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Intelligence Squared U.S.

Ten Years After the Global Financial Crisis, the System Is Safer

For the Motion: Jason Furman, Neel Kashkari

Against the Motion: Kenneth Rogoff, Robert Rosenkranz

Moderator: John Donvan

AUDIENCE RESULTS	
Before the debate:	**After the debate:**
29% FOR	**35% FOR**
49% AGAINST	**57% AGAINST**
22% UNDECIDED	**8% UNDECIDED**

00:00:00

[applause]

John Donvan:
Good evening, everyone. I want to welcome to the stage our partner in this debate. We are partnering for this debate with Foreign Affairs Magazine. We are delighted to have a partnership of that level of prestige, and intellect, and importance, and weight. So, please welcome the editor of Foreign Affairs, Mr. Gideon Rose.

[applause]

Gideon, we're delighted to be -- this is our first time partnering with Foreign Affairs. And how did this come about and why is it important for you to be partnered with us?

Gideon Rose:
Well, we love Intelligence Squared, and we couldn't think of a better partnership because,

essentially, the best way to think of Foreign Affairs is as the home version of Intelligence Squared. It's something you can play by yourself or with friends and family. It's easy.

You basically take a policy question that you care about, write down your answer, read your copy of Foreign Affairs, and then check your answer and vote again.

That's how you play at home because what we offer in FA is, essentially, very smart, serious people honestly trying to provide constructive answers to important and interesting, practical questions and have the kind of debate that should be had in a democracy over important public issues.

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John Donvan:
Does that suggest --

Gideon Rose:
And that's what you do as well.

John Donvan:
Well, does that suggest that one wants to read Foreign Affairs with a willingness to change one's mind?

Gideon Rose:
You know, all of our authors than smarter than the editorial staff. And they take very different positions on all the major issues. And so, it's a constant education for us, and it hope it is for our readers as well. Our job is to translate the smart people in our pages, to translate their words and ideas into ones that everybody can understand.

John Donvan:
Just a moment on tonight's resolution. We're looking back 10 years. Normally, we are looking at the present. We are actually looking at the future, but we're using the 10-year-old benchmark as our metric, in a sense. But why does that topic interest you in particular?

00:01:56

Gideon Rose:
Well, because these days, obviously -- not just our domestic and international events related, but security and economic spheres are related. And a global financial crisis and the turbulence that we saw a decade ago has been an extraordinarily significant factor in weakening the liberal international order, affecting world politics in various ways, hurting lots of people. And the question of whether we responded successfully, whether we have made the system better is something we've been covering in the pages of Foreign Affairs, and we are delighted to sort of be partners with you guys in a debate by really serious people, trying to assess whether the

measures that have been taken have been enough or not.

John Donvan:
Well, thank you for the partnership. We really are excited about it. And I hope everybody enjoys this relationship and what unfolds in a live way tonight as a result of it.

Gideon Rose:
Absolutely.

John Donvan:
Ladies and gentlemen, Gideon Rose.

Gideon Rose:
Absolutely.

John Donvan:
Thanks very much.

[applause]

Remember that brink that we all stood on the edge on, that cliff that we all nearly went over, our society and several others. It was called the Global Financial Crisis.

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The year was 2008, and certainly many, many, many individuals were hurt by it. But the thing that people were predicting and fearing, the total meltdown of the global financial system. That never came to pass, thanks to huge bailouts and also just plain luck. After which of course, we pledged to take measures to make sure that we would never come that close to total meltdown again. And in fact, we haven't. And why is that? Is that because we did figure out what sorts of safeguards we need? Are we, in fact, safer? Or are we still basically running on luck. Well, we think that has the makings of a debate. So, let's have it. Yes or no to this statement: ten years after the global financial crisis, the system is safer.

I'm John Donvan. This is Intelligence Squared U.S.

We are on the stage at the K Playhouse in New York City with four eminently-qualified debaters who will argue for and against that resolution.

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As always, our debate will go in three rounds. And if all goes well, civil discourse will also win. Let's meet our debaters. Our resolution is this: ten years after the global financial crisis, the system is safer? Here to argue for the resolution, please welcome Jason Furman.

[applause]

Jason, welcome back to Intelligence Squared. You spent eight years as a top economic advisor to the Obama administration. You are now at the Harvard Kennedy School. You're also a Senior Fellow at the Peterson Institute for International Economics. You have, as I said, debated with us a few times before. And, in fact, you have never lost a debate. So, what's your strategy?

Jason Furman:
I try to pick great partners.

[laughter]

John Donvan:
And that brings us to our next debater. Ladies and gentleman, please welcome, Neel Kashkari.

[applause]

Neel, in addition to having just been paid the highest compliment, you are also --

Neel Kashkari:
[laughs] No pressure.

John Donvan:
-- president and the CEO of the Federal Reserve Bank of Minneapolis.

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Before that, you were seriously a player in some of the issues that we are going to be discussing tonight. You were at the treasury department. You were the man in charge of TARP. That was the Troubled Assets Relief Program, during the 2008 financial crisis. But before all of that, you were an engineer who worked on a telescope. How -- I didn't see that coming. How did that happen?

Neel Kashkari:
I studied engineering in college. And started out my career as an aerospace engineer.

Loved it, but wanted to learn about business, so ended up going back to business school. And then that lead me into economics and banking and finance.

John Donvan:
What an interesting life. Thanks very much for joining us. Ladies and gentlemen, the team arguing for the resolution, "Ten years after the Global Financial Crisis, the system is safer." We

have two debaters arguing against it. Please first welcome, Kenneth Rogoff.

[applause]

Ken, welcome. You're a professor of public policy and economics at Harvard. You were once a Chief Economist at the International Monetary Fund.

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You're a best-selling author. You've written a bunch of books. One of them, quite relevant to the topic we're discussing tonight. Its title, "This Time, It's Different." What were you trying to say with that title?

Kenneth Rogoff:
Well, it's supposed to be ironic because this time isn't different when it comes to financial crises.

John Donvan:
Thanks very much, Ken Rogoff.

[laughter]

[applause]

And speaking about what's different, some of you may recognize the fourth debater and the other member of the team arguing against: Robert Rosenkranz.

Robert Rosenkranz happens to be, in addition to being the chairman of Delphi Capital Management and the chairman of Intelligence Squared U.S. Foundation. Our chairman normally sits in the seats out there with you. His first time on this stage, he has taken the seat on very short notice, but has a very long career building expertise in the topics that we're debating tonight. So it all works out. Bob, welcome to the stage. It's probably -- honestly, it's probably a lot easier sitting out there than it is up here?

Robert Rosenkranz:
Yes, much nicer.

00:07:04

[laughter]

John Donvan:
Much nicer? All right, ladies and gentlemen, Robert Rosenkranz and the team arguing against the resolution.

[applause]

So onto the debate. We'll begin with round one. Round one are opening statements by each debated in turn. They will six minutes each. Neel, you can make your way to the lectern.

Speaking first, for the resolution, ten years after the global financial crisis, the system is safer, here is Neel Kashkari, president of the Federal Reserve Bank of Minneapolis. Ladies and gentlemen, Neel Kashkari.

[applause]

Neel Kashkari:
Thank you, John. Thank you, Intelligence Squared and Foreign Affairs. Thanks to my partner, Jason, and our esteemed opponents Ken and Robert, and of course to the audience. Thank you all for being here on this really important topic.

I was really surprised when I was asked to argue this motion to argue in favor of the notion that the system is safer. Because while I ran the TARPs, I was in the middle of the financial crisis back in '07, '08, '09, I have become one of their biggest critics of the banks in America.

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The banks really don't like me because I've been very outspoken, saying we need to do more. We need to be tougher on the banks to protect taxpayers, to protect the public against future financial crises. So why would I argue in favor of this motion? Because the motion is not, "Are we perfectly safe?" We're not.

