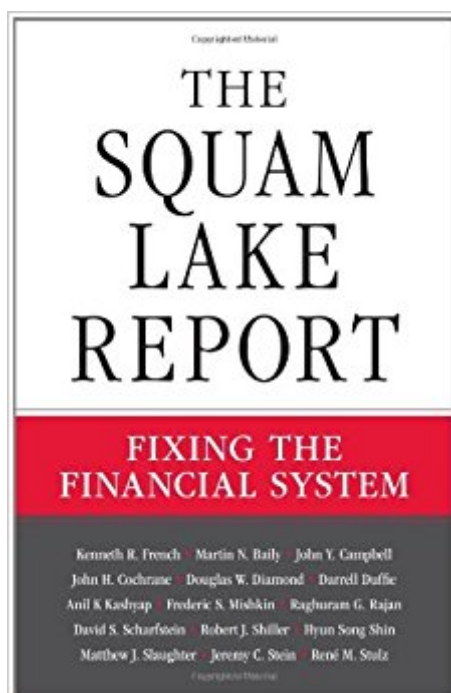


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# The Squam Lake Report: Fixing The Financial System



## Synopsis

In the fall of 2008, fifteen of the world's leading economists--representing the broadest spectrum of economic opinion--gathered at New Hampshire's Squam Lake. Their goal: the mapping of a long-term plan for financial regulation reform. The Squam Lake Report distills the wealth of insights from the ongoing collaboration that began at these meetings and provides a revelatory, unified, and coherent voice for fixing our troubled and damaged financial markets. As an alternative to the patchwork solutions and ideologically charged proposals that have dominated other discussions, the Squam Lake group sets forth a clear nonpartisan plan of action to transform the regulation of financial markets--not just for the current climate--but for generations to come. Arguing that there has been a conflict between financial institutions and society, these diverse experts present sound and transparent prescriptions to reduce this divide. They look at the critical holes in the existing regulatory framework for handling complex financial institutions, retirement savings, and credit default swaps. They offer ideas for new financial instruments designed to recapitalize banks without burdening taxpayers. To lower the risk that large banks will fail, the authors call for higher capital requirements as well as a systemic regulator who is part of the central bank. They collectively analyze where the financial system has failed, and how these weak points should be overhauled. Combining an immense depth of academic, private sector, and public policy experience, The Squam Lake Report contains urgent recommendations that will positively influence everyone's financial well-being--all who care about the world's economic health need to pay attention.

## Book Information

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Robert J. Shiller, Co-Winner of the 2013 Nobel Prize in Economics Raghuram Rajan, Winner of the Deutsche Bank Prize in Financial Economics 2013, The Center for Financial Studies "If you asked me to recommend one thing to read on reforming financial regulation, [The Squam Lake Report] would be it."--Clive Crook, The Atlantic "The Squam Lake Report [is] a slim volume that contains the best prescriptions of the brightest minds of economics about how to save the financial system."--Heidi N. Moore, CNNMoney.com "The Squam Lake Report is a slight volume of ten chapters and just 157 pages--practically anorexic by the standards of many tomes about the credit crunch--but it makes heavyweight claims. It is the product of 15 of the leading financial economists in the United States, who first met on a weekend retreat to New Hampshire's remote and scenic Squam Lake, and offers their prescriptions for regulatory reform to stave off future collapses."--New Statesman "Fifteen prominent academic US economists developed this concise set of recommendations for financial regulation reform in Fall 2008 in a desire to prevent a recurrence of the financial crisis that developed in 2007 and whose effects continue to the present. The introductory chapter provides an excellent summary of the cascade of financial catastrophes precipitated initially by losses on mortgage-backed securities. . . . [A] useful volume for its historical overview and coverage of key issues."--Choice "The Squam Lake Report is an important book in a growing library of commentary on the worst financial crisis since the Depression. It delivers good and clearly written recommendations and reviews most of the key issues surrounding the crisis."--Mark S. Rzepczynski, Financial Analysts Journal

"The Squam Lake Report is an excellent primer on the workings and failures of today's sophisticated financial system. Few can fail to be impressed with the scholarship the Report brings to the subject of reform."--Alan Greenspan "The Squam Lake Report makes an important contribution to the debate on financial regulation, highlighting many interesting and innovative ideas that should be considered by all those studying how a future crisis can be avoided."--Mervyn King, Governor of the Bank of England "Insightful and highly relevant."--Markus K. Brunnermeier, Princeton University

I am a professor at a liberal arts college and am using this book for a course on financial crises. While it is written by some of the best minds in financial economics, the book is extremely straight

forward to read. What I find most impressive is that the simplified language reads "correctly" to me. In other words, they have managed to simplify the language without simplifying the argument, a rare feat in a book of this type. The book is notable in another respect, this is the only book on the financial crisis that discusses the "prime brokerage runs" that brought down Bear and Lehman and nearly brought down Morgan Stanley and Goldman. Once again, they provide a straight forward explanation of an arcane topic. Few people seem to understand how prime brokerage runs work. In today's (10/6/2011) Wall Street Journal, there is an article on Morgan Stanley's prime brokerage business where the reporter would have greatly benefited from reading this book.

