

Referee Report on “THE CRISIS AND BEYOND: THINKING OUTSIDE THE BOX” by Claude Hillinger

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This is an unusual paper for an academic journal, but, given the topic and the timing, it is all the better for it.

Hillinger expresses moral and intellectual outrage at the travesties that have been committed in finance, and intellectuals need to do this given the damage that has been done to society by a finance sector that was largely supported by academic economics.

Hillinger also argues cogently that the reforms that are being debated at present are hardly worthy of the name—they are really tweaks designed to enable the system to return to behaving in the same unsustainable manner that caused the crisis in the first place. Finally, Claude suggests reforms that are worthy of the name, with some directed at remedying the current crisis, and others at developing a financial system where these problems will not recur.

While I have disagreements with aspects of Claude’s suggested long term reforms, I believe his paper expresses a perspective that should be taken by scientists to today’s crisis, and I support its publication as is—though with some editing to remove repetition and add additional useful references.

The article was clearly written quickly—again something that is warranted by the circumstances—and some repetition resulted. Notably, the first paragraph in section 4.2.2 (“Collateralized Debt Obligations”) is repeated in its entirety. There is also some repetition when the current status of the Obama administration is discussed on page 12.

The paper’s solitary reference to environmental issues should be deleted. Though these are of course very important, they are a distraction from the core issue of the paper:

"Saving the environment is a subject to which Obama brings his formidable eloquence, as he did in his speech before the United Nations. Here as elsewhere, his words do not translate into action." (page 14).

I would also recommend some additional references. Claude comments that "I have not found an easily accessible source on reserve requirements in the countries of the European Union, but it is clear that since the Basel II agreement on bank regulation the focus is on the capital structure of banks not on reserve ratios" (page 9): a useful reference here is (O'Brien 2007). For statistics on derivatives, see <http://www.bis.org/statistics/derstats.htm> ("Regarding the size of the CDS market, I found the following in Prins (2009)". (page 18)

O'Brien, Y.-Y. J. C. (2007). "Reserve Requirement Systems in OECD Countries." [SSRN eLibrary](http://ssrn.com/abstract=1000000).