Addison, P. 180
AIG
  analysis of near collapse 197
  bail-out by Federal Reserve 19–20,
    22, 24, 31, 189, 197, 204–6,
    224–5, 227, 228
  collateralized debt obligation
    (CDO) transactions xi, 19, 47,
    197
credit default swaps (CDS) xi, 13,
  19–20, 47, 50, 53, 56–7, 79, 87,
  91–2, 94, 197, 204–6
government enquiry 26
mortality securities 68
price transparency problems 83
  statutory insurance 83–4, 204
Akerlof, G. 151, 153–4, 227, 228
Aldcroft, D. 179
Aliber, R. 5
Alt, J. 186–7
Alt-A high-risk mortgages 80, 83, 102,
  110
Alvarez, S. 206, 207–8, 209, 210
Angelides, P. 26–7, 86–7, 115, 116, 194,
  200–201, 208–9, 212, 229
Arestis, P. 126
Atkinson, A. 149, 158–9, 230
Bacon, R. 130
bail-outs 18–20, 45–6, 49
  see also AIG; Bear Sterns; Goldman
  Sachs
Bain, G. 181
Bair, S. 77, 206
Barber, B. vi, 170
Barclays Bank 21, 30, 210
Basle III vi
Bauman, Z. 188
Baxter, T. 30, 206, 209
Bazen, S. 174
Bear Sterns 13, 22, 49
  and credit default swaps (CDS) 50,
    53, 82, 87
  hedge funds, failure to oversee 195
JP Morgan Chase merger 20, 30,
  57, 87, 199, 207, 208, 209, 210,
  224–5
  and moral hazard 199, 207, 211
mortgage backed securities 163
  rumours, suggested adverse effects
  of 201
  share price fall 224
  unsecured financing through the
    REPO markets 55, 57, 87
see also bail-outs
Beck, U. 188
Benn, T. 178
Bernanke, B. 21, 23, 30, 46–7, 54–5,
  57, 96, 140, 154, 198, 206, 209,
  210
Black, W. 69
Black Scholes option pricing model
  9, 59
Blankfien, L. 47–8, 200–201
Blinder, A. 55–6
bonds
  Constant Proportion Debt
    Obligation (CPDO) bonds
    113–14
downgrading of 115–16, 120–22,
  197, 219
  and financial meltdown 55
see also derivatives
Bootle, R. 58
Born, B. 70, 88, 206–7, 212
Bosworth, M. 23
Bricknell, M. 74–5
Brittan, S. 180
Bruce-Gardyne, J. 185
Brunnermeier, M. 22
Buffet, W. 46–7, 93–4, 101
Butler, R., Butskellite consensus 175–80
Cairncross, A. 179
Calello, P. 75
Callaghan, J. 181, 183, 184
Cantor, R. 118
capitalist society definition 156
Castle, B. 181
Cayne, J. 51, 201, 223
CDOs see collateralized debt obligations (CDOs)
CDSs see credit default swaps (CDSs)
CEOs
earnings ix, 2
testimonies of investment bank CEOs 199–201
China
growth rate 23, 33, 141
public expenditure 137
savings glut 60, 141, 198
Cifuentes, A. 110–11
Clegg, H. 181
Coburn, T. 102–3
Coffee, J. 114
Cohan, W. 87, 223, 224
Cohen, N. 25
Cohn, G. 73–4, 206–7
Colander, D. 9
collateralized debt obligations (CDOs)
Abacus 2 and Paulson Hedge Fund 92–3, 110, 228–9
buyers as ‘sophisticated investors’ 84–5
and Credit Rating Agencies (CRAs) 105–6, 109–12
derivatives markets xi, 4, 19, 53, 76
development of 109–12
non-regulation of 56
ratings 105–6, 109
synthetic 68, 91, 92–4, 109–10, 163
see also AIG; Goldman Sachs; hedge funds
conflict of interest, and Credit Rating Agencies (CRAs) 99, 102, 103, 119–22
Connolly, W. 43
Constant Proportion Debt Obligation (CPDO) bonds 113–14
consumption propensity, and Keynesian economics 127, 128, 134–8
contestability
and ideas and ideals 58–63
and interpretation problems 51–7
and role of government 45–51
Crawford, D. 31
credit default swaps (CDSs)
growth of xi, 4, 7, 19–20, 47, 57, 76, 78–9, 91
lack of regulation 53, 56, 59, 71–2, 73, 91–2, 94, 96–7
market approval of 50, 79
market-to-market losses 90, 94, 204
mortgage backed securities (MBS) 53, 56, 88–9, 91
naked 71, 90, 229
overview 89–92
price transparency problems 83, 84
and synthetic collateralized debt obligations (CDO) 68, 91, 92–4, 109–10, 163
Credit Rating Agencies (CRAs)
alysts’ perceived role 116–17, 120, 218
bonds, downgrading of 115–16, 120–22, 197, 219
business culture and decision-making process 116–18
CEO earnings ix
and changing economic context 104–7
and collateralized debt obligations (CDOs) see collateralized debt obligations (CDOs)
and conflict of interest 99, 102, 103, 119–22
and Constant Proportion Debt Obligation (CPDO) bonds 113–14
due diligence, lack of responsibility of 114–15
expert staff, lack of 100
fees charged 115, 119
and financial crisis, connections between 99–104
and Financial Crisis Inquiry Commission, politics of 26, 102, 194–5, 196, 197, 200
Fremont ratings case study 121
gatekeeping duties, failure of 101–2
history of 112–16
IBGYBG – ‘I’ll be gone, you’ll be
gone’ ethics ix, 119, 163
issuer pays model viii–xi, 56, 99,
103–5, 119–22, 197
legal accountability, lack of 100
market share, importance of 116–19
mathematical models, failure of 100,
109, 110–12
monopoly position of 102–3
and mortgage underwriting 81,
105–7, 115–16, 121–2
RMBS Delphinus case study 121–2
as scapegoats 105
and securitization process 105,
107–9, 119
triple-A ratings 1, 8, 13, 53, 54, 56,
85, 90, 99–102, 105–6, 111,
113–16, 120–22, 197, 219
US government enquiry 26
Vertical ABS CDO 2007-1 case study
120–21

