults but in the vaults under the New York Fed and they didn't take it out after 9/11 – it's still there.

So, this building was kind of a symbol of everything we believed about our financial system. Maybe we don't make things as well as the Japanese any more; maybe we don't make them as cheaply as the Chinese or the Indians or the Mexicans. But darn it, the one thing we knew how to do in America is run a good financial system. And we were telling everybody else in the world that they ought to follow our model and run their financial systems our way. That weekend in New York we learned that that simply wasn't true. We had a made-in-America, largely made on Wall Street crisis, and we almost took the whole world's economy down with us.

So, that weekend in New York, Paulson, Bernanke and Geithner were very pleased. They'd sold off Merrill Lynch to Bank of America and thought they'd checked one thing off their "to do" list. It's doing pretty good at the moment. It might not work out so well in the end, but you have to do the stuff in real time.

Then they turned to Lehman Brothers. They thought everyone knew Lehman was in trouble. There'd been a lot of headlines on it. Paulson, who didn't care much for Lehman when he was at Goldman Sachs, had been talking to Dick Fuld, the CEO of Lehman Brothers, continually telling him, "Sell the firm or raise capital. You need to do something." He hadn't succeeded in doing that and Paulson figured, with Bernanke's support, that the trick was to find a buyer for Lehman Brothers. It's easy to get Wall Street to pitch in to subsidize this deal rather than the feds this time, and if they needed some money from the Fed and treasury to close the deal, well, they would do that.

But he came in – he was going to be the tough guy – we're not putting money on the table. This is your problem to solve. They almost did it. They had a buyer: Barclay's, the British bank. Wall Street agreed to put in money. The British regulators essentially prevented Barclay's from buying Lehman Brothers – turned out to be a wise decision on their part – and Paulson, Bernanke and Geithner had not come to that weekend with a plan B. There was no plan to save Lehman Brothers. They said at the time that maybe a failure would teach Wall Street a lesson. If Bear Sterns was saved and everybody thought every financial institution would be saved, then people would do reckless things. So, with Lehman, it was, "well we'll let them go." They expected some ripples. They didn't expect the tsunami. They created the tsunami with Lehman Brothers.

After the fact they emphasized something which they said at the time but now they emphasized a great deal. They said the Fed didn't have the legal power to lend to Lehman Brothers, by which they meant Lehman was so broken it didn't have collateral or security to offer for a loan the way you offer your house when you get a mortgage. They said there was no way Lehman could borrow enough money from the Fed to keep it alive, so they had no choice but to let it go.

This is a hard argument to make when you see the whole scope of things, because it seems like this was the only day of the entire crisis the Fed had to live within the letter of the law. Every other day there they're stretching the law; bending it and coming up with ways to get around it. We surveyed economists on Wall Street and asked them, "Do you believe the line that Paulson, Geithner and Bernanke give that they didn't have the legal authority to save Lehman?" Three-to-one they said no.

Basically, people think that if there'd been a will to save Lehman there would have been a way. Paulson and Bernanke insist that's not the case. In any event, that's when the crisis goes from horrible to really bad, and the two things that they didn't anticipate that made a big difference were (1) the money market fund where ordinary people put their savings. Think of them as being as safe as banks, even though they're not guaranteed. Then those savings are lent at industrial companies and other companies for their short-term finance – are an important part of our credit system. They simply didn't think that any money market fund would be stupid enough to hold Lehman paper. One was unable to pay people back a dollar for every dollar invested; there was a run on money market funds. And when there's a run on money market funds, the funds can't lend to industrial companies. Suddenly this was very far from being contained. This was contagious.

In what I think was one of the most remarkable innovative moments of the crisis, while everything else was going on they managed to find a way to guarantee money market funds and lend directly to industrial corporations to keep this from becoming an even bigger problem. So, the first thing they didn't see was money market funds – really a failure of imagination, which I think is something that is pervasive in this crisis.