The motion is, "Are we safer than we were 10 years ago?" And Jason and I are going to argue that unquestionably we are safer than we were 10 years ago. Now, both Jason and I want to go further. We want to be even tougher. But the question is, have we made progress? The answer is yes, we have made progress.

So Jason and I have analyzed this across five different dimensions that we're going to lay out for you tonight. And on three of those dimensions we're going to demonstrate that the system is safer. On two of the dimensions we're going to demonstrate that the system is the same. So three dimensions safer, two dimensions the same. Overall, we're going to argue that means the system is, in fact, safer than we were 10 years ago.

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I'm going to start with the first three of these dimensions and then Jason later is going to follow up with the other two dimensions.

So first dimension are the big banks. You all remember the '08 crisis. The big banks were at the center of this crisis. And I want to be tougher on the big banks. But the biggest banks are safer than they were 10 years ago, and we should be honest about that.

So the single best thing you can do to make a bank safe is make sure it has enough capital to protect the taxpayers in case it makes mistakes.

So what is capital? If you take out a loan to buy a house, the bank is going to make you put a down payment. My wife and I had to put 20 percent down on our house. The more money you put down the safer your loan is. If you put down 30 percent, it's safer than if you put down 20 percent. Well, banks have to put down some money on their own investments, and they have about twice as much capital as they had 10 years ago. That means they're safer.

Banks also -- you know, if they borrow money -- when you deposit money in a bank, the money -- the bank is borrowing your money.

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And the more of that money that people can pull out very quickly, the riskier the bank. Well, the bank -- that's how they fund themselves.

They're funding themselves longer term so the money cannot simply be pulled out as quickly as it was 10 years ago. By that dimension the banks are safer. And then regulators have a lot of additional tools to deal with banks if they do get into trouble.

So Jason and I are going to argue that it's unquestionable the big banks are safer than they were 10 years ago. So we agree, we want to go even further. So that's dimension number one.

Dimension number two. What about the non-banks? What about the rest of the financial system? You've heard of things like mortgaged-backed securities. Wall Street takes a bunch of mortgages, they package them together, they slice them up, and then they sell them all around the world. That was one of the key risks in the financial crisis. That activity has fallen by about 75 percent securitization from where it was 10 years ago. Or if you take money market funds, you might remember that there was a famous fund that led to Lehman's failure, where a money market fund blew up.

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That activity is now 75 percent of the money market -- the risky money market funds -- 75 percent lower than it was 10 years ago.

You probably heard about people getting loans where no money down, no documenting income. They call them ninja loans: no income, no job, no asset, you get a mortgage, right?

That's no more. You can't do that anymore. So if you look outside of the banking sector, it's clear that the rest of the financial system is also safer than it was 10 years ago. So two dimensions that I've talked about so far: the banks, safer; the non-banks, the rest of the financial system, also safer. Now, I want to shift to talk about what we do if a crisis actually happens. I want to talk about monetary policy. So I'm president of the Federal Reserve Bank of Minneapolis, I'm one of the policymakers who sets monetary policy for the nation. If there's a recession or if there's a crisis, typically what the Federal Reserve will do is it will cut interest rates to try to stimulate the economy.

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And you may remember, interest rates are lower today than they were 10 years ago. They're around 2 and a half percent for the federal funds rate. Well, so people will say, well, that means the Federal Reserve has less room to cut than it did 10 years ago, and that's true. But we have other tools to also stimulate the economy.

You might have heard something called quantitative easing, where the Federal Reserve will go out and buy long-term bonds to try to drive down long-term interest rates. The reason that we do that is if there's a recession, we want to make it cheaper for you to go get a mortgage or for a business to go get a loan. Well, one of the things that the fed has now that we didn't have 10 years ago, we have a lot more experience using some of these other tools. The Fed did it in the crisis, but they weren't sure if it was going to work and they weren't sure if it was going to have all sorts of unintended consequences. Ten years later, we have a lot more experience than we had on how to use these other tools.

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So, it is true that interest rates are lower so there's less room to cut, but these other tools we have more confidence and experience in using them. So, overall on monetary policy, Jason and I think we're about where we were, we're about even. So, I've presented three dimensions to you. Two of them were clearly safer; one of them were neutral. Jason is going to come up later and argue in the other two we've been some progress and in the other case we're neutral, overall the system is safer. Thank you very much.

[applause]

John Donvan:
Thank you, Neel Kashkari. The resolution, again, ten years after the global financial crisis, the system is safer, here to make his opening statement against the motion, Robert Rosenkranz, who is chairman of Delphi Capital Management and the Intelligence Squared U.S. Foundation. Ladies and gentlemen, Robert Rosenkranz.

[applause]

Robert Rosenkranz:
So, Neel has spoken a lot about the banking system and the quality of the assets and the non-bank financial institutions, but that is not the system.

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The system is a much more complex web of relationships than that, and the most important relationship in my mind is the tendency of -- or the vulnerability of the system to the failure of a single bank.

So, how does that come about? Well, it comes about because the interrelationship of banks, and the biggest source of the interrelationship is derivatives, over the counter derivatives. There are some $10 trillion of over-the-counter derivatives outstanding. The total capital of the banking system is about 1.2 trillion. And because these are over the counter, there's no real market for them. Banks mark them according to models, the models are inconsistent, they're subject to error. So, the system is extremely opaque and very interdependent.

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The other thing that creates the potential for crisis is when everybody in the market wants to act in the same way at the same time. Well, again, things have gotten worse in that dimension. First of all, the spread of algorithmic trading; there's so much money that is being traded on computer algorithms that have no human intervention and that tend to all go in the same direction at the same time.

Another thing that exacerbates this is the role of rating agencies, because they basically force all market participants to behave more or less the same way, again at the same time. We have about 45 percent of our investment grade bond market is now rated triple D; one downgrade and it's junk, and all those holders have to -- are forced to sell in unison. So, if you imagine that the financial system is a car at the crest of a hill, it's gotten out of control.

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A lot of the accelerators of trouble are at least as much as they were 10 years ago, if not more. So let's talk about the breaks. Well, what are the breaks? One is the potential for reduced interest stripes, as Neel has acknowledged. And at 2 and a half percent level is not very far to cut. One is the -- another potential break is the ability to provide fiscal stimulation.

Well, we're running a 5 percent deficit at the peak of an economic expansion. Far less room for fiscal stimulation now than there was a decade ago. And the final thing is that the last time the financial crisis featured a very high degree of cooperation internationally. The central banks of the world and the regulators really did get their act together, coordinated a global response.

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Well, it seems pretty obvious to me that the ability to create global coordination is much, much lower now. China is a much more important factor in the global equation. Our relationships there are broken. Europe and the U.K. are now going their separate ways in a chaotic fashion. So the potential for international cooperation is far, far less than it was. So you have more -- heavier pedal on the metal of the accelerator when you're in trouble. And you have a much weaker set of brakes. And the final ingredient is what I would call, "the shock absorber." The shock absorber in the system is liquidity.

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The ability of somebody to come into markets where everybody is going in the opposite direction. And banks used to have that role. Banks used to be money market makers, and all the regulation that they're so proud of has actually regulated them to a very diminished role as market makers, which means that, if there is any event that triggers a wave of selling, it's extremely -- the magnitude of it becomes very extreme. And I'll give you a recent example. The leverage loan market is about a trillion dollars. In December, about $5 billion, less than 5 percent, was sold because of some liquidations of redemptions of some ETFs and mutual funds. That little 5 billion in a trillion-dollar market drove it from 100 to 93, wiping out $70 billion of value.

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And that's just a little ripple in some small corner of the universe. So, I think the shock absorbers in the system, the liquidity in the system has been seriously, seriously compromised. In any event, whatever is it that triggers a coordinated action by market participants, is more apt now than it was then to create a major crisis. So for that reason, we're asking you to vote that the system is not safer. Thank you.

