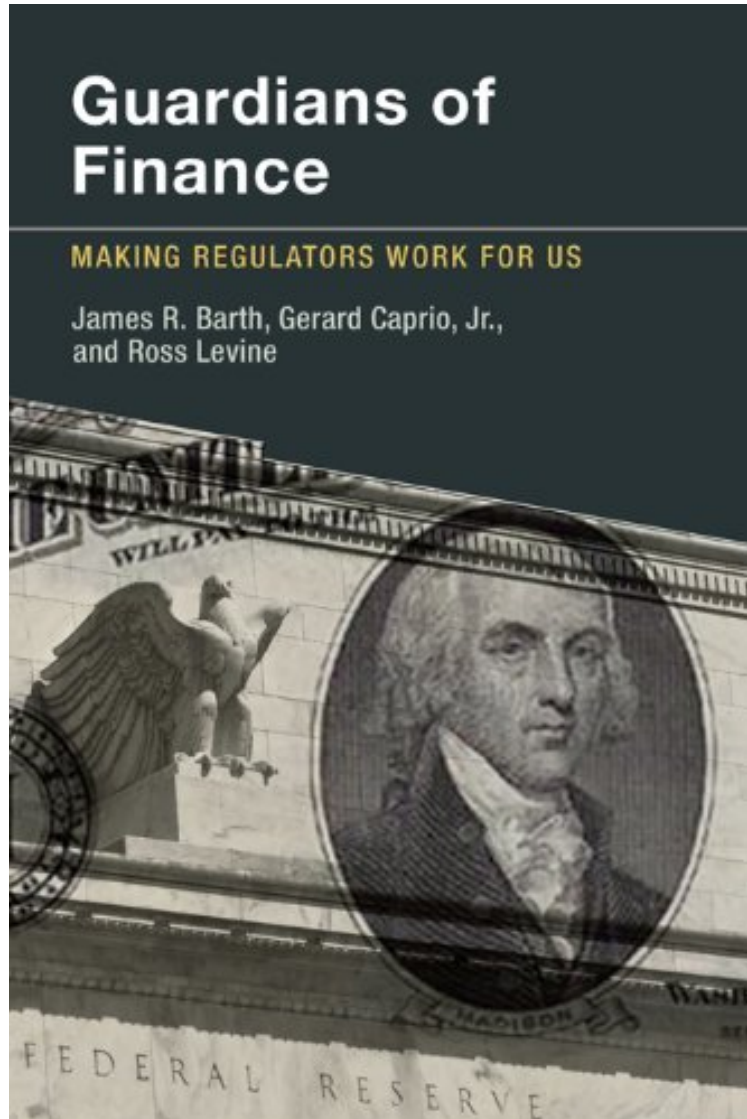


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Guardians of Finance: Making Regulators Work for Us (MIT Press)

James R. Barth, Gerard Caprio, Ross Levine
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James R. Barth, Gerard Caprio, Ross Levine : Guardians of Finance: Making Regulators Work for Us (MIT Press) before purchasing it in order to gauge whether or not it would be worth my time, and all praised Guardians of Finance: Making Regulators Work for Us (MIT Press):

0 of 0 people found the following review helpful. Good analysis, weak proposal
By Hendrik Bright
This book reads as a train, contains very interesting analysis, based on an excellent knowledge of the financial crisis. I would have given it 5 stars, if it did not contain some weak points. 1) The proposal to create yet another institution, the Sentinel, is very naive. How could a supervisor of the supervisor make the change? Financial institutions and political parties alike will try to have supporters appointed or to influence their opinions. How to prevent that they follow the mood of the day?

2) As many US academics and business people, the authors stress the impact of moral hazard. This is typically a right-wing idea of people considering the poor and the unemployed lazy, and the rich as hard working with a good dose of entrepreneurship. In fact a very negative view of mankind. Is it typical of protestant anglo-saxon ideology? The selfish entrepreneur is considered the source of all wealth. Where is cooperation and solidarity? Is that a typical idea of Mediterranean cultures? 3) Something missing in this book is the responsibility of the academic world. In 2002 these same authors published a paper in which they took a completely opposite stand towards regulation. In fact they condemned the Glass-Seagall act and other regulatory measures! This paper is not mentioned in the book, and the authors do not explain why they changed their mind. The sermonizing tone of the book contrasts with the opinion of 2002 and makes it questionable. But finally, I consider this a very interesting book for everybody who wants a balanced analysis of how the supervisors let the financial system explode.

3 of 3 people found the following review helpful. Wonderfully Informative By OscarWow. You just don't get this information and insight from the talking heads and the politicians. This clear and readable book is written by top-notch economists who educate us about what happened in the recent financial crisis; what is happening in the financial system; and it reviews financial regulation. The book makes a strong case of how officials are abusing their power and not working for the public at large and it suggests a way to fix the fundamental problems. It really gets at the heart of the issue by examining the roots of the global financial crisis that were building since the mid-1990s, rather than just telling stories about who did what after Lehman Brothers failed. This book teaches us about what is driving the problems and with that understanding the authors' propose solutions. It is a unique advance beyond the previous literature about the recent financial crisis.

