

Women's Economic Round Table

Forum of the Knight-Bagehot Fellowship Program
Graduate School of Journalism, Columbia University



The Economic Recovery and Remedies:

Are Bolder Measures Needed?

September 21, 2009

Highlights of the Panel Discussion

(Notes, Not Quotes)

Dr. Amelia Augustus, director and co-founder of the Women's Economic Round Table opened the 31st year of the Round Table and its 5th year as part of the Columbia School of Journalism's Knight-Bagehot Fellowship Program. She thanked Host for this Program, Stephen Shepard, a founder of the Knight-Bagehot Fellowship Program and Founding Dean of CUNY Graduate School of Journalism.

CHRISTINE M. CUMMING – **First Vice President, Federal Reserve Bank of New York** could not discuss monetary policy because of the Fed's FOMC blackout. However, she did set the historical context of the combination of this year's severe financial distress and recession. This included

- Historical precedents in the dislocations of the Depression in the 1930's as well as the impact of the ten year recession in 1990s on Japan's banking system.
- A year ago, the response in the fall was to recognize the severe recession could turn into a full depression then take bold fiscal, monetary and government action as well as direct intervention in the financial system. Economists across the spectrum agreed that a very large stimulus was needed to counter the recession - they had to think larger than ever to counter the recession.
- Debates over: What form the action should take and what timing – taxes... Spending directly to people or spending on infrastructure; monetary actions such as expansion of balance sheet... direct lending to AIG and other financial firms or to investors in newly securitized products... direct intervention in the financial center, e.g. 19 agencies examining financial firms to assess if they have adequate capital, as was done in the 1930s... direct TARP-style investment in banking companies.

She pointed to the trap, known by readers of Bagehot's works: the assumption that when Central Banks are faced with a liquidity crisis, lending freely against good collateral at penalty discount does not apply – instead, when faced with liquidity crisis, do whatever is necessary!

JANE D'ARISTA – Analyst, Financial Markets Center and Research Associate, Political Economy Research Institute, University of Massachusetts at Amherst, focused on the “debt overhang”:

- Mid-2007, the debt to GDP ratio exploded; even now it is more than 300% of GDP. Not Iceland, she pointed out, but the impact of Iceland’s challenges forced us to look at debt in relation to GDP
- Impact on the household sector of the overhang: several unemployment, lack of disposable income
- In 1980s, we looked at debt in relation to other countries; when 3rd World debt became a concern, banks could write it off and grow elsewhere. But banks make profits by attracting capital, therefore, they are in no position to write off debt. That is all that will help the economy as a whole – but, to survive and grow, banks cannot write off the current debt.
- What’s needed to avoid a repetition of this crisis – replace the cap on liability; reinvent reserves; deal with such issues as interest rate supply/demand, need for quantitative tools with leverage, limits on lending to the financial sector (which in 2007 rose from 53% to 114%), and the asset bubble caused by expansion of credit.

BARBARA J. KRUMSIEK - President, Chief Executive Officer and Chair of Calvert Group, Ltd.; Director and Chair of Acacia Life Insurance Company led off with her focus, as an asset manager, on the \$14 billion in sustainable investment in money market funds, etc. and pointing out how her company managed the 58 mutual funds and other investments and avoided the types of major meltdowns that hit many others:

- Follow basic principles of accounting, balance sheets, balancing of rewards with accountability for risk.
- No credit default swaps or non-agency subprime lending
- Redefine what a security is and get away from the laissez faire attitude that anything created should not be regulated.
- Give the SEC regulators the resources for taking a stronger role, visiting and more major financial institutions.
- Can’t write enough rules to make everything right and avoid similar crises in the future – financial institutions must get back to serving clients and investors with trust, transparency and integrity.
- Change the corporate culture that supports lack of diversity and where the CEO of Lehman can say he would not do anything differently – despite the fact he lost the company. Build in checks and balances, integrity and solid board governance.

