Principles for Economic Revival

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A merica's economic crisis, deep recession and anemic recovery have been driven by policies that have violated proven facts-based principles. Our task is to provide a road map that will get us back to these principles.

The most startling point is that both the recovery and the recession were carried out in the absence of confidence in the basic stability and functioning of the financial institutions. The banks, thrifts and other financial institutions that had been involved in the savings and loan crisis were not cleaned up and not recapitalized in a way that would make them safer and stronger in the face of another crisis. The same is true of the remaining savings and loan institutions.

More drastic actions were required than the government responded with. The insurance of deposits and the recapitalization of existing institutions were not sufficient to restore confidence and allow normal lending.

Next, the refinancing of existing savings and loan institutions was required. The government should provide loan guarantees to the savings and loan institutions, and the savings and loan associations should be recapitalized with additional capital.

In the longer term, the government should consider creating a new type of financial institution to replace the savings and loan associations and to provide a more stable and secure source of financing for the housing market.

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The departures from sound principles continued when the Fed and the Treasury responded with untried and unpredictable bailouts of the savings and loan industry. These bailouts were not based on a thorough understanding of the causes of the crisis and the likely effects of the bailouts. The bailouts were not designed to stabilize the financial system and to prevent a recurrence of the crisis.

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