Not just politics….

- Regulators had the powers and the evidence, did not act
- Why not? Perhaps ‘home field advantage’
- To prevent recurrences, need instant replay for regulators

Clear Warning Signs

- Destruction of information, skewed incentives (Ninja loans, leverage, record growth, pay levels, etc)
- Housing bubbles (US, Ireland, Spain, etc)
- Regulatory abdication across countries…including those in continental Europe

Were the Irish unlucky victims of the U.S. collapse?

We don’t think so.
And they don’t either: “the crisis was entirely homegrown.”

Patrick Honohan,
Governor of the Central Bank of Ireland

Irish crisis was not unforeseeable

The root causes were:
“a regulatory approach which was and was perceived to be excessively deferential and accommodating …”
an unwillingness by the (regulator) to … “rock the boat” or “spoil the party” …

Governor Patrick Honohan
Central Bank of Ireland

Regulatory Bias Seems to Continue

- Regulators missed the Whale (not even close)
- Bank of Spain and audit allegations
- Standard Charter/Iran – federal regulators deferred
- LIBOR lies – “Through all of my experience, what I never contemplated was that there were bankers who would purposely misrepresent facts to banking authorities,” Alan Greenspan.

Why is there a home team advantage?
Is it human nature?
Officials are not necessarily corrupt, but human, and sub-consciously please the home crowd.
- Officials do not *reluctantly* change their *stated* views
- They *genuinely* adopt the crowd’s view
- Conformity changes their *actual* perceptions

The financial services industry has the home field advantage.

Lessons from sports
Electronic monitoring of balls and strikes, the challenge flag, and instant replay.
Reduce bias … *ex ante*!!

How can we fix the system?
The public needs an informed, expert, & independent assessment of regulation. We need…
- Accountability
- Reduce importance of revolving door, political influence
- Avoid the comforting allure of simplistic ideologies
- Permit an informed debate
- Reduce bias