[applause]

John Donvan:
Thank you, Robert Rosenkranz. Please welcome to the lecterns, arguing for the resolution, Jason Furman, former chairman of the council of economic advisors under President Obama. Ladies and Gentleman, Jason Furman.

[applause]

Great.

Jason Furman:
It's great to be back.

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It's great to be with all of you. With a current college, Ken. Former colleague, Neel. I think Bob's argument illustrated a lot of our point. I was worried about almost everything he raised, but every time he raised something, I was thinking to myself, "Boy, do I feel better about that given the changes we've made today than I did 10 years ago." Take something like, derivatives. Ten years ago, they were the Wild West. You could invent them, you could customize them. You could just do them between any two people. You know. Are there too many of them? Are they too risky now? Yeah. But, they're much more standardized. You have to do them -- most of them have move to what's called Central Clearing Houses, where all of them go through a place. Much more transparent. And I think really importantly, we used to look really carefully at some of our community banks to make sure they had enough capital. What Neel was talking about, so important with banks.

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Some of the places we didn't used to look at, Lehman Brothers. I don't know if any of you remember that. It hasn't been around for a bit. But we barely examined that in any way. We barely examined AIG. And we're looking at all of those places in the financial system now. Maybe not enough, maybe not as much as we should. But now the systemically important institutions get designated as such. They fall under the Federal Reserve. And so, a lot of the parts of the financial system Bob is talking about really were the Wild West. We didn't even try to look at them, and we've brought a modicum of order to them. We're looking at them. Neel gave you three arguments. I want to now talk about two more. The first is international. When I was in the White House, once we got through, you know, the worst of our part of the crisis, I spent the last six years of the administration losing far more sleep over what was happening overseas than what was happening in the United States.

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The Eurozone crisis, China, and the like. I'm not losing sleep anymore. Mostly that's because I'm not in the White House anymore.

[laughter]

But some of that's, you know, a little bit better than it was. And let me just tick through the areas internationally. Europe: a lot of the reforms Neel talked about here have happened there. So, their banks are also holding more capital. They also have more of a cushion before there's a crisis. Europe also regulated its banks -- each country had separate regulation. And if you thought a country like Greece was getting in trouble, you also thought they weren't -- their banks were going to get in trouble, and you could have this sort of, what's called a doom loop between those. There's still a risk of that, but now, across the Eurozone, there is a single supervisor. And there's a single authority to deal with banks if they get into problems.

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They've also created something called the European Stability Mechanism, that has €700 billion.

Didn't exist before, and that's there to aid countries in a crisis. Greece came close to the brink, but the willingness to keep them in the system was critical to where it is today. In addition to Europe, the IMF has more resources than it had going into the crisis. Central banks in the crisis invented this thing where they'd be willing to swap money; they'd lend each other money. That's now institutionalized. So I actually think we have more global cooperation, that we're starting from now, for the next crisis. And something we used to worry a lot about, and we've forgotten entirely, is oil. The United States is now the world's biggest oil producer. We produce the majority of the oil we use. Something like the types of recessions we had in 1973, 1979 aren't on anyone's top worry list anymore.

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So internationally, more likely to prevent a crisis by having better capitalized banks in places like Europe. Better tools to fight it, a lot more resources and cooperative arrangements in place.
Now let's come to fiscal policy. The United States has a lot more debt than it had a decade ago. I wish we had less debt. I don't think that debt is going to constrain in fighting a crisis for three reasons. First of all, in some ways, our fiscal situation has actually improved. You don't want it to slip backward. You want to look forward at all of our entitlements and all of those problems. Those are still there. They're smaller. Expected health spending has gone down. The deficit in Medicare has gone down. And when the Congressional Budget Office measure what we would need to do to stabilize our debt, they actually find that smaller now than it was a decade ago, largely because of some of those improvements in healthcare.

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Second, the measure of how serious your fiscal situation is what your interest rates are like. And interest rates now are much lower than they were before the crisis. Financial markets expect them to be more likely to fall than to rise, and that will give us a substantial amount of space to do fiscal stimulus if we need it. Third, there's now been a substantial body of research, and it's consistently found that fiscal policy is just as effective, if not more effective, in the situation we're in. So overall, our banking system is safer. Our non-financial system is safe. Our international system is safer. Monetary and fiscal policy have just about as much room as they had before the crisis. So overall, Neel and I are arguing that the system as a whole is safer, and urge you to vote for the motion. Thank you.

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John Donvan:
Thank you, Jason Furman.

[applause]

And that motion, again, 10 years after the Global Financial Crisis, the System Is Safer, and here making his opening statement against the motion, Kenneth Rogoff, economist and professor at Harvard.

Ladies and gentlemen, Kenneth Rogoff.

[applause]

Kenneth Rogoff:
Thank you very much to Intelligence Squared and to Foreign Affairs. And I also have the say, the venue here is Hunter College; my mother was a graduate of Hunter College, and very proud of that.

[applause]

I want to start by saying, when you have financial crises, the next war's usually pretty different than the last war. They don't always come from the same place, and it's certainly important to prepare for what happened last time, but I think a really critical element of the system is the leadership, making decisions. When we had the financial crisis, we had a small number of people that included Neel and Jason, who were making decisions, and of course most famously Hank Paulson, Ben Bernanke, Tim Geithner.

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It was a very strong team, and they had support. President Bush -- Ben Bernanke writes about this -- even though he was a conservative and wanted to have tight budgets -- well, except when he cut taxes. He said he wanted to have tight budgets, but, you know, he went -- he got up and he said, "We're going to do something like a $450 billion stimulus." Obama later increased that. That was very painful. But the point is they had his support. We have, I think, excellent central banks now, the teams across the central banks, not just in the U.S. but in England and the European Central Bank, an excellent staff, but you need more than that when you have a financial crisis.

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You need huge changes -- Jason's mentioned fiscal policy. You need the support of the president. You need the support of Congress. TARP was a very important part of dealing with the financial crisis. That was really something Congress struggled through. If you look at Mario Draghi, the central banker, was famous -- you may have heard this -- in Europe for, "I will do whatever it takes. We will do whatever it takes. And, believe me, it will be enough." And when he said those words, it was considered absolutely watershed in the European financial crisis. But believe you me, had he not visited Berlin first and Angela Merkel said, "I want you to do this," he would not have been able to because the governments own the central banks. Well, I mean, the Fed team is still excellent, but I simply don't think you could describe that we have a safe pair of hands at the moment, not just at the highest levels but the team.

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I'm sorry to appeal to this, I guess it's not fair, but it's the world that we actually live in. And even if we had confident technocrats in other key positions outside the Fed, I'm not sure they'd be listened to. There are some good ones, some ones -- my colleague Greg Mankiw praised Kevin Hassett who's the chief of the Counsel of Economic Advisors which Jason had, and he also mentioned Larry Kudlow. He didn't mention Steve Mnuchin; he's the Treasury sectary, although surely had he seen Wonder Woman, Mad Max, or his acting role as IMDB has him, a movie called "Rules Don't Apply," he might have had a different view. If you go across the pond, the U.K. is the other big financial system. They're like, you know, committing suicide right now in the U.K., and they're not even facing a real problem.

00:30:06

[laughter]

I mean, I think it's kind of clear that, you know, you have a problem there. And, you know, in general the problem is deeper than just the persons; it's something having to do with populism. Let me just pick up on a few other points. I do think our ability to do fiscal policy is limited. I actually agree with Jason; it should not be. We should feel like we have a free hand. But I don't know if any of you, you know, follow our political system, but fiscal policy is actually not this sterile thing in a textbook. You decide who -- not just whether you cut taxes, do you raise government spending, whose taxes, what do you spend on, and I don't have the impression even in the United States, much less some other countries, we're going to do this in a very nuanced way that's going to work well.