THEA M. LEE – Policy Director, AFL-CIO, and Author led off with the impact of the financial crisis on employees in all industries across the board - manufacturing and construction, professional business services, transportation, etc.:

- Average unemployment of 9 ½ %. That’s 15 million people. And 7 million jobs lost since the recession began;
- More than 10% among men; Blacks, Hispanics and young people even higher;
- Long term unemployment the highest ever with more than one-third of the unemployed out of work for more than six months;
- Wages slumping and weekly hours cut;

- Some positive signs from the American Recovery and Reinvestment Act's investment in state and local governments and unemployment insurance extensions but much more needed;
- A "jobless recovery" and "jobs are a lagging indicator" (as in the recoveries from the 1990 and 2001 recessions) has serious impact on people;
- We had a "consumption bubble" for the wealthy and bubbles for debt and assets, but not for income;
- When this crisis started, medium income had not even recovered from previous recessions. In 2005, the IRS reported that 90% of Americans saw their incomes fall... despite huge gains for the top 10% - and more for the top 1%, even more for the top 1/10th of 1%.

Her recommendations:

- In the long term bring back bargaining for wages;
- In the short term, do what has to be done to get the economy going again and avoid a severe downward spiral;
- Government must play a key role in leading us out of the crisis for households where there is immense housing and credit debt but few jobs – so businesses will not lose customers;
- Need public investment, a federal limit on low interest rates, and a global approach to this world-wide recession and debt crisis;
- Re-align 3 imbalances:
 - 1) Rebalance bargaining power of workers with employers that led to an attack on working people in the last 8 years and even before;
 - Pass Employee Free Choice Act so that employees have better bargaining power;
 - With more bargaining power, the middle class will have enough income to spend and that will help businesses revive;
 - 2) Rebalance exports/imports;
 - 3) Rebalance the relationship between the financial sector and the real economy. The financial sector should be the servant of the real economy, not a substitute for it.

Bolder actions needed:

- Invest in long term infrastructure needs (skills, education, schools, bridges, smart energy grid, broadband to remote rural areas, etc.) This will create more jobs and increase the productive base of the US in the world.
- To fund public investments and dampen the impact of financial transactions – consider a financial transaction tax.

ANYA SCHIFFRIN – Lecturer in Discipline of International and Public Affairs; Acting Director, International Media and Communications, Columbia University's School of International and Public Affairs; Author, and Knight-Bagehot Fellow, opened the discussion to the Questioners and later to the audience:

DONNA ROSATO - Senior Writer at *Money* magazine, and Knight-Bagehot Fellow:

Before we get bolder, what about the consequences of the existing \$747 billion stimulus, only 1/4th of which has been spent to date?

Thea Lee:

- State and local governments cannot run deficits the way the federal government can. Government lay-offs hurt jobs and services.
- This is not the time to worry about deficits hurting the economy or triggering inflation.
- Government is the only player that can re-start economic growth and taxes. If no jobs, no spending, no tax revenues, more lay-offs, less buying – a downward spiral that can't turn around easily.

- Does 9 1/2% unemployment mean the Economic Recovery Act as a failure? No. It is helping to keep us from the brink. But people see the unemployment, not the crises we avoided - and that may have political consequences.

Barbara Krumsiek:

- The most successful and visible result of the stimulus has been “Cash for Clunkers” – that builds on time value of money by putting cash early into people’s hands so they can purchase cars. In August, business started to turn positive.
- We can’t focus only on misses – need to look at bigger picture.
- Global recovery will help US companies. Europe is recovering faster than the US.
- US recovery has started, despite 9 ½-10% unemployment.

Jane D’Arista:

- We need a new stimulus program with focus on infrastructure and the creativity of the Depression years that impacts the economy, the arts, culture.
- Don’t be overly worried about debt. If we do nothing, it will be worse. It is important to be bold – it’s worth the chance.

Christine Cumming:

- We need international coordination across countries.
- We all feed on each other.
- Tremendous drops in trade around the world are decelerators. Fiscal stimulus is needed around the world to stabilize trade.

GERRI WILLIS - Host of CNN's "Your Bottom Line", Author, and Knight-Bagehot Fellow: *Anyone afraid of inflation and interest rates – the old Darth Vader 10-15 years ago?*

Jane D’Arista:

- The issue is how to pay for imported goods.
- 15 years ago, cheap goods came from overseas. That kept inflation low. We need to look at inflation from a global perspective.
- Emerging markets vs. price of goods and services: emerging markets have few defenses. But price of goods and services is something we can deal with.

