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Wrapping Up With Barney Frank and Richard Shelby

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Today’s interviews with Congressman Barney Frank and Senator Richard Shelby mark the final installment of What Went Wrong?, Big Think’s series on the financial crisis. Over the past few months, we sat down with experts to examine the causes of the economic meltdown— covering topics from the role of the regulator to the role of the media in the crisis. A network of leading economics bloggers (listed below) provided questions for and weighed in on the interviews. The goal was to leverage the collective authority of top economic writers online, against Big Think's ability to engage top thought leaders. We emerged from the project with some interesting takeaways.

We polled our stable of top economics bloggers to see where they believe the finger should be pointed. Here are the results:

Who is most responsible for the financial crisis of 2008?

46% Wall Street, 23% Economists, 15% Washington, 15% Consumers and Voters

Was the Federal Reserve’s monetary policy a major cause of the crisis?

70% Yes, 30% No

Many commentators have blamed the financial crisis on deregulation. Which was more responsible?

50% Over and/or mis-regulation, 50% Deregulation

Do you believe that current financial regulation proposals address the fundamental causes of the crisis?

90% No, 10% Yes

Has the government’s response to the crisis thus far increased or decreased the probability of a future crisis?

80% Increased, 20% Decreased

Now, for some highlights from the series.

For our first interview with David Wessel, the economics editor for the Wall Street Journal, he talked about the dilemma faced by Ben Bernanke. "Bernanke has to decide when is the right moment to contract credit and raise interest rates. If he does it too soon, we'll get a relapse in to recession…On the other hand, if he waits too long, we'll get an outbreak of inflation greater than he thinks is prudent. So I don't think anybody thinks the moment is to tighten is today."

Ryan Avent's response on the Economist's Free Exchange blog: "Additional measures to support the economy are not even acknowledged as an option. That seems to be the conventional wisdom among economics pundits, and it's a real shame."

Andrew Ross Sorkin of the New York Times had an interesting take on the media's involvement in the crisis. Popular to contrary opinion, he argues that television did a good job.

Clarium Capital founder Peter Thiel talked about the misplaced focus on hedge funds: "I think hedge funds were not excessively leveraged; even the funds that used significant leverage did so in a way that was relatively transparent and known to their investors and were perceived as high risk. The problem is not with leverage, but with hidden leverage and hidden leverage existed in places like the large money center banks, AIG, the insurance companies, and perhaps the biggest of all were Fannie Mae and Freddie Mac, which were seen as relatively safe because of some kind of implicit government guarantee, but were in reality long term capital on a much bigger scale. And the real long-term capital was Fannie Mae. It was not the hedge fund industry."

The Atlantic Monthly Business Channel's Dan Indiviglio agreed with Thiel's explanation. "The the resilience of the hedge fund market has surprised me. Sure, some have failed, but given how poorly the market did in 2008, any fund with too much leverage would have quickly folded if it had made truly awful bets. Yet, most funds are still intact. Indeed, the banks evidentially made much worse bets and had more hidden leverage, since virtually all the big ones would have failed without government intervention."

Former BB&T CEO John Allison pinned the blame on the government. "I think getting rid of deposit insurance would be wonderful. In fact, 10, 15 years ago, the financial services roundtable actually went through an exercise looking at a cross guarantee program among the large financial institutions. I believe that if we put that program in place, similar to what happens with the insurance industry, what the brokerage industry has, we would never have had, even with the Federal Reserve, even with Freddie Mac and Fannie Mae, we certainly wouldn't have had a misallocation of the magnitude we had. Deposit insurance played a huge role in the big failures, in the Golden West, in the Countrywides, in Washington Mutual, etc., etc."

Scott Sumner of The Money Illusion thinks Allison is too dogmatic. "*J*ohn Allison also wants to get rid of FDIC and Too Big to Fail policy. These are good ideas. But when you take a closer look, Allison falls into the same trap as many other libertarians; he is too dogmatic. It is not enough for libertarians to simply wave their hands and insist everything would be just fine if only the government would get out of the way."

Stanford economics professor John Taylor thinks the Fed needs to let interest rates rise appropriately and reduce the amount of quantitative easing to speed the recovery. Mark Thoma of Economist's View disagrees. "My biggest disagreement with his answers comes when he says it's time to start 'letting interest rates rise appropriately and reducing the amount of quantitative easing,' a theme that appears repeatedly in his answers to my questions and to those submitted by others. It's far too early for that, and if anything the Fed should be doing more to combat the slow recovery of labor markets. Where we agree the most is when he says the most important unresolved questions in monetary economics are about the connections between the financial sector and monetary policy."

For this week's questions, Ben Smith of Politico also contributed a question for congressman Frank, which was answered here.

We'd like to thank the network of economics bloggers that helped with this project, which was sponsored by the Charles G. Koch Charitable Foundation.

Economist's View - Mark Thoma, Professor of Economics, University of Oregon

Economics One - John B. Taylor, Professor of Economics, Stanford University and former Undersecretary for International Affairs, U.S. Treasury Department

The New Republic's The Stash - Noam Scheiber

The New Yorker's The Balance Sheet - James Surowiecki - Columnist, and author of bestseller *The Wisdom of Crowds*

Marginal Revolution - Tyler Cowen, Professor of Economics, George Mason University

Reuters Finance, Felix Salmon

The American Prospect's Beat the Press - Dean Baker, Professor of Economics, Bucknell University and Co-Director, Center for Economic Policy Research

The Money Illusion - Scott Sumner, Professor of Economics, Bentley University

Café Hayek - Russ Roberts, Professor of Economics, George Mason University and a research fellow at Stanford University's Hoover Institution

The Atlantic's Atlantic Business Channel - Dan Indiviglio

The Fly Bottle - Will Wilkinson, Research Fellow, Cato Institute

The Big Questions - Steven Landsburg - Professor of Economics, University of Rochester and Columnist, *Slate*

Econlog - Arnold Kling, Adjunct Professor of Economics, George Mason University and former employee of both Freddie Mac and the Federal Reserve

The Atlantic's Asymmetrical Information - Megan McArdle, Managing Editor, *The Atlantic*

Causes of the Crisis - Jeff Friedman, Visiting Professor of Political Science, University of Texas and Founding Editor, *Critical Review,*

National Review's The Corner/The American Scene - Jim Manzi – Chief Executive Officer, Applied Predictive Technologies

The Economist's Free Exchange/The Bellows - Ryan Avent, Online Editor, *The Economist*

Naked Capitalism - Yves Smith, President of Aurora Advisors, and former employee of both Goldman Sachs and McKinsey & Co.

Discuss