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And as far as monetary policy goes, we can come to that later, but I actually think the tools are very limited, and we have learned something; we have learned that a lot of these creative tools don't really work very well. I do concede that the banking system, narrowly defined, is safer, but I think Bob made the point, the financial system is not necessarily safer. The financial system as a whole, it's big; it's gotten bigger. The IMF reports $200 trillion in debt and using Bob's analogy of a car on a hill, your brakes may have gotten better, but you're on a much higher hill than you were, in terms of our financial system. So, we can go into other things; interest rates are very low, but what if they're not? What if global interest rates, not because of policy, but something happened -- they went up. We are not tuned to deal with that at the moment. There are so many things that would blow up.

00:32:04

Italy would be an example. The system is so vulnerable to that. There are other issues we can go into later on the limits, but I think -- I know it's not fair, but if you feel safer about anything right now, you're dreaming.

[laughter]

John Donavan:
Thank you, Ken Rogoff. And that concludes round one of this Intelligence Squared U.S. debate, where the resolution is 10 years after the global financial crisis, the system is safer. Now, we move on to round two, and round two is where the debaters address on another directly, and they also take questions from me and from you, our live audience here in New York City. Our resolution is 10 Years after the global financial crisis, the system is safer. We have heard Neel Kashkari and Jason Furman make the argument that it's not that the system is perfectly safe, but that is unquestionably safer than it was 10 years ago. The biggest banks are safer; their capital requirements are higher and encouraging and rational.

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The shadow banking system is coming under more scrutiny than ever before. A lot of the sort of funky stuff that happened 12, 15 years ago, derivatives, some of the funkier money markets, their activity is down by 75 percent. Then they talk also about the rescue system, that we have learned things as a result of what happened in 2008 and the aftermath. How to use tools and how to have experience; at the time it was an experiment, but the fact that the experiment was successful, gave us new tools. Then they look overseas, and they look at Europe, and they say Europe has learned a lot, that we have partners whom we can work with, who know what they're doing. As for fiscal policy, the ability to spend government money to stimulate government activity if necessary. They say that debt will not constrain us in that situation. So, that's basically their argument. They're arguing against the motion of Robert Rosenkranz and Ken Rogoff. They say it's not just about the banking system; it's one of their most important arguments, that there are several other financial markets.

00:34:04

Those markets are getting bigger. They are essentially black boxes, as they have always been. That inside of them there are computers running the system that lack a human hand on the throttle, that they tend to stack the decks up so that everybody is moving in the same direction at once without shock absorbers in the system, such as counterparties, at the big banks, which are now forbidden from trading for their own accounts. They say that banks are so intertwined that if one of them goes, the rest of them are ripe for falling down like dominos. They also got the political stresses that the system could be under and may be under. The fiscal stimulation is going to be difficult with the deficit, for political reasons. "Do you trust those in charge these days," they ask. And finally, they look at China, and they say that China is a much bigger player in the global system than it was back in 2008 and is not such a cooperative partner.

00:35:02

So, there's a lot to unpack there, although I think the structure of what we're hearing -- we're hearing about two sets of ideas. One is the set of ideas -- do we have the makings of a new crisis, a repeat of some kind? Are there those oily rags in the garage beginning to smolder and catch a spark, and are they going to burn down the whole house? And is that likely to happen? And then the second thing is, what if it starts? What if that fire starts? Do we have a way to put out the fire? Do we have the tools to respond to a fiscal -- a global financial crisis? So, again, a lot to unpack there, but I want to go to the team arguing for the resolution and bring to you what I think is your partner's main parry to you. And there's a lot of details, but their main parry to you because you lead so strongly with the notion that the banking system is safer. Well, they conceded that, pretty upfront; they conceded that. And then they more or less say, but that's not the whole story; it's much bigger than that. So, take that on Neel, you spoke first, so if you could take that on -- the notion that they're going to concede that point as a little bit of a strategic thing, and say a little bit of a, "So what?"

00:36:09

Neel Kashkari:
Well, as I said in some of my comments, if you look at many elements of the financial system, outside of the banks, it's also safer; as Jason talked about, derivatives, many derivatives, now go through a clearing house, where it's not just in the shadows, one bank to another bank, but they're centrally located, there's a lot of transparency. Securitization is way down. Money markets are much safer than they were 15 years ago. So, you're right, there are still risks out there, but if you look at the whole financial system outside of the baking sector, on most mentions, it is substantially safer 10 or 15 years ago. Now, we're not arguing that there's no risk and nothing can go wrong. The question is, is it safer than it was 10 or 15 years ago? On almost every dimension it is safer.

John Donavan:
Rob Rosenkranz to respond again. What Neel is saying is on the metric that we're setting up here, is it safer than it was 10 years ago, that these non-bank financial institutions are in fact safer than they were 10 years ago.

00:37:04

Your response?

Rob Rosenkranz:
Well I think the -- I think what our opponents are addressing is the last war. They're sort of saying, "Well if the same crisis unfolded again today, we'd be better equipped to deal with it." And generals are great at fighting the last war, but nobody predicted the financial crisis last time, and I don't think anybody is predicting or can predict what might trigger it next time. It

could be a political event; it could be in Iran; it could be something in China; it could be something out of control in terms of our relationships with China. It could be just random change in mood in markets that has a self-fulfilling prophecy to it. So, I think the -- I don't find very satisfying the argument that we're better at fighting the last war.

00:38:05

And I think the things that make the next war very dangerous to me are some of the points that I made, that still the failure of one big bag can bring the system down. We haven't really addressed the independents or the interdependence of financial institutions.

John Donavan:
Okay, let me let Jason Furman jump in on that. So, what Bob Rosenkranz -- I'm hearing him saying is no matter where the next crisis comes from the tools that were developed last time may not be relevant.

Jason Furman:
Yeah, I mean, we've fought hundreds of wars, and if you want to read about all hundreds of those wars, Ken's book is particularly great on them. A lot of them are the banking system. This isn't some random little footnote. That's been the source of a lot of the financial crises throughout history, and whatever goes wrong anywhere is the system, our banking system has a lot more resources than it had. I feel better about it, no matter what the problem.

00:39:08

John Donavan:
So, just to clarify, so you're saying -- your response to their point that the banking system is now a small part of the overall sector is actually, no, it's still pretty central.

Jason Furman:
It's central to the financial system, and it has this feature, that the banks borrow money very short-term and they lend it long-term, and that mismatch can create a problem. Because you got the It's a Wonderful Life-type of bank run. We've reduced the risk of that banking system, but you had that throughout the financial system, with lots of institutions borrowing things like overnight repo, triparty repo, and the like. They were putting up these securities that were terrible and junk, and then all of that collapsed. All of those part of the financial systems, the way we made securities, the way we manufacture derivatives. The way institutions -- you know, what they had to hold against them. All of that we have changed quite a lot.

00:40:06

It gets very technical and very boring quite quickly. But it's -- we don't know where it's coming next, that's why we're looking in a lot more places now than we were a decade ago.

John Donavan:
Ken Rogoff.

Kenneth Rogoff:
Well I first want to give another example in addition to what Bob said of like the next war. And I think cyber-war, cyber security is just -- we just don't know what happens when something's not -- actually, in the 2008 crisis, when one of the key dealer brokers was in the Twin Towers that covered a lot of U.S. Treasury market. They just hadn't imagined there could be that problem, so you know, that's certainly an example. But also, as you put constraints on the banking system, stuff flows elsewhere. Interest rates are very low people are looking for risks, so Federal Reserve, former Federal Reserve chair, Janet Yellen, commented on this recently. She -- the techno mumbo jumbo is, you know, coming at light leveraged loans.

00:41:11

But very risky stuff without a lot of contingencies or collateral. And I think -- I mean, obviously Neel has a lot of information on this, but I think that certainly I don't feel, as an outsider, that we know everything the banks are doing; where they're lending to someone who seems safe, you know, hedge fund or something, and then they make a really risky loan, but implicit in some way it can come back on the financial system's books. Our banking system has always been at the center of crises. But our banking system's been shrinking, and that's one of the reasons the U.S. came out faster. It's less important to our system, and these other things have gotten more important.