Dalton, H. 177, 179
Davidson, G. 147
Davidson, P. 132, 133, 147
De Long, B. 44
deficit reduction 44–5, 129–31, 137,
173, 188–9, 232–3
democracy, thick and thin 170
deregulation ix–x, 2, 3
derivatives markets and securities
7, 31, 47, 53, 59, 68–72, 73, 79,
86–8, 93–4
and Financial Crisis Inquiry
Commission, politics of 194–6,
198, 199, 206, 208, 211
financial meltdown and present
recession, explanations for
47–8, 52–3, 56, 59, 60
lessons of financial crisis 221, 222,
224–5, 226, 227–9
and market liberalism 28
and power and politics 175
social silence on 73, 163
and vested interests 70–71
derivatives markets
buyers as ‘sophisticated investors’
84–5
changing economic landscapes
75–9
collateralized debt obligations
(CDOs) xi, 4, 19, 53, 76
consumer demand and financial
market dependence, need for
rebalance of 77
credit default swaps (CDSs) see
credit default swaps (CDSs)
deregulation 7, 31, 47, 53, 59, 68, 69,
70–72, 73, 79, 86–8, 93–4
derivatives as contestable terrain
68–75
and economic growth 73–6
and economic ideas, influence on
policy makers 72–3
and efficient markets hypothesis
(EMH) 9, 50, 74
Financial Crisis Inquiry Commission
hearings of 25–7, 47–8, 68–9,
72, 202–5
and Foreign Exchange SPOT FX
85–6
growth and worth prior to recession
76
and housing policies see housing
policies
and ideologies see ideologies
income levels of brokers and traders
76
and Information Age Revolution 78
International Swaps and Derivatives
Association (ISDA) 74–5, 91,
107
limits of 96–7
and manufacturing decline 77–8
and market liberalism see market
liberalism
overview 84–6
political leanings of regulators 70
and rational expectations hypothesis
(REH) 9, 50
regulation, call for 28, 47–8
risk management mathematical
models, problems with 73
and savings levels 77
social silence on deregulation 73
synthetic collateralized debt
obligations (CDO) 92–4
see also bonds; securities
The politics of recession

derivatives, OTC derivatives
beneficiaries of 80
Commodity Futures Modernization Act (US) 7, 31, 52–3, 70, 71, 80, 90, 94, 127, 203
and financial markets 57, 68–9, 79–84
and government housing policies, possible links between 80–81
increased market for 7–8, 56, 78–9, 219
lack of price transparency in 72, 83–4
and moral hazards 82
non-regulation of x–xi, 68, 73, 74, 80
overview 86–8
and rational expectations hypothesis 9
regulation, call for 4, 47–8
weakness of 219, 225, 227
Dimon, J. 30, 48, 72
Dinallo, E. 47, 48, 53, 71–2, 84, 94, 204–5
Dines, D. 70
Dodd, C. 23, 34, 35–6
Dow, S. 214

economic growth, and derivatives and securities 73–6
economic ideas
crisis 8, 9–11
influence on policy makers 72–3
and lessons of financial crisis 219–20
see also ideologies
economic models
structural explanation of financial crisis 166–7
see also mathematical models
Eden, A. 178

efficient markets hypothesis (EMH)
and derivatives markets 9, 50, 74
and explanation of financial crisis 49–51, 58–9, 152, 164, 167–9
and Keynesian economics 135, 143
lessons of financial crisis 231–2
see also rational expectations hypothesis (REH)
Eltis, W. 130