Fnie

Book was in great condition, even better than stated.

I had the pleasure of hearing Ken French speak at a conference in October of 2009 and heard him mention the "Squam Lake Group" in passing and recently came upon the book. He is an amazing speaker and one that can really get you to think. This book put into more detail some of the "outside the box" idea's Mr. French spoke about when I saw him in person. The book offers a very unique perspective of the financial system as the authors are primarily academics but did not as is the stereotype have a very left leaning solution to the problems discussed. When the group was talked about I thought to myself, if I only could have been a fly on the wall of those discussions and this books really brings you into the heart of them. I am hopefull that some of the idea's and challenges offered in this book can be looked at by our policy makers and implemented over time. One of the most promising is the idea of the "living will" mandate for all companies that pose systemic risk to the financial system. Simple yet effective solutions offered and I hope are enacted. Nice read.

This slim volume is named after the isolated New England resort where 15 renowned economists, academics and policy makers met in the fall of 2008 to devise solutions to the "World Financial Crisis." That they convened amid fast-paced, seismic economic events adds to the star-chamber aspects of their collaboration. Still, these Ã©minences grises - all nonpartisan, without commercial sponsorship or political axes to grind - developed their ideas by sharing their expertise. Their recommendations cover reforms in banking, financial products, regulation, compensation, pensions and hedge funds - all the named villains of the last crisis. Why did they issue these ideas? So they could educate political and fiscal leaders - if they would only listen - about possible laws that could

help avert or lessen the likelihood and impact of future meltdowns. getAbstract recommends this sound advice to students of and participants in the global economy.

I do not recommend this book for a layman. I am not sure what the authors were trying to say.

The problem with this book is that it was written completely by a group of economists who accept the standard underlying Benthamite Utilitarian philosophy of Maximizing Utility. The updated version, expressed in modern mathematical terms, is called Subjective Expected Utility (SEU). The SEU model assumes that risk assessment analysis, based on the Ramsey-De Finetti-Savage personalist approach to probability, allows its users to make careful and sophisticated reward-risk tradeoffs based on the assumptions that the probabilities or decision weights are linear and additive. This allows one to use the normal (log normal) probability distribution to quantify risk assessments and make safe risk-reward (return) tradeoffs using the variance or variance-covariance matrix. This approach is, in fact, a special case of a much more general theory of decision making presented in great detail by Keynes in his *A Treatise on Probability* that demonstrated that nonlinearity and nonadditivity were the general case. This means that the normal (log normal) distribution fails to represent the risks resulting in stock and money markets, especially from speculative stock market activity where debt leverage, using bank loans, is used in an attempt to greatly increase the returns. Specifically, the belief that a normal distribution can be used to assess the risk of the use of derivative contracts and credit default swaps is completely erroneous. Four philosopher-economists, Adam Smith, John Maynard Keynes, Benoit Mandelbrot and NN Taleb, recognized, in one way or another, the severe dangers that can result from the creation of new speculative instruments, which is misleadingly called financial innovation, financial engineering or securitization, involving the banking industry over time. None of these four are mentioned in this book. Another shortcoming involves the discussions on page 5 of the link between AIG and Goldman Sachs. The discussion completely fails to state that the credit default swaps were purely speculative trading arrangements that served no economic function relating to the provision of any real good and/or service. I will close this review by quoting Warren Buffett's 2002 warning about the grave dangers of using financial derivatives. "The rapidly growing trade in derivatives poses a "mega-catastrophic risk...derivatives are financial weapons of mass destruction that could harm not only the buyers and sellers, but the whole economic system". (2002 Annual Report, Berkshire Hathaway). This is precisely what happened. The whole economic system has been severely damaged by the Wall Street, supply side, casino capitalism approach which is built on the SEU

approach .Unfortunately,this book's conclusions, concerning the need for both more severe regulation and the regulation of the use of financial derivatives ,wants to keep the current systems's major flaw intact.The major flaw in the current system is that it is built on a few large maga banks.Smith recognized that a very small number of very large banks endangers the financial system. What is needed is Adam Smith's suggested use of regulation to prevent projector firms like Goldman Sachs and AIG from getting bank loans combined with a very large number of small banks.

Having spent over 20 years on Wall Street and witnessing the abuses of our system from the inside, it is time for our policy makers to listen to the recommendations of these brilliant and rational minds. Whining about greed is no substitute for putting in place proper safeguards. Well written, concise and spot on.

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