The Global Crisis: Why Regulators Resist Reforms

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Summary

This paper investigates the regulatory 'culture' shared by the US and UK and its role in the global financial crisis. Before 2007, its minimalist approach to government involvement in financial markets was associated with an unparalleled combination of rapid economic growth worldwide and monetary stability at the national level. The global crisis, however, inflicted its heaviest damage on the American and British financial systems although both countries' regulators had identified the threats to stability in advance. They chose to ignore the lessons of previous crises and remained non-interventionist because of theoretical assumptions about the superior wisdom of the markets and about the disincentives to innovation and increased instability predicted to result from government interference. These officials have successfully resisted current reform initiatives. They are supported by a powerful consensus of political and business leaders in Washington and London, despite the widespread destruction of corporate and personal wealth and the future fiscal burdens faced by the public. The first of three working papers on the global crash, this research relies primarily on a detailed examination of the public record for the leading officials.