employment/unemployment see unemployment
equity
price decline 22, 153
release, and house price increases x, 2, 37, 81–2, 87
US Home Ownership and Equity Protection Act (HOEPA) 35
see also house price decline; house price increases
Fama, E. 9, 130–31
Fannie Mae and Freddie Mac 34, 49–50
Farrell, G. 87
fees charged, Credit Rating Agencies (CRAs) 115, 119
Ferguson, C. vii
Ferguson, N. 43
Ferguson, T. viii, 2, 150–51
financial contributions to political parties viii, 2, 3, 56, 150, 222–3
financial crisis, anatomy of 18–42
and government responses 18–21
and market self-regulation 28, 34, 35–6
policies and market economists 28–9, 32, 33–5, 38–9
politics of recession 27–40
response to crisis 24–7
stages of crisis 22–4
see also financial meltdown and present recession, explanations for; lessons of financial crisis; structural explanation of financial crisis
Financial Crisis Inquiry Commission, politics of 192–217
and Credit Rating Agencies 26, 102, 194–5, 196, 197, 200
and deregulation 194–6, 198, 199, 206, 208, 211
derivatives markets 25–7, 47–8, 68–9, 72, 202–5
final report findings 25–6, 194–6
first public hearings 26–7, 199–201
and global savings glut 198
and housing bubble 101, 162–3, 197–8, 199, 200–201, 206, 211, 212
ideological differences between Commissioners 194, 198, 202–13
and junk bonds 233
and moral hazard 82, 199, 207, 208, 209, 211
overview 192–4
Pecora type Commission, call for 192–3
and political lobbying 213
and power and influence concentration 215
purpose of commission 194
and securities 25–7, 47–8, 68, 202–5
 testimonies from CEOs of investment banks 199–201
‘Too Big to Fail’ hearings 205–11
and trust breakdown 214–15
financial meltdown and present recession, explanations for 43–67
collateralized debt obligations (CDOs) see collateralized debt obligations (CDOs)
contestability and ideas and ideals 58–63
contestability and interpretation problems 51–7
contestability and role of government 45–51
credit default swaps (CDSs) see credit default swaps (CDSs)
Credit Rating Agencies (CRAs) see Credit Rating Agencies (CRAs)
deregulation see deregulation derivatives markets see derivatives markets
housing policies see housing policies
income inequality see income equality
individual self-interest 47, 48, 60
inevitability versus policy choice 51–7
institutionalists and structural weaknesses 51–7
interest rates see interest rates
and Keynesian debate 43–5, 59–60
leadership failure and ideology 57
and Lehman’s failure see Lehman Brothers
market liberalism see market liberalism
pragmatists’ interpretation 46–9
and public sector deficits 44–5, 129–31, 137, 173, 188–9, 232–3
rational expectations see rational expectations hypothesis (REH)
and securities see securities
structuralists 60–63
see also financial crisis, anatomy of; lessons of financial crisis; structural explanation of financial crisis
Fitch see Credit Rating Agencies (CRAs)
Foley, D. 10, 11, 149, 168, 169
Foreign Exchange SPOT FX 85–6
Forster, A. 227
Fox, J. 59, 96, 231
France
growth rates 179
housing price boom 152
Freddie Mac and Fannie Mae 34, 49–50
free market see market liberalism
Fremont ratings case study 121
Friedman, M. 10–11, 141
Froeba, M. 116–17
Fuld, R. 20, 51, 201, 206, 207, 208
full employment
and Keynesian economics 11, 59, 138–40
see also unemployment
Gaitskell, H., Butskellite consensus and post-war settlement 175–80
Galbraith, J. 27
Gamble, A. 177, 178, 185
GDP
growth factors, Keynesian economics 130–31
reduction ix, 2, 5, 32, 130, 131
and tax revenue falls 151
Geanakoplos, P. 22
Geisst, C. 60, 62, 162
Geithner, T. 30, 46–7, 48, 225
Gensler, G. 47, 48
Georgiou, B. 115
Germany
export decline 33
growth rate 179
IKB 93, 196–7
manufacturing industry 77–8
trade surpluses 141
Giddens, A. 39, 188
Gilmour, I. 185
global bank losses, estimate of, IMF 76–7
Global Financial Stability Reviews, IMF 6
globalization, and market liberalism 154
Goldman Sachs xi, 19–20
as bank holding company 21–2, 76, 87, 205
CDO Abacus 2 and Paulson Hedge Fund 92–3, 110, 228–9
credit default swaps (CDS) 91, 92, 94, 197, 204, 227–8, 233
executives’ political involvement 30
Fremont ratings case study 121
and OTC derivatives 47–8
price transparency problems 83
sued by customers 196
synthetic CDOs 68
see also bail-outs
Gordy, M. 113–14
Gorton, G. 7, 53–4, 55, 95, 154
Gourinchas, P. 22
government role
and contestability 45–51
expenditure on public services, reduction in xi, 19
housing policies see housing policies and recapitalization of financial markets 4–5
in regulation and deregulation 127–8, 132–3, 142, 144–6
responses to financial crisis 18–21
and revenue decline 230, 232
stimulus packages spending 22
see also individuals; power and politics
Great Moderation thesis 154–5
Greenberger, M. 91–2, 203, 204, 219, 228, 229
Gruenberg, M. 34
Hacker, J. 36, 61, 63, 160
Haldane, A. 2, 31, 53, 73, 76, 93, 126, 219
Harcourt, G. 126
Harrod, R. 134, 145
Hayek, F. 10–11, 74–5
hedge funds 105
CDO Abacus 2 and Paulson Hedge Fund, Goldman Sachs 92–3, 110, 228–9
failure to oversee, Bear Stearns 195, 224
leveraged, and CDO price falls 96–7, 121
managers, income and taxation rates 150, 160
and naked CDS 90
see also collateralized debt obligations (CDOs)
Hennessey, K. 99, 194, 197–8, 203
Holland, S. 184
Holmes, M. 183
Holtz-Eakin, D. 197, 202, 207
house price decline
and, equity loss 153
following crisis 22, 23, 32, 34, 219
see also mortgages
house price increases
and cheap mortgages 77
and equity release x, 2, 37, 81–2, 87
and Financial Crisis Inquiry Commission 101, 162–3, 197–8, 199, 200–201, 206, 211, 212
as global phenomenon 81
and Keynesian economics 140–41
and market competition 9
and remortgaging and equity release 81–2, 87
and stagnant wage levels 161–2
see also mortgages
household net worth
and financial meltdown and present recession 44, 54–5
and house price rises, and Keynesian economics 140–41
and income inequalities 24, 33, 36–7
perceptions 24, 33, 81–2
and structural explanation of financial crisis 150–53, 155, 160–62
housing policies
  and home ownership 49–50, 54–6,
  62–3, 68–9, 77, 80–83
  and lessons of financial crisis 219,
  223
Huffington, A. 31

