

# Fixing finance

*The Economist*

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# Financial crises

- You can not avoid financial crises, but you can exercise some choice over what kind of crisis you get
- Great depression: moving towards safety (strict regulation)
- Modern finance has reversed that shift
- There will be now strong calls to restore some of the old value

# A stripped-down finance

- Willem Buiter: A stripped-down sort of finance could do most of what a modern economy needs
- James Tobin: The advantages of liquidity ... come at the cost of facilitating nth-degree speculation which is short-sighted and inefficient

# Alternative view

- Richard Sylla: financial sophistication has gone with military and economic power
- Tornell and Westermann: financial liberalization raises growth by around 1% per person per year

## Hard to find evidence

- However, it is hard to find evidences to support either argument. In the end the argument for embracing innovation is conceptual rather than empirical
- Judgement of Clément Juglar: “The richness of nations can be measured by the violence of the crises which they experience ...”
- Finance is a remarkable creation. Do not suppress it, but use it wisely