May 3, 2011 – 12:00 pm
Policy Seminar with Ross Levine
Annenberg Auditorium

PARTICIPANTS

Ross Levine, John Cogan, Andrew Crockett, Charles Johnson, Stephen Langlois, John Raisian, Ken Scott, Martin Schneider, Richard Sousa, Johannes Stroebel, Martin Anderson, Annelise Anderson, Jeremy Bulow, Jacob Goldfield, Bob Hall, Stephen Haber, Ken Judd, Dan Kessler, Stephen Krasner, John Shoven

ISSUES DISCUSSED

Ross Levine, Professor of Economics at Brown University, presented the insights from his recent book with James Barth and Gerard Caprio, "Guardians of Finance: Making them work for us." Levine began by arguing that in the run-up to the crisis, between 1996 and 2006, policymakers systematically and repeatedly designed, implemented and maintained policies that precipitated the financial crisis, even as they learned about the destabilizing potential of these policies. He provided two examples of such instances: The capital regulation of Credit Default Swaps, and the regulation of investment banks by the SEC.

Levine then addressed the reasons that induced and allowed regulators to behave the way they did. He argued that some elements of regulatory capture can help to explain the regulators' behavior. More importantly, Levine argued that the public did not compel the regulators to behave differently, because of the regulators' monopoly on information and expertise.

Levine concluded that the financial system needs the introduction of an informed, expert and independent assessment of regulation. He proposed the introduction of a "Sentinel" to provide this assessment. The sentinel would have the power to demand information from regulators and financial institutions, but would have no regulatory powers or responsibilities. It would be politically independent, as well as independent of the financial markets, and it would have to have an independent source of revenue that would allow it to pay market wages.