IBGYBG – ‘I’ll be gone, you’ll be
gone’ ethics, Credit Rating
Agencies (CRAs) ix, 119, 163
ideologies
  and contestability 58–63
  differences between Commissioners,
  Financial Crisis Inquiry
  Commission 194, 198, 202–13
  and economic policy making 220,
  231–3
  and leadership failure 57
  and structural explanation of
  financial crisis 164–9
  see also economic ideas;
  mathematical models

IKB 93, 196–7
IMF
  global bank losses, estimate of 76–7
  and global costs of bail-outs 45–6
  Global Financial Stability Reviews 6
income inequalities
  financial meltdown and present
  recession, explanations for
  60–61, 62–3
  and gap between chief executives
  and average workers 159–60,
  161
  and household net wealth
  perceptions 24, 33, 36–7
  and lack of public interest viii, 1, 2
  lessons of financial crisis 221,
  229–30, 235
  and structural explanation of
  financial crisis 149–52, 158–60
  wage stagnation, and Keynesian
  economics 128–9, 133, 136
  see also wage levels
income levels
  brokers and traders 76
  CEOs ix, 2
  hedge fund managers 150, 160
India
  growth rate 23
savings glut 141
trade surpluses 141
individual self-interest and originate
  and distribute banking model 47,
  48, 60
inevitability versus policy choice 51–7
inflation
  control 172–3, 179–80, 186, 189
  and interest rates, high 3–4
  and Keynesian economics 129, 135
  and market liberalism 28
  rate fixing 49
  and structural explanation of
  financial crisis 154
  see also interest rates
Information Age Revolution 78
institutionalists and structural
  weaknesses 51–7
interest rates
  decrease 22
  fixing 49
  high, and inflation 3–4
  and housing boom 50
  and Keynesian economics 130, 135,
  137, 140–41, 142, 145
International Swaps and Derivatives
  Association (ISDA) 74–5, 91,
  107
Japan
  economic decline 23
  export decline 33
  manufacturing industry 77–8
  trade surpluses 141
Jay, D. 177
Jenkins, P. 185
Johnson, R. 2, 150–51
Johnson, S. ix, x, 2, 30, 31, 52, 53, 149,
  164
Joseph, K. 185
JP Morgan Chase/Bear Stearns merger
  20, 30, 57, 87, 199, 207, 208, 209,
  210, 224–5
junk bonds 233
The politics of recession

Kaldor, N. 4, 132, 136, 144, 185–6
Kalecki, M. 136, 138–9
Kaletsky, A. 58, 232
Kennedy, M. 3, 44, 59–60

Keynesian economics
Butskellite consensus and post-war settlement in UK 175–80
collectivists 59–60
and lessons of financial crisis 220–21, 231
need for return to xi–xii, 59–60
private sector recovery, argument against 59–60
watershed years and end of Keynesian era in UK 176, 181–4

