Duke panelists: Financial rules, bailout plans lacking

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Lax regulation and complicated accounting contributed to the U.S. financial crisis, and the current bailout plan likely won't do enough to fix it.

Those were among the perspectives shared at Duke University on Wednesday when President Richard H. Brodhead convened business, law and politics professors to discuss the financial storm and what to expect in its aftermath.

LEADING UP TO TURMOIL: "The industry, in typical fashion, said, 'The market provides its own discipline. We can be honorable boys and girls here. We can police ourselves,' " said James D. Cox, a professor of law.

So not only was too little oversight in place, but in some cases regulations were applied inequitably or not enforced, panelists said.

What's more, accounting rules allowed "unrecorded obligations to flourish" off the balance sheet, further obfuscating the true picture of banks' operations, said Katherine Schipper, an accounting professor.

ON THE BAILOUT: The panelists said the plan has flaws. Cam Harvey, a finance professor, was most forceful, saying he would lose no sleep if the bill before the Senate failed.

"It's such a mess," he said. "They tossed stuff into it like tax credits for alternative energy, which is important to me. But not right now."

The $700 billion bailout is troubling on the whole because it is "bad policy to greatly overpay for these flawed assets, and it takes too long to implement."

Harvey has written a paper outlining several other options. Among them, he said, the government should take small equity stakes in financial institutions to provide the liquidity they need to get back on their feet.
ON THE FUTURE: Around the world, there have been 42 banking crises during the past three decades, many bigger than the one the United States faces, said Craig Burnside, an economics professor. However, this likely will hurt the nation's reputation going forward, Harvey said.

"Given this episode, investors look at the U.S. differently," he said. "It used to be the ultimate safe haven. There's plenty of reason to believe that the risk of the United States has increased."

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