Neel Kashkari:
Can I -- let me break in --

Jason Furman:
But we weren't even -- Ken, we weren't even looking before. No one was looking at Lehman. Fannie and Freddie could borrow as much as they want.

00:42:03

Now we're looking at them. We may not see everything, and Fannie and Freddie can't borrow all that they want.

Neel Kashkari:
See, one of the challenges I have with your argument is that you're basically saying that this is an unsolvable problem, because the next crisis is going to come from somewhere different. And you never know where it's going to come from. So there's nothing you can do about it. We've taken the smart, rational actions, that by looking at the history of the world economy, where crises have come from in the past, made prudent measures to try to make sure that we're safer. And I feel very confident that we've taken important steps in the right direction. But to just say, "But we don't know, an asteroid might hit us." But what are we supposed to do

with that as policymakers, right? We have to make decisions based on data and analysis and history, and we've made smart decisions based on that, and the system is clearly safer. Just saying we haven't defended against an asteroid isn't very helpful.

John Donvan:
Bob Rosenkranz, is it your --

Robert Rosenkranz:
I don't think that's a fair characterization. I think what we're saying is that, to make the system safer you need to have banks that stand on their own two feet, with a failure of one big institution.

00:43:07

Neel Kashkari:
But you already conceded that capital helps --

Robert Rosenkranz:
Let me finish please.

Neel Kashkari:
Capital helps, right?

Robert Rosenkranz:
Capital helps, but once an institution fails, and it is absolutely as likely that it's going to drag the system down with it as it was 10 years ago -- and what I think the main thing that could make the system safer is if you eliminated the whole subject of derivatives. If you made over-the-counter derivatives -- simply banned them, if you didn't allow banks to own the paper of other banks, you have a lot of structural things going on in the system that, in effect, can create a domino effect, set off by things that nobody can forecast. But --

John Donvan:
Jason?

Robert Rosenkranz:
And then let me just --

John Donvan:
Bob, let me let Jason respond to some of what you said there.

Robert Rosenkranz:
Okay.

00:44:04

Jason Furman:
If you're worried that a bank will take the whole system down, they have twice as much capital as they used to have. We had no bankruptcy regime for Lehman also. There's rules if just your sort of plain vanilla industrial goes bankrupt; there's rules if a small bank goes bankrupt. We had no way at all of handling Lehman. We have one on paper now. It goes by the name Resolution Authority. They've written out a living will, all of them, what they'd do. Again, do I think it's going to be perfect? Am I sure it's going to work exactly in a crisis? No. But boy, do I feel better knowing that we have those rules now to handle the bankruptcy of a large, complex financial institution. Again, derivatives. I think you're making our point.

Robert Rosenkranz:
Do we believe those rules?

Kenneth Rogoff:
I mean, do we think they're going to allow a large bank to go bankrupt? Because the problem is they've also made it hard for the Fed to do the more creative things that it did in order to avoid that. And I think it's unclear. I think the market thinks -- doesn't believe that they'd be allowed to go under.

00:45:03

John Donvan:
Let's move -- no, go ahead, Jason, if you want to finish that point.

Jason Furman:
I think the Fed just needs to be a little bit more creative than it did last time. And if it does that, then it can do everything. And I think the market's more realistic about the banks now.

John Donvan:
So Ken Rogoff made an argument made an argument that he doesn't think that we're in safe hands these days. He didn't mention anybody by name.

[laughter]

But I think you get a sense that he feels that not only -- and Bob Rosenkranz made this -- the argument as well, that our alliances are frayed. China is not necessarily a friendly interlocutor in the economic sense. And if a crisis were to come today, they're arguing that we don't have the cool heads that would be able to handle it. Brexit, you know, also a mess, which -- a serious partner last time. So, Neel Kashkari, take that argument on.

Neel Kashkari:
I was at Treasury from '06 to '09, and people may forget, in the middle of the financial crisis, we had another presidential election in 2008, Senator McCain and then Senator Obama, that was

hardly political harmonious time.

00:46:02

I mean, I was sitting in the gallery above the House of Representatives when the House voted down the TARP the first time. I don't know if you remember. Members of congress were telling us their phones were ringing off the hook, 99 to one saying, "Don't you dare vote for this." Then the Dow Jones Industrial Average dropped 777 points that afternoon, and two days later they voted for it. Our democracy is deeply flawed, imperfect, but in moment of crisis we tend to come together, and I believe that in a moment of a future crisis -- we came together in 2008; I believe in the moment of future crisis, American history has shown that we will come together and do what's necessary on behalf of the American people. That was what I lived; that was my experience in 2008. I think it's true together.

John Donvan:
Jason, I know you're dying to talk on this, but hold on, I want to let the others respond. Ken Rogoff. And then I'll come to you.

Kenneth Rogoff:
Well, I mean, you have to have -- first of all, have guidance on what it is you want to do, and that comes from the top. I mean, so, yes, our democracy may be strong, but that doesn't mean that we'll handle it well.
00:47:00

I want to also say that we're looking not just at the United States; we have to think about the whole world. Do I feel safer about European banks? The market sure doesn't feel safe about Deutsche Bank who sells at a fraction of its book value. If something were to happen with the euro, their banks are very vulnerable. Chinese banks, maybe you say we don't care about, but we've never had a situation -- they're slowing down and could absolutely have a problem that radiates out. There are things that we can't necessary anticipate. So, you know, to sort of summarize, you can have a flood and you build -- you know, you build your moat a little higher or your seawall a little higher, but if you have global warming, it doesn't necessary mean you became safer. Our financial system's gotten much bigger by measures of total debt, total financial assets, and I --

John Donvan:
Let me -- let me just –

Kenneth Rogoff:
It's doing a great job, but it doesn't mean we're safer.

00:48:02

John Donvan:

Jason, you wanted to respond to the personality issue.

Jason Furman:
Yeah. I mean, certainly I don't -- at least speaking for myself, I'm not going to turn this into a debate for and against the people President Trump has chosen to appoint throughout his government, but the fact that we had such good people last time and had such a terrible crisis, I think makes our point. If I had to choose between the best people in the world dealing with a financial system where you weren't watching most of it, where banks were undercapitalized, where there was a huge bubble, where you were making terrible loans or households were going deeper and deeper in to debt, or a system where the rules were a lot better, you know, a lot of those indicators were better, and the people weren't quite as good, I think I'd choose the system especially since those people aren't necessary there forever and the system has a greater durability to it. So, you know -- so I, again, would sort of rather have the hand we have now.

00:49:02

Plus the Fed play an enormous role in this. The U.K. government has excellent regulators who are completely focused even while all this craziness is going on over there. China, you know, it's certainly a rift. Last time around, it did a huge fiscal stimulus. Part -- it suffered from the crisis much less but they have $3 trillion in reserves, huge amount to control over their economy.

John Donvan:
Okay. I want to ask Rob Rosenkranz if what you just heard calmed your concerns.

Robert Rosenkranz:
No.

[laughter]

Because I think they're focused very, very narrowly on banks. And, yes, they've created a regulatory environment where banks are doing less of what banks typically do. Why do we need banks in the first place? We want them to make loans to businesses so that the businesses can grow. We want them to make loans to consumers so that the consumer can continue to support the economy.

00:50:00

We want them to make markets in securities, so we can have orderly markets in times of both boom and bust. Well, they said the banks can't do that, or they can do much less of it. Does that mean the system is safer? No. Those risks and those activities are simply migrating elsewhere. We have as big a portfolio in the system of loans than we ever had. It's just that the banks don't hold them. But those loans are at record high relationships to corporate earnings. They are covenant lite now so that the lenders don't even have -- the lenders don't even have the same degree of protection they had a decade ago. And all of these risks that, yes, they may have pushed out of the banking system, are still very much a part of the financial system and could fill against us in ways that I think we're less equipped to deal with now than we were a decade ago.