Keynesian economics, possible explanations and responses to financial crisis 126–48
and consumption propensity 127, 128, 134–8
core assumptions 126–7
and deficit financing as fiscal stabilizer 145
different types of Keynesians 126
and efficient markets models 135, 143
GDP growth factors 130–31
government role in regulation and deregulation 127–8, 132–3, 142, 144–6
household worth and house price rises 140–41
and income inequality and wage stagnation 128–9, 133, 136
and inflation 129, 135
and interest rates 130, 135, 137, 140–41, 142, 145

Keynesian revolution and controversy 132–4, 138–40
market economists and Ricardian Equivalence theory 142
and market liberalization comparison 43–5, 127–9, 132–3, 136–8, 142–4, 168–9
public expenditure as stabilizing role 132
and public sector deficits 129–31
and rational expectations theory 127–8, 143
savings glut and global imbalances 140–43, 145
and savings rates 137
scarcity theory 134–8, 144–5
scarcity theory to economics of prosperity 143–6

Kindleberger, C. 5
Kohlhagen, S. 49, 57, 80–81, 219
Kohn, D. 167
Kolchinsky, E. 103–4, 117–18
Krugman, P. 59, 61, 128, 224
Kwak, J. 31, 53
Kyle, P. 49, 80, 81, 82, 229

Lawson, T. 9–10, 165
Lehman Brothers 51, 87, 93, 201
bankruptcy, and lack of bail-out 20–21, 22, 30–31, 45, 57, 203–4, 205, 206–10, 215, 225
mortgage backed securities process 89
Leijonhufvud, A. 11
Lenczowski, M. 86

lessons of financial crisis 218–37
asymmetry of knowledge 223, 226, 227
banking concentration 227–8
and deficit reduction 44–5, 129–31, 137, 173, 188–9, 232–3
deregulation see deregulation
economic explanations 219–20
efficient market hypothesis see efficient market hypothesis
financial contributions to political parties, need for limits on viii, 2, 3, 56, 150, 222–3
government revenue decline 230, 232
housing policies see housing policies
ideologies see ideologies
income inequalities see income inequalities
Keynesianism see Keynesian economics
lobbyists see political lobbying
macro economy and financial markets 222–3
market liberalism see market liberalism
and mathematical models 73, 100, 109, 110–12, 232
OTC derivatives market see derivatives, OTC derivatives
political landscapes, changing 225–6
rational expectations hypothesis see rational expectations hypothesis
savings ratio 60, 140–43, 145, 153, 198, 230
securitization and disavowal of responsibility 220, 223
sub-prime mortgages see mortgages, sub-prime
and Too Big to Fail issue vi–viii, 205–11, 224–5, 226
and trust breakdown ix, 214–15, 233–6
unemployment see unemployment
see also financial crisis, anatomy of; financial meltdown and present recession, explanations for; structural explanation of financial crisis
Levin, C. 99, 102, 115, 119, 120–22, 233
Lewis, M. 228
liar loans 56
Lloyds bank 25, 46
lobbyists see political lobbying
Lucas, R. 231
McDaniel, R. 101, 115, 117
McDonald, L. 20, 87, 89, 90, 93
Macey, J. 104, 113
Mack, J. 201
macro economy and financial markets 222–3
manufacturing decline 4, 37–8, 77–8, 130, 174, 187
market
approval of credit default swaps (CDSs) 50, 79
market-to-market losses, credit default swaps (CDSs) 90, 94, 204
self-regulation 28, 34, 35–6
share, importance of, Credit Rating Agencies (CRAs) 116–18
market economists
and policies 28–9, 32, 33–5, 38–9
Ricardian Equivalence theory 142
market liberalism
comparison with Keynesian economics 43–5, 127–9, 132–3, 136–8, 142–4, 168–9
and deregulation 28, 39
and derivatives and securities 75, 82–3, 87–8
and emergence of new elites 162–4
and financial meltdown and present recession 49–51, 58
and globalization 154
and inflation 28
lessons of financial crisis 222
Thatcher Revolution 3–4, 176, 184–8
Martin, R. 38, 174
Masters, B. 73
Masters, J. 47
Masters, M. 76, 78, 80, 83, 203–4
mathematical models 73, 100, 109, 110–12, 166–7, 232
see also ideologies
Mathias, P. 37
Mathis, H. 113
Merrill Lynch 20, 30, 87, 205, 209
Michalek, R. 118, 119
Minsky, H. 5, 14, 127, 156
Monckton, W. 178
Moody’s see Credit Rating Agencies (CRAs)
moral hazard
and Financial Crisis Inquiry Commission, politics of 82, 199, 207, 208, 209, 211
and financial meltdown and present recession, explanations for 46, 49, 50
and OTC derivatives 82
and risks taken by financial institutions 19
Moran, M. 182
Morgan Stanley 21–2, 201, 205
mortgages
Alt-A high-risk 80, 83, 102, 110
Delphinus case study 121–2
and house price increases 77
The politics of recession