The second thing they didn't understand is that the rest of the world really didn't expect Lehman to sink. There had been a lot of talk about Lehman being in trouble but most people didn't think the government would let them go. A few weeks after Lehman Brothers, I talked to an Italian central banker in Washington. He said to me, "In my country, we don't let dry cleaners fail." It never occurred to us that the United States government would let Lehman Brothers fail.

So there was shock all around the financial world. People thought that if Lehman might go, this bank might go; that bank might go. So they were reluctant to lend to each other; banks reluctant to lend to each other. You can imagine how they acted when people like you and me came in. They just weren't willing to lend, and when you don't lend you don't have an economy that functions. So, if you'll pardon the medical metaphor: the patient was on the table, the doctors were in the room and they were worrying about one organ or another. Bank of America, Merrill Lynch, Lehman Brother, AIG – which comes next – and suddenly they realized that we can't solve this one organ at a time. The entire circulatory system is not functioning and these bank collapses are blocking the arteries. I'll stop there – I think I can take that metaphor too far.

In any event, that's when Bernanke says, "I've seen this play before." And that's when Bernanke says, essentially "I will do whatever it takes to prevent a repeat of the Great Depression. I am not going to let another big financial institution fail and set a cascade of failures of financial institutions that will lead the economy to stop functioning." And that's why they did. Barney Frank likes to say that we had one day in America that was free-market day in this crisis and that was the day they let Lehman go. The day before wasn't free-market day, and the day after they did AIG. He thinks that we should declare it a national holiday – September 15th will be National Free-Market Day because we only observe it one day a year.

What happened over the course of the following week is an extraordinary set of events where they basically saved the financial system. And this, too, put them in a very awkward political position. As I said, I think it was necessary; I don't think they did everything right. One of the economists we surveyed said Bernanke did an outstanding job with flaws, and I'm thinking that's what I'd like people to say that about my career when I die – outstanding with flaws.

They put money into the banks; they were clumsy about the way they explained it. They came up with a way to get international cooperation to guarantee banks. They did a number of things to keep this thing from getting worse. They managed to dodge the bullet and got it to be better. That raises in my mind two questions. One is backward-looking and one is forward-looking. The backward look is, okay, if these guys are so smart and Bernanke is such a genius, how the heck did he let us get into this problem in the first place? I think this is an important question, and one which I'm hoping that the commission that Phil Angelides is chairing will help us answer.

In my view, we know a few things. The first thing we know is that this was a colossal failure of almost every check on the financial system. Everything that was supposed to prevent this from happening failed. Bank risk management committees didn't understand the risks their banks were taking. Rating agencies were putting "triple A" stamps on things that were not triple A. And then people who made ten times what the guys who work at the rating agencies make and who would never hire the guy who's rating the security says, "I bought this security and I sold it to someone else because this rating agency said it was Triple A." Give me a break.

The regulators failed. They didn't see things that were going on that should have been stopped; they didn't modernize their regulations to cope with the evolving financial market. People made

mortgages to people who could never pay them back and people took mortgages that they could never pay back. The only way this thing could work was if house prices kept going up, because then you could always refinance your mortgage and take out a bigger one and pay off your interest. Or, if you were a lender and you had to take the house, you had something that was worth more than the mortgage. We ended up with a big financial house of cards that rested on the jello of a lousy assumption which is that house prices don't fail.

And we in the press failed. We did some stories but we didn't do enough of them and they weren't good enough, because they didn't change anybody's mind and we've learned our lesson. We will listen more carefully to the Cassandras in the future. If nine out of ten economists say everything's wonderful and one says things are awful we should say, "Well, 90% of our stories should be about what the majority thinks."

But the Fed failed as well and Bernanke was there for part of it. Alan Greenspan, who George Bush described as a "rock star" when he swore in Ben Bernanke. (This tells you something about how much your reputation can disintegrate in three years.) Greenspan kept interest rates too low too long. That led to an orgy of speculation and borrowing. That's clear in hindsight – it wasn't clear at the time. One of the reasons he was able to do that was that very smart Ben Bernanke was at his side providing the intellectual argument for keeping interest rates very low earlier in this decade, so that we wouldn't have inflation the way Japan had.

