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March 26, 2008, 9:00 am

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Secondary Sources: Innovation, Liberalization, FDR to the Rescue

A roundup of economic news from around the Web.

- **Financial Innovation:** Writing for Project Syndicate, **Robert J. Shiller** says we shouldn't be so fast to dismiss financial innovation. "While it does sometimes appear that the current crisis is due, at least in part, to financial innovation, financial-market liberalization has been shown to be a good thing overall. A study published in 2005 by economists **Geert Bekaert, Campbell Harvey, and Christian Lundblad** found that when countries liberalize their stock markets, allowing them to operate freely without government intervention, economic growth rises by an average of one percentage point annually. The higher growth tends to be associated with an investment boom, which in turn seems to be propelled by the lower cost of capital for firms."
- **Death of Liberalization:** **Martin Wolf** of the Financial Times takes another tack, and says the collapse of **Bear Stearns** marks the day the dream of global free-market capitalism died. "The implications of this decision are evident: there will have to be far greater regulation of such institutions. The Fed has provided a valuable form of insurance to the investment banks. Indeed, that is already evident from what has happened in the stock market since the rescue: the other big investment banks have enjoyed sizeable jumps in their share prices. This is moral hazard made visible. The Fed decided that a money market 'strike' against investment banks is the equivalent of a run on deposits in a commercial bank. It concluded that it must, for this reason, open the monetary spigots in favour of such institutions. Greater regulation must be on the way."

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• **The New New Deal:** Daniel Gross, writing for Slate, says that Roosevelt-era reforms are saving capitalism again. “Despite sustained efforts to tear down the New Deal—from the repeal of the **Glass-Steagall Act** in 1999 to **President George W. Bush’s** ill-fated 2005 efforts to dismantle Social Security—the 1930s-vintage infrastructure has proved remarkably durable... Although the **Tennessee Valley Authority** has yet to pitch in, four 70-year-old agencies are helping to cushion the blow of the housing bust.” He illustrates roles played by the **Federal Home Loan Bank system**, the **Federal Housing Authority**, **Fannie Mae** and the **FDIC**.

Compiled by [Phil Izzo](#)

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