mortgage backed securities 4, 53, 56, 88–9, 91, 100–102, 105, 106–7, 115
and predatory lending 48, 56
and securitization process 105, 107–9
underwriting, and Credit Rating
Agencies (CRAs) 81, 105–7, 115–16, 121–2
see also house price decline; house
price increases; securities
mortgages, sub-prime 19, 79, 81, 82, 83, 102, 110, 198
and lessons of financial crisis 218–19
myths surrounding 34, 54

naked credit default swaps (CDSs) 71, 90, 229
NINJA loans 56
Northern Rock 25, 46

oil price shock (1973), effects of 183–4
over-the-counter (OTC), derivatives
markets see derivatives, OTC
derivatives

Partnoy, F. 103
Patterson, S. 78, 79
Paulson, H. 20–21, 30, 46–7, 54, 57, 87, 189, 195, 196, 208
Paulson, J. 93, 110, 196, 228–9
Pecora Inquiry 192–3, 213, 233–4
pension funds 13, 22, 23, 40, 46, 95, 105, 113, 161, 234
Perino, M. 7, 192, 193, 215, 234
Pierson, P. 36, 61, 63, 160
Piketty, T. 63, 158–9
Platzky, L. 182

policies
and market economists 28–9, 32, 33–5, 38–9
and art of the possible 18
choice versus inevitability 51–7
housing see housing policies
policy instruments’ choice 173–5
theories, effects of 6
policy makers, financial contributions to viii, 2, 3, 56, 150, 222–3
political dependence on financial
contributions viii, 2, 3, 150, 156, 222–3

political lobbying 150, 156
and Financial Crisis Inquiry
Commission, politics of 213
politician/banker cooperation 30–31
politics of recession 27–40
Posen, A. 25

power and politics 172–91
Butskellite consensus and post-war
settlement in UK 175–80
employment/unemployment levels
179–80, 183, 184, 186, 187, 189
inflation control 172–3, 179–80, 186, 189
and influence concentration 156, 215
New Labour 188–9
oil price shock (1973), effects of 183–4
policy instruments’ choice 173–5
public expenditure reduction 173, 175
recessions, response to different 175
Thatcher Revolution and market
liberalism 3–4, 176, 184–8
and trade union militancy 181–3, 187
UK’s Labour Government 1974–79
183–4
UK’s Quiet Revolution 15, 182–3
watershed years and end of
Keynesian era in UK 176, 181–4
see also government role
private sector recovery, argument
against—in Keynesian economics
59–60
public expenditure
reduction 173, 175
as stabilizing role, Keynesian
economics 132
public interest, lack of viii, 1–11, 218, 235
public sector deficits 44–5, 129–31, 137, 173, 188–9, 232–3
Quiet Period of banking 7, 95, 154,
221, 227
Raiter, F. 99, 111–12, 117
Rajan, R. 13, 36, 60, 62, 81–2, 161–2, 218
rational expectations hypothesis (REH)
and derivatives markets 9, 50
and efficient markets theory 50, 58–9
and explanation of financial crisis 49–51, 58–9, 152, 164, 166, 167–9
and financial crisis, anatomy of 29, 32, 33, 34–5
and free market \textit{viii}
and Keynesian economics 127–8, 143
lessons of financial crisis 231
see also efficient markets hypothesis (EMH)
regulation, lack of
credit default swaps (CDSs) 53, 56, 59, 71–2, 73, 91–2, 94, 96–7
securities 31
regulatory reform, call for 28, 47–8, 54
Reich, R. 60, 156
Reinhart, C. 52–3, 165–6
Reinhart, V. 165
REPO markets, securities \textit{xi}, 4, 53–4, 55, 57, 95, 201, 215
Rheinhart, C. \textit{i}x
Rich, F. 230
RMBS (residential mortgage backed securities) see mortgage backed securities
Robinson, J. 136
Rogoff, K. \textit{ix}, 52–3, 165–6
Rom, C. 113
Rowthorn, B. 38, 174
Royal Bank of Scotland 25, 46, 80
Sachs, J. 230
Saez, E. 63, 158–9
savings
 glut 60, 140–43, 145, 198
increase in 22
levels, and derivatives and securities 77
loss and house price decline 153
ratio, and lessons of financial crisis 230
Sawyer, M. 136, 139
scarcity theory
 Keynesian economics 134–8, 144–5
to economics of prosperity 143–6
Schiller, R. 151, 153–4
Schloss, N. 71
Schwartz, A. 49, 50, 223
securities
and business investment 39
buyers as ’sophisticated investors’ 84–5
changing economic landscapes 75–9
consumer demand and financial market dependence, need for rebalance of 77
and Credit Rating Agencies (CRAs) 105, 107–9, 119
deregulation 7, 31, 47, 53, 59, 68–72, 73, 79, 86–8, 93–4
and disavowal of responsibility 220, 223
downgrading of 8
economic growth 73–6
economic ideas, influence on policy makers 72–3
and emergence of new elites 162–4
Financial Crisis Inquiry Commission (FCIC) 25–7, 47–8, 68, 202–5
and financial meltdown, explanations for 47–8, 56–7
and housing policies see housing policies
and ideologies see ideologies
and market liberalism see market liberalism
mortgage backed securities (MBS) 14, 53, 56, 88–9, 91, 100–102, 105, 106–7, 115
overview 88–9
political leanings of regulators 70
regulation improvement, call for 47
regulation, lack of 31
REPO markets \textit{xi}, 4, 53–4, 55, 57, 95, 201, 215
risk management mathematical models, problems with 73
and savings levels 77
Securities Act 85, 86, 88, 94, 154, 194
Securities and Exchange Commission (SEC) 31, 57, 71, 87–8, 100, 112, 120, 212
securitization overview 88–9
selling and risk \textit{ix}, 1, 6–7
social silence on deregulation 73
see also mortgages