0 of 0 people found the following review helpful. Persistent Lack of Accountability of Financial Regulators to the Public By Serge J. Van Steenkiste James Barth, Gerard Caprio, and Ross Levine methodically debunk the myth that the ongoing financial crisis is an accident. The authors relentlessly bring to light the decisive role that defective regulatory and political systems played in undermining the global financial system during the ten years or so before the start of the current financial crisis. Messrs. Barth, Caprio, and Levine convincingly demonstrate in this process that financial innovation, regulatory gaps, and insufficient regulatory powers were not the key drivers behind this downfall. The financial regulators adopted detrimental policies to the long-term sustainability of the global financial system and persevered with these misguided policies even in the presence of growing evidence about their deleterious effect on financial stability. The authors clearly explain why the financial regulators too often espoused the interests of the finance industry at the expense of those of the public. Think for example about bias in favor of the financial services industry (home field advantage), fast revolving door between industry and regulators, lobbying, and simplistic ideologies. Messrs. Barth, Caprio, and Levine come to the conclusion that the public is still in no position to pressure financial regulators to act in their interest, regardless of the current reforms enacted to strengthen the global financial system. Think for example about the evolving policies that the U.S. financial regulators have pursued since the nineteenth century. The answers to recurring crises have been the addition of new rules, the establishment of more regulatory agencies, the hiring of more regulators, and the granting of ever greater discretionary power to the U.S. financial regulators over an even larger portion of the financial system. These reforms are fleeting palliatives that fail to address the systemic institutional defects that continue to afflict the U.S. regulatory apparatus. Messrs. Barth, Caprio, and Levine propose the creation of what they call the Sentinel to establish a better balance between the interests of the public and those of the financial services industry. The Sentinel has to have five traits in order to significantly increase the pressure on the financial regulators to act in the public interest: 1. Independence of short-run politics; 2. Independence of the financial services industry; 3. The power to demand and obtain information necessary for assessing and monitoring the financial regulators; 4. Multidisciplinary expertise necessary for beneficially processing that information; 5. Prominence to deliver such an assessment to the public and its elected representatives in an ongoing manner that materially affects the open discussion of financial sector policies. The authors do not think that existing U.S. institutions such as the Financial Stability Oversight Council (FSOC), the Office of Financial Research (OFR), and the Government Accountability Office (GAO) meet the five requirements mentioned above to qualify for the job description of the Sentinel. To their credit, Messrs. Barth, Caprio, and Levine acknowledge that the Sentinel is not a panacea. The Sentinel is a necessary component to boost governance and regulatory performance. In summary, the authors overwhelmingly demonstrate that the current financial crisis is far from being an accident.

The recent financial crisis was an accident, a "perfect storm" fueled by an unforeseeable confluence of events that unfortunately combined to bring down the global financial systems. Or at least this is the story told and retold by a chorus of luminaries that includes Timothy Geithner, Henry Paulson, Robert Rubin, Ben Bernanke, and Alan Greenspan. In *Guardians of Finance*, economists James Barth, Gerard Caprio, and Ross Levine argue that the financial meltdown of 2007 to 2009 was no accident; it was negligent homicide. They show that senior regulatory officials around the world knew or should have known that their policies were destabilizing the global financial system and yet chose not to act until the crisis had fully emerged. Barth, Caprio, and Levine propose a reform to counter this systemic failure: the establishment of a "Sentinel" to provide an informed, expert, and independent assessment of financial regulation. Its sole power would be to demand information and to evaluate it from the perspective of the public--rather

than that of the financial industry, the regulators, or politicians.

This book will become a classic for those who want to learn what was behind the global financial crisis -- not just what went wrong, but why current reforms won't work. Most important, it offers guidelines to prevent the next crisis by forcing regulators, the Guardians of Finance, to work for the public interest rather than for narrow elites. (Nouriel Roubini, Co-Founder and Chairman, Roubini Global Economics) This book involves a strongly, even passionately, argued attack on financial regulators for having made a mess of financial regulation, prior to 2007. It is beautifully written, and very well designed to achieve a wide audience of readers who are interested in the crisis, but are not necessarily themselves expert. It is based on great academic expertise, but wears its deep scholarship lightly, with no maths and no equations. (Charles Goodhart, London School of Economics) There have been plenty of books on the financial crisis. But this one is different. While acknowledging that private financiers did plenty of damage, the authors shine the spotlight on regulators across the world. They argue that the crisis did not just happen to policymakers, it happened because of them, and offer careful and well-reasoned arguments to support their case. Guardians of Finance should be read by everyone interested in the future of free enterprise. (Raghuram G. Rajan, The University of Chicago Booth School of Business) Financial crises are not in the interests of bankers, regulators, or politicians. Yet all three groups did nothing as the U.S. financial system headed over a cliff. Why didn't they act? Why did their counterparts in other countries, such as Ireland and Iceland, also stick their heads in the sand? Is there a way to prevent the next crisis, or do we have to rely on the same groups that brought us the ongoing disaster of 2007? Read this meticulously researched and clearly argued book, and learn the answers. (Stephen Haber, Stanford University) This is a timely, well-written, and nontechnical book by established experts in the field. (R. Grossman, Choice) For those involved in policy formulation and regulation, whether at national or international level, in government or financial institutions, this is compulsory reading. (Richard Parlour, Central Banking Journal) About the Author James R. Barth is Lowder Eminent Scholar in Finance at Auburn University and Senior Finance Fellow at the Milken Institute. Gerard Caprio Jr. is William Brough Professor of Economics and Chair of the Center for Development Economics at Williams College. Ross Levine is the Willis H. Booth Chair in Banking and Finance at the University of California, Berkeley, and Senior Fellow at the Milken Institute.