Secondly, Greenspan did not use the regulatory muscle that the Fed had. The Fed had some power to do stuff on mortgages and didn't use it. Bernanke had given speeches at the time saying that when the Fed sees housing prices going up too far or people borrowing too much to buy stock, the Fed should not raise interest rates to protect that bubble. They should use their regulatory muscle to try to get people to be more cautious. The Fed didn't do that and there's no sign that Bernanke did anything to try to change that.

And the third thing, which is more Greenspan than Bernanke, is the view in Washington that Greenspan propagated and was the primary defender of, and that view was something like this: The world economy is very complicated. Modern finance is making it a better place. The people who are in the financial game – the people who are playing poker at the financial table – are very sophisticated and they have a lot of money at stake. They will police the poker table. They will

make sure it's honest. They will make sure that the guy at the other end of the table is good for the debts that he's incurring in this poker game. There's no way that any regulator or bureaucrat or supervisor can do a better job of monitoring the poker table than those guys who are playing.

Well, he was wrong. He went before Henry Waxman's committee – one of the great moments in this crisis – and he said, "My world view was wrong." These financial planners did not do a good job of policing the poker table and that view led to not enough of the right kind of regulation in Washington. I don't think regulation would have stopped this thing, but regulation could have made it less of a big deal.

So now we see the potential swinging the other way, but I hope we've learned not to think that things can go on the way they are forever. This failure of imagination is really an important lesson here. I don't like metaphors that compare this to 9/11 because so many people died in 9/11, but they do this in common: there were people who said that we had to worry about terrorism; there were people who said terrorists might commandeer an airplane; but there was nobody who was responsible for defending our country who imagined that terrorists could commandeer half a dozen airplanes and steer them into big buildings in New York and Washington. It just was not something they thought of. In a larger sense, this financial crisis has a similar characteristic: it did not occur to anybody that if housing prices fell – which in itself was not expected – that so much of the financial establishment would be tied to that assumption.

So now we find ourselves in a situation where things are better than they were, but not good. Ben Bernanke is very much in charge of the Fed. He came to Washington promising to be less – more like Alan Greenspan's policies, but less than Alan Greenspan the man. Alan Greenspan was kind of like the Pope. He was the infallible symbol at the top of the Fed and you didn't know anybody else's name. Bernanke came to office promising to run a different kind of institution where the institution and the committees were more important than just the chairman. He did that for about a year, but in recent months he's really stepped forward and has become even more than Greenspan the symbol of the Fed.

But now he has a couple of really difficult decisions. This is half-time in the game and now we're looking forward to see what happens next. He has a number of important jobs. The biggest one is to figure out how to make the decision to pull back some of this credit. The Fed has interest rates

at zero – they’re giving away money. When you give away money people do foolish things with it. You don’t want to do this too long. And in addition to giving away money, he’s created a lot of money on the side.

He had \$800 billion in loans and securities on his balance sheet when he took over; today he has \$2 trillion worth. He has to pull some of that credit out. He has to raise interest rates, and he has to do it at exactly the right time. Too soon, we get another recession. Too late, we get more inflation than he thinks is wise. Not only does that take technical skill, forecasting ability and a lot of luck, it’s going to take some political courage because he’s going to have to do this before all of us agree that the economy is healthy again. He cannot wait for things to get back to some new normal or something that feels like normal, because if we wait that long it will be too late and we’ll get inflation.

So, he’s going to have to do it when it’s not popular; when people are still out of work. He’s going to have to do it in the second challenge – an environment when people are very suspicious of the Fed. There’s a long history in American politics of popular suspicion of concentrated financial power; of the bankers and the central bank. It’s not a new argument. It was an argument that Alexander Hamilton and Thomas Jefferson had. Hamilton wanted a central bank; Jefferson didn’t. Hamilton won the first round but Jefferson’s side won in the end and they blew up the first Bank of the United States. Then they blew up the second Bank of the United States. The reason we have a Federal Reserve now is because, after the Panic of 1907 when the system was saved by the action of one man – J.P.Morgan – who basically functioned then as the Fed does now, it was decided it wasn’t such a good idea to rely on one rich guy who was getting kind of old.