Maurice Mullard - 9781781001127
Downloaded from Elgar Online at 04/11/2019 06:23:34AM via free access
shadow banking 7, 53, 55, 95–6
Shiller, R. 96, 227, 228
Siegel, J. 152–3
Skidelsky, R. 3, 44, 59–60, 131, 133, 142, 214
Skouras, T. 126
Smart, A. 23
Smith, A. 11
social silence on deregulation 73, 163
social structures, structural explanation of financial crisis 149, 155–8
Sorkin, A. 20
Soros, G. 20, 34–5
Spain, housing price boom 81, 152
Standard & Poor’s see Credit Rating Agencies (CRAs)
Stiglitz, J. 2, 36, 47, 59, 61, 126, 152, 159–60, 213, 219, 230
structural explanation of financial crisis 60–63, 149–71
capitalist society definition 156
democracy, thick and thin 170
deregulation see deregulation
efficient markets hypothesis see efficient markets hypothesis
financial liberalism see financial liberalism
GDP and tax revenue falls 151
globalization and market liberalization 154
Great Moderation thesis 154–5
and housing market see house price decline; house price increases
ideologies see ideologies
income inequalities see income inequalities
and inequalities of access 156–7
inflation see inflation
interest rates see interest rates
Keynesian economics see Keynesian economics
market liberalism see market liberalism
mathematical models see mathematical models
political dependence on financial contributions viii, 2, 3, 222–3
political lobbying 30–31, 150, 156, 213
rational expectations hypothesis see rational expectations hypothesis
savings see savings
securitization and emergence of new elites 162–4
social structures 149, 155–8
structural inequalities 160–69
transparency of public sector institutions 157
see also financial crisis, anatomy of; financial meltdown and present recession, explanations for; lessons of financial crisis
Stulz, M. 107
sub-prime mortgages see mortgages, sub-prime
Summers, L. xi, 36, 44, 88, 126
synthetic collateralized debt obligations (CDO) 68, 91, 92–4, 109–10, 163
taxation 23, 25, 61, 150, 157–8
Taylor, J. 11, 33, 43, 49, 142, 213
Tett, G. 69, 73, 162–3
Thain, C. 209
Think Tanks, concern over impartiality vii–viii
Thirwall, J. 174
Thomas, B. 197–8, 229
Thornburg Mortgage bankruptcy 83
‘Too Big to Fail’ issue vi–vii, 205–11, 224–5, 226
Towns, E. 19, 118
trade union militancy 181–3, 187
transparency
price transparency problems 83–4
of public sector institutions 157
triple-A ratings 1, 8, 13, 53–4, 56, 85, 90, 99–102, 105–6, 111, 113–16, 120–22, 197, 219
trust breakdown ix, 214–15, 233–6
Turner, A. vii–viii, x, 6–7, 8, 72–3, 149, 165, 220, 234
Tyrie, A. 25
UBS
and Alt-A mortgages 83
Constant Proportion Debt Obligation (CPDO) bonds 113–14
sued by customers 196
Vertical ABS CDO 2007-1 case study 93, 120–21, 122
Index