00:51:09

John Donvan:
Okay, I want to go to audience questions please.

Van Greenfield:
Hi, Van Greenfield [spelled phonetically]. My question is for Professor Rogoff. You mentioned very briefly increased debt. I remember when interest rates ran short-term, 17 or 18 percent. What would be the impact, in terms of your arguments here, of interest rates quadrupling from where they are now in terms of the impact on the system?

Kenneth Rogoff:
I mean, I think if global inflation adjusted interested rates quadrupled, everything would blow up. Even the United States would have a very hard time handling that. That is extraordinarily unlikely. But, if they went up one and a half percent, Italy could blow up.

00:52:01

Their rates, risky lenders go up a lot more. That's the mother of all risks out in the system. We've had them trending down. It's quite possible. I'm talking about global inflation adjusted interest rates. It's likely they'll go down as up, frankly. It's not obvious what direction. But we're not a hedge fund. We're trying to, you know, take into account outside risk. Giant financial crisis do not happen every three years. Although, we're doing somethings to engineer that with deregulation that's happened. And by the way, deregulation isn't just about the rules. It's about who's enforcing the rules. And when you appoint regulators outside the Federal Reserve, who are sort of, not enforcing the rules, and the way it's done in the financial system is not very different than the Environmental Protection Agency, you know, you can get problems.

John Donvan:
All right. I do want to go to a question, but I'd like you to respond, because I think something new was introduced from -- by your opponents as another risk they're talking about that represents a vulnerability, they're saying, in your argument, and that's that the regulations are not being enforced by the chickens regarding the hen house.

00:53:10

More or less, they're saying in some situations, Neel.

Neel Kashkari:
I mean, I haven't seen any evidence that that's true. I travelled around my region all the time. I meet with banks who are always saying that the regulations are too tough. Again, I want to be tougher on them yet, but so far, we're not hearing banks that are not -- they're breathing a sigh of relief that now all of the sudden people have taken it easy on them. So, you can make that assertion; I just don't see any evidence.

John Donvan:
Ken, were you referring to banks, or we're you referring to non-bank?

Kenneth Rogoff:
The whole financial system. But with banks, the question, "What are they doing that you don't know where their implicitly guaranteeing things outside their system that could come back on their books?"

Jason Furman:
Yeah, I think -- I mean, I think I'm a little bit more sympathetic to Ken's point. And I think that's a little bit in the vain of, I told you before that we now have these rules that if an institution is systemically important, if it can bring the whole system down, we're allowed to regulate it.

00:54:06

That's not something we had before. The Obama administration used that tool quite actively. This administration I think has used it less actively. That makes me nervous, but that again sort of makes our point that we have zero before the crisis. Now we have this new tool, and we're using it half as well as I'd like us to use it. The next administration could use it even more. And even the half we're doing now and the fact that it's on the book is better than if we didn't have that tool at all.

John Donvan:
Okay. Goes to another question.
Joleen Kraten:
This is more – oh, sorry. Joleen Kraten [spelled phonetically]. So, this is more for the team that is for the motion. It sounds like you're saying it's less likely that we'll have a financial crisis given new systems and forms of oversight that put into place. My question then is, what if there is a crisis? Do you feel that the system can effectively deal with this given the current administration and Congress and so on?

00:55:00

John Donvan:
Thank you for that question. So, that does go to the question of, can we put out the fire if the fire starts?

Jason Furman:
I think we have better tools than we had before. As Neel said on fiscal and monetary policy, we're in about the same place. With fiscal policy, you know, I'm worried about our political system too, but somehow, we managed to do a massive fiscal stimulus last year when we didn't need one. If we really do need one again, I'll bet we can get around to it. You have these rules that let you handle the bankruptcy of a large financial institution. You have central banks that communicate with each other across countries and share resources in a way that they didn't use to before. The IMF has twice the resources it had to fight a fire. Europe has a brand new, you know, €700 billion to fight it. So, I think we have more tools to fight a fire now. It'll still burn down some houses, but fewer than it did last time.

00:56:00

John Donvan:
Okay, right down here.

Bob Young:
Good evening. My name is Bob Young [spelled phonetically]. And my question is with regard to OTC derivatives moving onto clearinghouses. And while that is good in terms of transparency, does -- what are your thoughts with regard to it concentrating the risk within those clearinghouses? Particularly when you think about Ken's point around cyber-risk.

Neel Kashkari:
I think it's a fair point. I think there's a lot of scrutiny in these new clearinghouses, from regulators to look at making sure that they have the resources that they need, that they are netting these positions against one another so that they're reducing the exposure that they themselves take. Do I think it's perfect? No, but are we better off having these clearinghouses with this transparency than we were 10 or 15 years ago, when it was the Wild, Wild West? I think unquestionably we're better off than where we were 10 or 15 years ago. So, I'm not satisfied that we're done, but I feel very confident that we've made progress. In terms cyber, when I look at cyber, it's an arms race.

00:57:00

The bad guys are investing in new technology every day. So are the good guys. My best assessment is we're still roughly neutral. The bad guys have made progress. The good guys have made progress. The arms race is about where it was 10 years ago, though the tools are probably different.

John Donvan:
Assess -- for the team arguing against, assess where the cyber threat figures into your argument.

Kenneth Rogoff:
Yeah, I mean, the risks of cyberwar with the financial system being at the center of it, with Russia, North Korea, Iran, and China being players that the U.S. Intelligence worries about a lot, this is actually going on all the time behind the scenes. And suppose it paralyzed some bank and everybody became panicked that their deposits are going to get erased or pension funds getting worried about; I mean, it could set off just a massive panic, and not that easy to fix, because the Fed can say, well we'll promise we'll guarantee your deposit. But wait a second. We don't see a deposit for you anymore because of the cyber problems.

00:58:04

I mean, I think it's -- this is a new age problem. I'm sorry, but I think it's, you know, quite a significant –

Robert Rosenkranz:
I'd like to add to that. So other emerging financial technologies that in my mind have made the system more dangerous. For example, so much money now is in ETFs that operate on autopilot way, and that's true in investment-grade bonds; it's true in below-investment-grade bonds; it's true in bank debt. So, you've got -- and it's true in spades in equity where so much money now is simply indexed and expressed in ETFs that are completely on autopilot. And the world has this illusion that they -- that everybody owns a liquid instrument.

00:59:00

But when these intermediaries try to find liquidity to meet redemptions, that's when the system gets in trouble. And yeah, they've made the banks safer by not allowing the banks to participate in getting us out of trouble.

John Donvan:
Neel Kashkari to respond?

Neel Kashkari:
The point about cyber and these different actors, again, so many of our worthy opponents' arguments, to me, keep coming back to, there are these risks that are unknown. And we haven't protected against the unknown. I agree; we have not protected against the unknown. That's why I make the joke that it's like an asteroid hitting us. We haven't protected against the asteroid. We have to take action on things that we can see, that we can learn from the past, that we can measure, and that we can analyze. That's all we can do as policymakers. And given the risks that have hit the global financial system in recorded history, we've taken the prudent steps to make the system safer. But can we dream up risks that we haven't thought of? Sure, but I don't know what you do about --

01:00:01

Kenneth Rogoff:
So, let's pick one you've missed, which is the ratings agencies just haven't been fixed. And the rating agencies are --

John Donvan:
Explain to the layperson what the rating --

Kenneth Rogoff:
Standard and Poor's, and Moody's basically give ratings to bonds. They were big players in what happened in the last natural crisis.

John Donvan:
For -- if you were --

Kenneth Rogoff:
[unintelligible]

John Donvan:
-- it would be like getting your credit score.