So they created the Federal Reserve. But even the creation of the Federal Reserve was very controversial and unpopular. They helped us with the Great Depression and the law was changed after that and now I think we have a return of that suspicion of concentrated power, and on top of that there’s a lot of anger in America about the bailout of Wall Street. A lot of people think that this whole thing was rigged in order to help Goldman Sachs. Almost every speech I give someone says, “Isn’t this all rigged for Goldman Sachs?” When I go on the radio I hear, “Isn’t it true that five families own the Federal Reserve?” I’d like to meet them. So there is the old suspicion of the Fed and the banks and Wall Street that’s been compounded by an anger that Wall Street’s getting bailed out and Main Street isn’t.

Now, in the *60 Minute* program, Bernanke's best attempt at explaining it basically goes like this: "I didn't want to save Wall Street. I wanted to save Main Street. But I had to save Wall Street in order to save Main Street." He believes that the economy cannot function unless he bailed out some of the banks. And if you bail out banks then some of the people who are bankers get an extension on their line. So it's really hard to explain to people why the contracts for bonuses to AIG were not broken but the workers at GM and Chrysler had to settle to reopening their contracts and take less in benefits.

You can understand why people are angry, and I think some of this will be a very healthy reaction. We should demand accountability for the Fed. They should be open about what they do. For too long the Fed under previous chairmen was shrouded in deliberate mystery. It was like the high priest in the Old Testament – we can't let you see what we're doing. It was like the Wizard of Oz, and people aren't going to stand for that after all we've been through. But I think there's a risk that they'll go too far because in this capitalist democracy, as in every other, we have decided that if elected politicians set interest rates you will end up with interest rates too low – more growth now and more inflation later because politicians look for the next election.

You need someone to take the somewhat longer view and say, "We have to tighten the spigot of credit a little bit now so that we have a more stable economy and grow more smoothly in the long run." So we insulate the Fed – the Europeans do it; the Japanese do it as well. We insulate the Fed from political pressure and let them set interest rates without too much political interference. Put differently, members of Congress like to criticize the Fed and beat up on them and blame them for everything, but most of them stop short of actually trying to stop them.

So, the Federal Reserve Bank has not been reopened in decades. But it's going to be reopened now and Bernanke may find himself raising interest rates and doing things to push up mortgage rates at just the time that Congress is thinking about how much to clip his wings. So that's a risk, and a big challenge for him. He's not a politician. He's a Princeton economics professor who found himself in this job through an accident of history and is finding that even if you save the world from another great depression you don't get a lot of cheers.

So he has to do the right thing with interest rates and credit. He has to do it at the right time and he has to protect the Fed's independence where it really matters and not protect it where it doesn't matter. He's going to have to subject himself to more scrutiny from Congress, and that's appropriate.

The third thing is, and this is beginning to concern me, is that he, Geithner and Obama have to convince Congress to fix the parts of the financial system that were so obviously broken; the vulnerability we have. There's this problem in Congress, which is that the crisis has worn off already and there's a kind of complacency. It's not clear to me whether Congress understands that there are some things here that really need to be fixed.

The thing that concerns me most is that Ben Bernanke and Tim Geithner do not have any tools today to avoid another Lehman. There's nothing they can do if another Lehman occurs or some insurance company gets into trouble or whatever. They have a choice between bailout and bankruptcy. We've tried them both. We did the bankruptcy with Lehman and that didn't work out so well. Then we did the bailout of AIG and that didn't work out so well either.

I am quite concerned that Congress makes some noise on consumer protection and does something about executive compensation and somehow they've done enough. I am worried that we're still vulnerable to a repeat of this crisis, and one of the challenges that Bernanke and Geithner have is to continue to push Congress and other governments to do things to shore up those parts of the system that we know are vulnerable from this thing.

We need banks to hold more capital – something they can do without government so that they have bigger cushions in order to absorb problems in the future and not cause so many problems for the rest of us. We need to fix the things that are broken in the financial system and those are three big things for one guy to do who's basically a bald bearded economist from Princeton who made his career studying something that he never thought would happen again.

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