Thea Lee:

- There are few or no signs of inflation.
- Energy doesn’t respond to prices and could trigger inflation but we’ll see warning signs. There are few if any now.

Is it still necessary to give bailouts to banks? www.cnnmoney.com monitors bailouts - \$50 billion to the money market, \$36 billion from FDIC to failed banks.

Barbara Krumsiek:

- We need to look at actual costs. Government took dramatic steps but made money on money market securities. Stabilized them at no cost.
- The question now is how to unwind and how to deal with concentration in just a few banks.
- Inflation is inevitable but far way.
- Rents are being lowered for commercial value (stock price and value of commercial real estate is, therefore, down).

- Energy is the wild card. We need to accelerate renewable, sustainable energy to mitigate energy as source of inflation.

Christine Cummings:

- Last fall, the government stopped a quiet run on institutions, money market, hedge funds.
- In the Great Depression and Japan's banking crisis, government needed to help resolve them. It is similar today for FDIC..
- We need time to let banking institutions recover.

Thea Lee:

- Government – the American people - gave *all* that money to banks without enough strings attached; It gave to the for-profit sector but didn't get much in return.
- CEO pay is symbolic of the problem. What kinds of financial reforms are we getting? I don't see many.
- The financial industry pays itself well when there is a good economy, then begs for government intervention. This drags down entire international community.
- \$56 billion seems large enough to have government ask for responsibility in return.

DONNA ROSATO: *What about moral hazard – Can the government stop banks from repeating the same crisis if there is no punishment?*

Christine Cummings:

- To answer that, we need to look at several levels. Start with financial institutions and major investors, but then look at regulators and at Congress. And look at which segments can take action.
- We need to know what we need – incentives for behavior? How much risk? Pay/reward when – how early?
- Also look at lessons for regulators
 - How did problems build up?
 - What could have been done?
 - What should have been done?
 - Which types of regulations?
- Look at Congress
 - Which agencies/how to change practices?
- Look at the American people
 - How much leverage do households want? (currently much higher than Europe)
 - Use of debt? What costs come with levels of debt?

Jane D'Arista:

- Moral hazard – what about 100 cents on the dollar payment to AIG? No one else got that
- Loans could have been distributed better among institutions.
- All were involved, but who got the bailout?
- Look at how the government compensated which institutions and what incentives led to risky behavior.
- Did regulators look at number of counter parties or think, What if only one and it goes?

Grades to Obama, Congress, regulators?

D'Arista: C- for regulators because financial system is still on life support.

Krumsiek: B+ with hope – a lot was thrown against the wall. Not all will stick.

- Need to regulate derivatives as securities; need to regulate hedge funds; increase transparency. The rules should not have been permitted to let the financial sector grow to 37% of GDP
- Must get financial sector back to ABCs.

Lee:

- B+ for Obama, given constraints and situations when he was elected. Acted fast;
- B for Congress – incoherence and Republicans focused on fighting Democrats, not proposing solutions.
- C for Regulators. They didn't step up and do what was needed to resolve this crisis or prevent next crisis.

GERRI WILLIS: *What's Bernanke's biggest challenge? What must he do first?*

Cummings: I need time to think so my answer doesn't end up "Fire Cummings".

D'Arista: Stabilize the financial system. It's happening. Serve the economy again. Proprietary trading is a challenge – go for profit without fiduciary responsibility and compete with own clients

Krumsiek: The credit system is not working... not much leading or risk taking. Insurance companies are paying more than they can earn because interest rates are so low. Key question is how to open the credit markets beyond life support.

How critical is fixing health care so there are more people insured – without adding to deficit or raising taxes? And is this critical for the economy?

Lee:

- Can't get economy under control without health care reform or getting health costs under control.
- Main deficit problem is health care.
- House plan covers uninsured with progressive tax/savings. It may or may not work.
- Insurance companies had their way. If there is no change/control, they will continue to raise prices for all.
- The public option keeps costs down.
- Energy also must get under controlled.

DONNA ROSATO: *What about financial market reforms to protect consumers, use federal power to regulate – will reforms help prevent a return of this type of crisis?*

Krumsiek:

- There is no one path to prevention.
- The profit motive is strong – people will always look at the edge for a loophole and an angle.
- We need to call hedge funds a security and regulate them.
- Identify derivatives as securities.
- More transparency will help balance.
 - Show the embedded leverage in securities held;
 - Get transparency and disclosure.

