

## Yale Program On Financial Stability Analyzes Sources And Consequences Great Recession

September 2018 marked the 10th anniversary of the collapse of Lehman Brothers and the beginning of the acute phase of the global financial crisis. For the [Yale Program on Financial Stability](#) (YPFS), the anniversary was an opportunity to expand its efforts to understand the crisis.

YPFS, led by [Andrew Metrick](#), the Janet L. Yellen Professor of Finance and Management at Yale SOM, was founded in 2013 to gather and preserve knowledge about the causes of financial crises and the tools for responding to them, and to disseminate that knowledge—in short, to prepare for the next crisis.

Since 2017, the program’s central project has been the New Bagehot Project, named for Walter Bagehot, the 19th-century writer whose book *Lombard Street* is the foundational text of modern central banking and financial crisis management.

Bagehot “gave advice to central bankers that is regularly cited even today,” says Metrick. “Which is that in a panic, you should lend freely on good collateral at a penalty rate. That’s what he told central banks to do, and that’s one thing central bankers can recite back to you. But the world is a little more complicated than when he gave that advice in 1873.”

The New Bagehot Project aims to build on Bagehot’s core insight by collecting information on the interventions carried out by policymakers during past crises and assembling a “wartime” playbook for future interventions. “In principle, we want to go back to the beginning of time, because there’s things you can learn from all financial crises,” Metrick says. “In practice, recently, we’ve been taking full advantage of the fact that memories are still somewhat fresh for the global financial crisis, and we’ve been trying to extract lessons from government interventions in the recent global financial crisis all over the world.”

The YPFS team has also worked for the last year on a narrower examination of how the U.S. responded to the global financial crisis, in partnership with three of the principal leaders of that response: Timothy Geithner, who served as president of the Federal Reserve Bank of New York and then the Secretary of the Treasury during the crisis, and is chairman of the YPFS advisory board; Ben Bernanke, the former chair of the Federal Reserve; and Hank Paulson, who preceded Geithner as Secretary of the Treasury. The project included a [conference at the Brookings Institution in September marking the 10th anniversary of the Lehman collapse](#) and will result in a book with contributions from Geithner, Bernanke, and Paulson. Each chapter will focus on a different aspect of the government’s various crisis interventions—one considers the efforts to address the failure of nonbank financial institutions, for example, and another explores the decision to place Fannie Mae and Freddie Mac in conservatorship—and is being written, with research support from YPFS, by the officials who executed those interventions.

The YPFS team also collaborated with the Group of 30, an assembly of current and former central bankers and other financial leaders, on an effort to assess the current state of readiness across all of the nations of the world for fighting the next financial crisis.

Through interviews with leaders in the public and private sector, the YPFS staff helped examine the new laws and regulations that have been put in place over the last decade. “We gave more powers in some places. We took away powers in other places. How ready are we if the next crisis were to hit today?” says Metrick.

The resulting report, issued this fall, is titled [\*Managing the Next Financial Crisis: An Assessment of Emergency Arrangements in the Major Economies\*](#).

Christian McNamara, director of the New Bagehot Project and a YPFS senior editor, says that the Group of 30 project provided an opportunity to look at an important facet of financial crisis management.

“As we focus on the question of how best to fight financial crises once they’ve emerged through our work on the New Bagehot Project, it is important not to lose sight of the fact that the ability to respond to crises is shaped by the legal powers that authorities are given,” he says. “We were therefore delighted to serve as the project directors for the G30’s report on the current state of these legal powers. Examining what works and whether authorities have the power to do what works are both critically important, and it was a natural fit for us to combine our efforts on the former with the G30’s vital contribution to the latter.”

Ten years after the crisis, many contemporaneous materials are already disappearing from the internet. As part of its efforts to preserve information about the crisis, YPFS is building a repository of such material called the [Financial Crisis Archives](#).

“The Financial Crisis Archives is an adjunct to the other work that we do at YPFS,” says Rosalind Wiggins, who directs the effort. “We’re collecting important primary and secondary documents relating to crises so that they will be available in one place to policymakers, scholars, and others, even when the originators choose to no longer post them on their websites. The archives can be assessed directly from the YPFS website and later will be also accessible through our New Bagehot interface and other materials that we create. In the midst of a crisis, policymakers will be able to quickly see how important programs were designed and implemented.”

In parallel, Wiggins is overseeing the Global Financial Crisis Project, a set of resources for anyone interesting in learning about the financial crisis in non-technical language. It includes lectures by Metrick and Geithner for their Yale course on the global financial crisis, which are also [available through Coursera](#).

“Much of our work is directed towards policymakers and scholars, but the average citizen also is an important stakeholder in crises and their outcomes, as a taxpayer, consumer, employee,” Wiggins says. “With the Global Financial Crisis Project, we want to reach beyond our initial important audiences to increase knowledge of this significant historical event among educators and the public in general. We hope to do this by developing a series of easy-to-use and relatable curricula and self-learning tools that will be free and available to all.”

YPFS continues additional efforts to disseminate its research on the financial crisis and build a global community of regulators and policymakers. Each summer, the program hosts the annual Systemic Risk Institute, a two-week master class for economists employed by central banks and regulatory agencies; the Financial Crisis Forum, which gathers senior leaders; and an academic conference. Another group of regulators is studying financial stability policy, monitoring, and the management of financial crises full-time, in the one-year [Master’s Degree in Systemic Risk program](#), created in 2017 and aimed at early- and mid-career employees of central banks and other regulatory agencies.

All of these activities are aimed at creating a base of knowledge, so that societies are not caught off guard when the next financial crisis hits. “One of the main problems with fighting the last financial crisis was we hadn’t really learned from the past in any systematic way,” Metrick says. “With all of these various projects that we’re doing, we’re trying to collect that knowledge so that going forward, that can be used as part of training and education for people, and we won’t repeat mistakes of the past the next time.