

Speech 10 minutes
Swedish Consulate
New York City

When Ambassador (Ulf) Hjertsonsson invited me to speak tonight, he mentioned just two requirements: One was to be funny. The other was to focus on the financial crisis!

About the crisis: A former Polish president told the following story in Rio last week: A Rabbi is asked to say, in a word, how the economy is: “Good” he said. And if you had two words? “Not good.”

Another crisis story tells of the man who found on the ATM machine the announcement “No funds.” He wondered: Was it his account that was out of funds? Or the bank?

The last story is actually instructive. Two people were talking at a cocktail party and one says: “So you’re a banker. Can you make a living at that?”

It is a normal feature of a recession that there is a plunge of asset prices – some asset prices if not all of them. There was a tremendous downward slide of share prices in the U.S. between the late 1960s and the late 1970s. This was followed by a truly frightening rise of the unemployment rate – a far greater rise than we have witnessed so far in the present downturn.

The complication in the present recession is that the banks had become greatly overextended: they had borrowed hugely, mostly in the form of short-term liabilities in order to increase their assets – to “leverage their capital.” As a result, when housing prices (and later the prices of commercial structures) were falling back to earth, there were major declines in the values of the mortgage-related assets on the books of the banks.

The bright side is that that it will surely be possible to help the banking industry to its feet.

-- Another injection of capital may be judged necessary
-- It is likely to be necessary for the government to take on all or most of the hard-to-value “toxic” assets on the banks balance sheets.

The difficulty is that we don’t want to restore the banking industry to its former self. The old “business model” of the banks was found to be unprofitable. So the banks kept taking on greater leverage, thus greater risk, to try to rack up the target level of profits.

In the post-crisis world, the leverage of the banks will have shrunk, so they will supply far less credit to the economy in aggregate. And new financial firms will have to be allowed and positively encouraged, so that the non-bank sector can supply more credit – replacing the cutback at the banks.

I hope that this restructuring of the financial sector will be part of a reorientation of finance away from supplying mortgage credit, particularly residential construction, and toward supplying credit to the business sector: for business investment and business innovation. In America we badly need to get in touch again with our cultural roots:

To begin with, we must recall that, over nearly all of our history, the American dream did not mean owning the flat or house one lived in. (A real estate firm might own one's home, while one owned bonds and shares instead.) It meant having a gratifying career – one of personal growth and attainments. We used to acknowledge that this was our broad experience in this country. We understood that ordinary people were going to depend on their working lives for mental stimulation, a succession of problems to solve, opportunities for exploration and, perhaps, chances for discovery – if they are to have any such rewards at all. A few of us can find such rewards at home or through a life in science or the arts that is somehow outside the economy (to the degree that is possible).

Furthermore, we have to recognize that providing this vitality and personal growth in the workplace – and doing so for the largest possible number of working-age people – will require an economy of “dynamism” with “inclusion.” And an economic system based on some form of capitalism has been the most successful so far in delivering dynamism and inclusion.

If we succeed in restoring the American economy to this function, Americans will not only find higher levels of engagement and various satisfactions at work – levels such as they enjoyed in the golden age of capitalism from the 1820s to the 1910s, and briefly, once or twice thereafter, as in the Internet boom of the 1990s; Americans will enjoy higher levels of employment and productivity as well.

This may be a long journey. But it is crucial to the country that we undertake it.

Thank you very much.