Kenneth Rogoff:
Yeah, they said some of these things were really safe that weren't. These complex Rube Goldberg-type things that the financial sector created. And they still really have not addressed the problem that's had -- who pays for these ratings. It's the borrowers pay for the ratings, and so that's a --

John Donvan:
Okay, so that's not an asteroid case that Ken is presenting to you.

Jason Furman:
Yeah, I agree. No, if I -- a lot of financial reform advocates had a list of probably about 10 things they wanted fixed. We had that derivatives question before about the clearing houses. You know, a lot of people were advocating for derivatives moving to clearing houses for a long time from the public policy community.

01:01:02

The financial institutions didn't like it; lobbied against it, and after the crisis we stopped listening to the financial institutions and we started listening to the experts and we made the system a little bit safer. If you listed the 10 things that were in that category, I'll see you on ratings agencies -- that's something we commissioned to study in Dodd-Frank. And I think the study was done, not much was done. The other is the regulation of insurance; it's still done at the state level, not the national level, but those are sort of two out of the 10 things that experts wanted to see fixed that I think, you know, weren't addressed in Dodd-Frank.

Neel Kashkari:
But it's the same as it was 10 years ago. So, that's an example where it's neutral. It was a problem 10 or 15 years ago, it's still a problem today, but we've made progress in other areas. So, on the whole the system is safer.

Kenneth Rogoff:
But the system's bigger. You had a continued, booming growth in the financial sector.

John Donvan:
Okay, I wouldn't go on, because we are getting a little repetitive on some of that points.

01:02:04

Jason Furman:
Well, let's --

John Donvan:
So, I just want to get a little bit more.

Jason Furman:
Okay.

Female Speaker:
Hi, my name is Brooke [spelled phonetically]. My question is for all four of you. In regards to the $1.5 trillion in student -- in student debt outstanding, if default rates were to rise in the U.S. government and the financial system, are they prepare to deal with that? And what are the greater ramifications of the U.S. economic growth and the ripple effects in the global economy given that students now aren't starting families and they're not buying houses like they were before --

John Donvan:
I'm --

Female Speaker:
Neel, you referred to -- yeah?

John Donvan:
So, the second part of your question is more in regards to the impact on families, but our debate is really about the global system. I think the first part of your question lands perfectly. So, if you don't mind, I'd like to have them address that part of it. You good with that?

Female Speaker:
Absolutely. Yeah. I think that's the asteroid Neel was talking about.

John Donvan:
But I think he's going to say it's -- well, they're going to say it's not an asteroid. But go ahead.

Jason Furman:
Yeah, it's -- I think it's a very simple answer to your question.

01:03:01

There's a lot of problems for households for families. We can talk about those another time. Almost all of the student debt are guaranteed by the government. So, if people don't pay, it's not going to take down the financial system or cause a financial crisis. That's not to say it isn't a big deal for those families, but it's nothing like mortgages, which weren't guaranteed, and did take down the financial system. These are guaranteed and it's also a lot smaller than mortgages; I think mortgages are about $8 trillion.

John Donvan:
Would the other side like to respond to the point?

Robert Rosenkranz:
I would agree with that.

John Donvan:
You agree with that, okay. Okay. Fair enough to concede. Okay. Let's go back, right down front, sir.

Brian Oglesov:
Thank you. Brian Oglesov [spelled phonetically]. The question is for President Kashkari. You were talking before about the political will. If we were to confront any similar sized magnitude financial crisis in the future, I think we've already heard Hank Paulson and Ben Bernanke fretting openly that it's unlikely, as successful retrospectively as TARP was, it would be politically infeasible given the fact that it gave rise to the Tea Party and probably President Trump.

01:04:09

What's your level of confidence that we would be able to marshal necessary resources?

Neel Kashkari:
Obviously it's hard to know for sure, but I read a lot of American history. And the more American history that I read, the more I realize that political dysfunction is actually the norm. We've had a lot of political dysfunction in our nation's history, and I'm not just talking about the Civil War; other times. And our country has a capacity when the country's on the line for people coming together and putting their country before their own immediate political

interests. You know, a lot of members of Congress who voted for the TARP paid for it with their seats. They didn't get reelected as a result of it. And so, again, it's -- I wish I could tell you with 100 percent certainty that I know the political future. I don't, but I do have a lot of confidence in our overall system. I do have a lot of confidence that people do come together and put their country first when the stakes are this high.

01:05:00

John Donvan:
Let's let the other side respond to that question of political will. Robert?

Robert Rosenkranz:
Well, I think you've -- in a way, you've made our point. Bailing out banks or bailing out financial institutions is never politically popular. It may be the smart policy thing to do, but it's never politically popular. And the fact that people who did vote for it last time, a lot of them lost their seats -- you talk about what lessons have learned. Well, people in Congress have learned we don't want to bail out financial institutions. And the feds' powers to do that have actually been truncated by Dodd-Frank. So, I think we are -- have less political will to deal with these kind of crises than we would have had then.

Jason Furman:
Very quickly. Yeah. Super-fast. Two days before TARP passed, TARP couldn't pass. The market, as Neel said before, crashed, and that forced a set of action.

01:06:02

I think it's really hard to predict Congress. I've been watching it for a while, and it constantly surprises me, occasionally even on the upside.

John Donvan:
We have time for maybe one or two more questions.

Miles Fallon:
HI, I'm Miles Fallon [spelled phonetically]. I have a question for Professor Rogoff. Earlier, you mentioned populism, and with more and more countries such as Brazil or Italy, both major economies, falling into populism, how will that affect the global economy and the system?

Kenneth Rogoff:
Well, I mean, I think, you know, each case is different [laughs]. I think it makes it harder to respond, certainly in the case of democracies. And I admire Neel's contributions and his deep belief in the -- you know, how powerful our country is, but, I mean, you know, as Winston Churchill said, Americans, you know, always do the right thing after they try everything else first.

01:07:01

[laughter]

And I think it might be many years of trying everything else first, in this case.

John Donvan:
Neel or Jason, I'll give you 15 seconds.

Neel Kashkari:
Well, just imagine the cyber example that Ken talked about. Something we never thought of, it just hits us. North Korea hacks all of our banks. If North Korea hacks all of our banks, you think Republicans and Democrats aren't going to come together to save our system? If it's something like that? Of course they are. And so the more it's one of these asteroid events, the more likely our political system is going to come together and people are going to rally, because it's something none of us had thought of.

John Donvan:
And that concludes round two of this Intelligence Squared U.S. debate --

[applause]

-- where our resolution is, 10 years after the global financial crisis, the system is safer. Now we move on to round three. Round three. Our closing statements by each debater in turn. These statements will be two minutes each. Speaking first in the closing round, for the resolution, 10 years after the global financial crisis, the system is safer, Jason Furman, former chairman of the Council of Economic Advisers under President Obama.

01:08:02

Jason Furman:
We've had a lot of discussion about the political system. That's why it's so important to me that it's less likely that we're going to be in that position. Neel and I talked about five different areas, three of them indisputably safer; two of them, you could argue either side; I think largely neutral. Our opponents have tried to say we're just talking about the banking system. First of all, just talking about the banking system is just talking about the main source of crises for hundreds of years. We're also looking at derivatives, money market mutual funds, Fannie & Freddie, throughout the financial system. But I want to step back and talk about one thing that goes beyond those five arguments I think is particularly important: the Great Depression. Unemployment rate went to 25 percent, output fell 30 percent. The global financial crisis was bad; it wasn't nearly as bad as that. The unemployment rate went to 10, output fell by 5 percent. Why not?
01:09:02

In part, it's because we made the system safer. We put in place things like deposit insurance. But we also learned a lot. And people like Ben Bernanke and Christina Romer were students of the Great Depression, and they wanted to make sure it didn't happen again. And one of the lessons they learned is, you needed to do fiscal policy, you needed to act bigger. We learned a lot from the Great Recession. Again, we didn't learn enough; we've forgotten a little bit more of it than I wish we had. But we learned a lot, and the next time we get into this, we're going to have those memories. We're -- I think we're going to act more vigorously, independently of the Fed. They're still excellent. We're going to act more vigorously on fiscal policy. And if the system isn't safe enough, it's because we need more of what we've done, not less. If you have a problem with where we are today, you need to identify how to fix it. And what I'd submit is, every single one of the fixes is, let's finish the list that we didn't get to, add to what we did, learn the lessons, and with all of that we are definitely safer today.