251

Uhlig, H. 166–7

UK

bank assets vii, 2
Banking Act (1933) x
banks, partial government ownership of 46
Butskellite consensus and post-war settlement 175–80
Commodity Futures Modernization Act (2000) x
economic growth prior to recession 75–6
economic regeneration 174
financial sector growth 2
Financial Services Authority (FSA) 6–7, 165, 220
GDP reduction ix, 2, 5, 130
government bail-out of banks 21
Governor of the Bank of England, criticism for politicizing role 25
growth rate (2009) 22–3, 45
household net wealth 33
housing price boom 81, 152
Industrial Relations Act 182
inflation control 3–4, 135, 154, 172–3, 189
knowledge economy 78, 188
Labour Government 1974–79 183–4
Macmillan Committee 138
manufacturing industry decline 4, 37–8, 77–8, 130, 174, 187
Medium Term Financial Strategy (MTFS) 164, 185–6
Monetary Policy Committee (MPC) view on Governor of Bank of England 25
national debt 22, 23, 25
National Enterprise Board 183
New Labour 188–9
oil price shock (1973), effects of 183–4
public enquiries, lack of 25, 26
public expenditure reduction 5, 23–4, 26
public sector borrowing requirement (PSBR) 25
public sector deficits 44–5, 129–31, 137, 173, 188–9, 232–3
Quiet Revolution 15, 182–3
recessions, number of 5, 175
tax revenue decline 23, 25
Thatcher Revolution 3–4, 176, 184–8
trade union membership 159
trade union militancy 181–3, 187
Treasury Committee Report 26
unemployment rate 3, 32, 38, 45, 138, 140, 189
watershed years 176
unemployment

cure as labour market issue 29
effects of rise in xi, 2, 5, 22, 23, 28–9
and exit strategy 28
and financial crisis, anatomy of 28–9, 31, 36
and financial meltdown and present recession, explanations for 51, 62
lessons of financial crisis 230
and power and politics 179–80, 183, 184, 186, 187, 189
and Thatcher government inflation policy choices 4
UK 3, 32, 38, 45, 138, 140, 189
US 23, 32, 36, 51, 62, 131, 136, 230
see also full employment

US

bail-out costs 45–6
bank assets vii, 2
bank bail-outs, criticism of 49
banking assets 150
Commodity Exchange Act 92
Commodity Futures Modernization Act (CFMA) 7, 31, 52–3, 70, 71, 80, 90, 94, 127, 203
Commodity Futures Trading Commission (CFTC) 8, 71, 88, 211, 212
Community Reinvestment Act (CRA) 68–9
Credit Rating Agencies (CRAs) see Credit Rating Agencies (CRAs)
Dodd-Frank Act vi, 26, 64, 208, 213, 226
economic decline 23
economic growth prior to recession 75–6
economic regeneration 174
The politics of recession

Federal Deposit Insurance Corporation (FDIC) 7, 21, 34, 154, 193–4, 208
Federal Reserve Board failings 35–6, 57
Federal Reserve Board’s quantitative easing plan 50–51
Financial Crisis Inquiry Commission (FCIC) see Financial Crisis Inquiry Commission (FCIC)
financial reform resistance 39–40
financial sector growth 2, 164, 222
GDP reduction ix, 2, 32, 131
Glass-Steagall Banking Act 7, 31, 35, 52–3, 73, 86, 94, 127, 154, 193, 211, 213, 227
Gramm-Leach-Bliley Act 35, 94
growth rate 22, 23
Home Ownership and Equity Protection Act (HOEPA) 35
house price increases 151
household net wealth and income inequalities 33, 37, 54–5, 151–2
household savings levels 137
housing policies and home ownership 49–50, 54–6, 62–3, 68–9, 80–81
income inequality 60–61, 62–3
income tax policy changes 61
mortgage debt 153
mortgages and predatory lending 48
national debt 22
Office of the Comptroller of the Currency (OCC) 35–6
Office of Thrift Supervision (OTS) 35–6, 225
Oversight and Government Reform Committee 8
Pecora Inquiry 192–3, 213, 233–4
pragmatists’ interpretation of crisis 46–9
Quiet Period of banking 7, 95, 154, 221, 227
recessions, number of 5
regulatory reform, call for 48
Securities Act 85, 86, 88, 94, 154, 194
Securities and Exchange Commission (SEC) 31, 57, 71, 87–8, 100, 112, 120, 212
social structure changes 157–8
stimulus package 24
sub-prime loans, myths surrounding 34
taxation levels 150, 157–8
Tea Party movement 39–40
trade union membership 159
Troubled Asset Relief Program (TARP) 20–21, 45, 49, 57
unemployment rate 23, 32, 36, 51, 62, 131, 136, 230
wage levels 62–3
Valuks, A. 215
Vertical ABS CDO 2007-1 case study 120–21
Volcker, P. 7, 23, 28, 70, 154, 172, 225
Wachovia/Wells Fargo takeover 205, 206–8, 225
wage levels 62–3
stagnant, and house price increases 161–2
stagnation, and Keynesian economics 128–9, 133, 136
see also income inequalities
Wallison, P. 11, 49, 50, 68–9, 80, 81, 82, 194, 198, 203–4, 207
Washington Mutual 82, 208, 225
Waxman, H. 8
Wessel, D. 8, 21, 46
Whalen, C. 51
White, W. 4–5
Whithead, J. 113
Willemann, S. 113–14
Williams, P. 179
Witt, G. 105
Wolf, M. 43, 44, 130
Yoshizawa, Y. 118–19
Young, H. 185
Zandi, M. 106
Zubrow, B. 206