

The Global Crisis: Fatal Decisions – Four Case Studies in Financial Regulation

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Summary

This paper uses four case studies to assess how far American and British regulators could have foreseen the sources of instability that led to the global financial crisis: (1) the 1997-98 Asian financial crisis and the impact of the region's rapid recovery; (2) the mismatched partnership between banking and insurance in the derivatives market; (3) abdication of due diligence to the rating agencies despite their long record of incompetence; and (4) the prior warnings of vulnerability to property bubbles. In each case, the two countries' regulators publicly recognised these threats before 2007 and produced similar explanations for taking no action. They now acknowledge the costs of non-intervention but still resist consumer protection and other reform initiatives. They insist that markets only thrive with maximum freedom and minimal moral hazard. The case studies reveal a remarkable similarity between the policy analysis and decisions of America and British officials and offer a striking illustration of the two countries' commitment to a shared regulatory 'culture'. This is the second of three working papers on the global crash.