01:10:07

Thank you.

[applause]

John Donvan:
Thank you, Jason Furman. And that's the resolution: 10 years after the global financial crisis, the system is safer. Here to make his closing statement against the resolution, Robert Rosenkranz, chairman of Delphi Capital Management, chairman, Intelligence Squared, U.S. foundation.

Robert Rosenkranz:
So, I don't ask for your vote because I'm the chairman of Intelligence Squared.

[laughter]

I don't ask for your vote because I'm an amateur who got into the ring with professionals on no notice.

[laughter]

I ask for your -- for your vote because I think we made a better case. And the case is simply that the world has evolved in ways that is more dangerous. There is more money on autopilot, in ETFs, in index funds, than there was a decade ago. China is a much bigger player in the global system than it was a decade ago.

01:11:01

Mass psychology expressed through algorithmic trading and algorithmic portfolio strategies is a much bigger force than it was 10 years ago. And the migration of risky assets away from banks to other places in the system doesn't make the system safer; it makes the system harder to manage. And finally, what about the political will or the political ability to respond? Well, that required a high degree of technical expertise, a degree of political coordination, and a degree of international coordination that just seems, to me, to be far less likely today than it was 10 years ago. So, if you agree, please vote our way. Thank you.

[applause]

John Donvan:
Thank you, Robert Rosenkranz.

01:12:00

The resolution, again, 10 years after the global financial crisis, the system is safer. Here making his closing statement in support of the motion, Neel Kashkari, president of the Federal Reserve Bank of Minneapolis.

[applause]

Neel Kashkari:
Thank you. Thank you, everyone, tonight. People often ask me, what was the financial crisis like for those of us who were there, in the middle of it? And the only way I can describe it is, it felt like we were at economic war. Every second of every day, what motivated us was trying to avoid the Great Depression scenario that Jason talked about: 25 percent unemployment. Imagine your ATM not working. Imagine you go to work, but they can't give you a paycheck. How do you then pay your bills? How do you pay your mortgage?

[laughter]

Right? How do you -- yeah, exactly. Sorry.

[laughter]

I didn't think about that. How do you put food on the table? So, what motivated us every second of every day was, how do we keep the system together one more day? I was working seven days a week, sleeping in my office, it went on month after month after month.

01:13:02

And I never ever, ever want to face something like that again. For my own sake, for the country's sake, given what was at stake. Having been through that personally, I can tell you without reservation, we are better off today than we were 10 years ago. For all the reasons that we talked about. The banks, the non-banks, all the other regulatory issues. The system is just stronger and safer than it was 10 or 15 years ago. I wish, going into that crisis, that we had the tools and the capital and the systems and the structure that we have today. We didn't have it, so we had to use belts, suspenders, duct tape, everything we could think of, to try to get through that crisis. And we got through it, but we're better off today. And for that reason, Jason and I very respectfully are asking for your vote in favor of them motion. Thank you very much.

[applause]

John Donvan:
Thank you. Thank you, Neel Kashkari. And our final speaker will be making his closing statement against the resolution. Here is Kenneth Rogoff, Economist and professor at Harvard.

01:14:02

Kenneth Rogoff:
So our -- thank you. Our esteemed opponents, I think, have made a lot of good points, but they wanted to frame the question, not, are we safe, but, are we safer? I don’t actually think that’s the right way to look at it. I’d say thanks to actions of theirs and some of the people we’ve talked about and under President Obama’s administration, we are safer than we would be had they not taken those actions, but it doesn’t mean that the system which has grown inexorably larger, more internationalized problems in other places is necessarily safer than it would be otherwise. And we were asked, well, what would you do? And I’m going to state what Bob said a little bit differently, but there is a wonderful book by Anat Admati at Stanford and Martin Hellwig, who is Swiss, called the “Bankers’ New Clothes”; I highly recommend it do you.

01:15:03

And they basically make the argument that you should have banks have much more of their own skin in the game, and in response to others, twice as much equity as there used to be, Anat’s response to that is, you know, twice nothing is still nothing; there’s very little, and another analogy she uses is, okay, we used to have trucks loaded with stuff travelling at 100 miles per hour. Now there’s trucks loaded with more stuff and they’re only driving at 95 miles an hour, but it’s not a very safe system. I wish I could tell you, you know, that you should sleep better at night, but I don’t -- I’m afraid that we live in this very uncertain world, and I have to come back to the Trump argument, which is simply, we don’t have a safe pair of hands. I wouldn’t feel good in any kind of crisis. Thank you and -- thank you.

01:16:03

[applause]

John Donvan:
Thank you, Ken Rogoff, and that concludes closing statements for this Intelligence Squared U.S. debate. I want to make the point that the purpose of Intelligence Squared is to elucidate and

illuminate complex, tough subjects where there are valid arguments on both sides, and to do so in an atmosphere that is civil and respectful and informative, and that depends on real facts and depends on logic and persuasion and also some charm, and I think all four of the debaters tonight brought all of that, and so I want to thank them for the way that you presented these arguments tonight.

[applause]

And we all met Gideon Rose in the beginning of the debate when we chatted about our partnership with Foreign Affairs. I just wanted to say it’s been such a pleasure working with Foreign Affairs to get this debate up and running, so one more time, I just want to say thanks to Foreign Affairs for that.

[applause]

I want to ask a question actually, of Neel, since we have you here.

01:17:03

And it's -- we're really pleased to have somebody who is actually a player in the middle of the game right now, with your position at the Federal Reserve Bank in Minnesota. We talked a lot about interest rates tonight, and it came up a number of times in a number of different contexts -- just for the context of where we are now. The Fed -- in last year -- raised three times, and they're arraigned now up to 2 and a half percent, at the end of its -- sorry four times last year, three times in 2017. You voted against them every single time. And we're just interested to know, what would it take -- what conditions would it take for you to change your mind?

Neel Kashkari:
Well, the big surprise we've had is, we kept thinking that we're at maximum employment. Everybody who wants to work is able to find a job, but then month after month, all these Americans are coming off the sidelines. I want to see evidence that we're actually there -- wage growth picks up, we really know that, "Okay, we're finally at maximum employment" and then that leads to inflation.

01:18:04

So I'm not opposed to rate hikes, ever. But I want to see evidence that the U.S. economy is finally hitting on all cylinders. Everybody is able to find a job who wants to find a job. When that happens, it'll be time for me to then go ahead and raise rates.

[applause]

[laughter]

Thank you.

John Donvan:
I now have the results of your vote. The resolution is this: 10 years after the global crisis, the system is safer. Remember, it's the difference in the second vote that determines who is our winner. On the first vote, in the resolution, 10 years after the global financial crisis, the system is safer. On the first vote 29 percent of you agreed with this resolution, 49 percent disagreed, and 22 percent were undecided. On the second vote, the team arguing for the resolution, their first vote was 29 percent, their second vote was 35 percent. They picked up 6 percentage points, that's the number to beat.

01:19:00

The team arguing against the resolution, their first vote was 49 percent, their second vote was 57 percent, they pulled up 8 percentage points, they just nicked out a victory on that, the team arguing against the resolution. Our congratulations to them.

[applause]

Thank you from me, John Donvan, Intelligence Squared U.S., we'll see you next time.

[applause]

01:19:33

[end of transcript]

This is a rough transcript. Please excuse any errors.