The Daily Dish

5 After the Fall

SEPTEMBER 13, 2013

Doug Holtz-Eakin rounds out our Daily Dish series: *5 Years Later: 5 Facts You Need to Know*, by previewing today's AAF event on the financial crisis. The panelists include Barney Frank, Bill Thomas, and Doug Holtz-Eakin and it is being moderated by Steve Liesman. You can tweet your questions for panelists today using the hashtag #5AfterTheFall. More from DHE below on the event.

Meanwhile, Bloomberg writes this morning that consumer comfort has finally stabilized after several weeks of decline. "Confidence among American consumers stabilized last week after four straight declines even as their views of the economy deteriorated. The Bloomberg Consumer Comfort Index rose to minus 32.1 in the week ended Sept. 8 from minus 32.3."

The report indicates that weaker numbers recently may be due to "The smallest back-to-back payroll gains in a year and rising mortgage interest rates [which] are weighing on consumers' moods. The restrained pace of hiring makes it harder to spur growth in the second half of 2013."

Eakinomics: The 2008 Financial Crisis

As the 5th anniversary of the fall of Lehman Brothers approaches, it is useful to reflect on some of the facts regarding the financial crisis:

- The core economic risk is lending. The fanfare surrounding structured finance (MBS, CDOs, synthetic CDOs, etc.) notwithstanding, the fundamental reason that the house of cards fell was the inability of borrowers — especially those with mortgages — to make payments. Preventing the next credit bubble will depend on the ability to maintain high-quality loan origination.

- The core defense against lending risk is more capital. The U.S. (and international)

financial system became highly leveraged and the scarcity of capital magnified the core economic risks. It is fascinating to contemplate that the bursting of the housing bubble destroyed the same wealth in the U.S. as the bursting of the dot-com bubble in 2001. The latter produced a minor recession; the former an economic catastrophe — a tribute to the fact that it was debt-financed. Today the financial system — especially banks — is much better capitalized and safer as a result.

- The policy response was far from crony capitalism and bailouts. As detailed in a new AAF paper, the vast majority of Federal Reserve programs, for example, were broad-based attempts to inject liquidity into the system and not targeted efforts to preserve specific firms. Only in the aftermath of the crisis did the response become perceived as favoritism and bailouts.

These and other lessons are sure to arise today at the AAF event discussing the crisis and response, featuring Barney Frank, Steve Liesman and Bill Thomas. Hope to see you there.