Cummings:

- Move more OTC derivatives into Clearing House system. This will:

- Impose risk controls – manage expansion/leverages;
- Drive standardization.
- No hidden leveraging where only high tech people understand what is happening – even senior people don't understand.
- Momentum for OTC derivatives is building.
- Look at Tri-Party Repo Market (who owns security, how funded, how the Repo Market works (lend for cash, next day get it back) - this is source of many problems because of margin requirements.
 - The private sector is trying to identify a solution.
 - This is important for money market funds and others active in the Repo Market.

What is economic recovery if this is a jobless recovery?

Lee:

- This is uncharted territory.
- Recovery without jobs/wages. Unemployment may be 10% into next year.
- Companies need people to buy... but for that, people need income.
- American corporations need to stop seeing workers and their pay as a problem. They think they can downsize, do without or move to another country (and get tax breaks for offshore business).
- Key question: How to build an American economy that can pull it's share in the global market with working people.

D'Arista:

- Pensions and benefits are a problem. If downturn, corporations with defined benefit plan must put money in. But if the economy goes up, they don't have to.
- Workers need portability of benefits.
- Look at who gets insured – institutions, not people's pension.

AUDIENCE QUESTIONS

Anya Schiffrin, the moderator started the question: If more women at helm, do you think there would be less risk taking, less predatory behavior?

Krumsiek: Yes. Catalyst did study of diversity in management:

- Stock prices with diverse Boards did better.
- Pay equity is still 76 cents on the dollar. Not influenced by the number of women working in an organization – only by the existence of women in high level positions.
- Calvert benefitted by women in the corner offices.

Which types of regulation are useful? Are we politically ready or not ready?

D'Arista:

Consumer protection is needed. We are eady because there is pressure for it. People feel snookered by mortgages and credit cards. If Congress doesn't listen, they're deaf.

Lee:

People are ready for many changes, like limits on executive pay, consumer protection... but are the politicians ready?

From audience - Martin Wolff from Financial Times:

- Debt: 12 trillion book debt. No contingency.
- Fraud if government won't repay. It's dishonest debt – workers pensions depend on it.

- Deficit – the only way to balance trade deficit is to devalue US currency – and that is bad for pensions. Or, we could export our way out, but what would we export?

D’Arista:

- US government is here for the long term – a unique position. The debt never gets paid.
- After WWII, the financial sector was stable because of debt. Americans put their savings into the debt.
- Government debt never is paid off because the government is always here.

Lee:

- Trade deficits with China will be less if US devalues the dollar. The dollar can’t find equilibrium because China intervenes. \$266 billion trade with China has a 5:1 imbalance and distorted prices so China is undervalued, the US overvalued.
- Need realistic dollar value – the US can pressure China not to intervene.
- US exports to China: waste, pulp, rawhide, fertilizer... and imports: high tech, electronics, clothing, toys. Not normal market outcomes.
- Oil is also critical – we need to become less dependent on oil.

Are the signs of recovery around the world a result of stimulus funds – and, therefore, they are artificial and we’ll have a W-shaped recovery once the stimulus money is gone?

Krumsiek:

- The stimulus is propping up economies. They will go down.
- 401k model is dominant – if markets go up, then pension and savings for retirement do better. We need 401k portability for more diversification. Declining dollar would help.
- We will feel like a W when the stimulus money runs out

Is it a good idea to shore up the dollar?

Lee: No. A high valued currency is good for travel but bad for manufacturing... good for Wall Street but not for Main St... It’s not a good goal to keep it artificially high. Manufacturing can’t sell in global markets when the value of the dollar is high.

D’Arista: Agree – strong dollar is not desirable. We want a stable dollar and in balance with the global monetary system. The dollar as the international transaction is not good for the US. Poor countries give us their savings, push our debt – and we become consumer of last resort on a credit card.

Calvert didn’t invest in CDs or Lehman paper. What else did you not invest in?

Krumsiek: Didn’t speculate on financial companies going up. We’re not active traders.

The program ended at 7:30 PM.