Notes

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2. U.S. Consumer Product Safety Commission, "PC Notebook Computer Batteries Recalled Due to Fire and Burn Hazard," October 30, 2008, at www.cpsc.gov/cpscpub/prerel/prhtml09/ 09035.html.
3. David Leonhardt, "Punctured Bubblenomics," *New York Times*, September 20, 2008, at www.nytimes.com/2008/09/21/weekinreview/21leonhardt.html.
4. From the "Fortune 500" at http://money.cnn.com/magazines/fortune/fortune500/ 2008/full_list/.

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2. "Stifel Nicolaus: About Us," at www.stifel.com/include.asp?pgid=178, accessed on April 6, 2009.
3. Charles Duhigg and Carter Dougherty, "The Reckoning: From Midwest to MTA, Pain from Global Gamble," *New York Times*, November 1, 2008, at www.nytimes.com/2008/11/02/business/02global.html.
4. See video of Waukesha School Board Meeting, August 30, 2006, at http://www.youtube.com/watch?v=OydC6K0Dwjg.
5. "School Districts Seek $200 Million from Brokerage Firms," at www.schoollawsuitfacts.com/2008/09/contact-craig-peterson-zigman-joseph.html.
6. Videotape of Kenosha School District financial committee meeting, May 8, 2007 (at 21:10 min.).
7. In the end, the five school districts to invest through Noack were Whitefish Bay, Kenosha, Kimberly, Waukesha, and West Allis–West Milwaukee.
8. In the Kenosha district, for example, the workers covered included teachers, educational support personnel, secretaries, custodial staff, electricians, carpenters, painters, and all of the administrators.
9. According to Investopedia.com "It is important to note that with a moral obligation bond, the additional security provided by the government is only morally—and not legally—binding. However, the pledge is generally regarded as being as credible as a legally binding promise because the issuing government would face negative credit rating effects if it failed to honor the pledge." In the case of the River Square Parking Garage in Spokane, Washington, in 1998, the default on moral obligation bonds led to the downgrading of all of Spokane's debt and to drawn-out lawsuits. Spokane has authorized the issue of binding general revenue bonds to settle the suits. See www.publicbonds.org/public_fin/default.htm.
10. Videotape of Kenosha school district financial committee meeting, May 8, 2007 (at 25:15).
11. To be fair, at the May 22, 2007, Kenosha board meeting, Mr. Hujik announced he was going to vote against a motion to take out a $20 million line of credit

for the trust. He wanted more time to understand it. Everyone agreed and the motion was tabled. It came up again on June 26, 2007, and passed unanimously.

12. Tape of Kenosha school district finance committee meeting, May 8, 2007 (at 23:00).
13. Duhigg and Dougherty.
14. Ibid.
15. The districts received only minimal information on these complex investments. For example, on page 5 of a paper Stifel Nicolaus gave to the districts, dated July 26, 2006, there's a chart labeled "Synthetic CDO Flowchart" that describes a few of the properties of synthetic CDOs in general. But it would take someone with a great deal of experience to understand synthetic CDOs from that chart. What does jump out is that the Trust would receive "AA Notes," and that they would be connected to the "Investment Grade Corporate Debt" of "100+ companies" that were diverse in location and industry. In short, the flow chart makes it seem as if the investment was in a large, diversified pool of AA investment-grade securities—much like a mutual bond fund of corporate debt. This was not the case.
16. "Warren Buffet on Derivatives, Edited Excepts from Berkshire Hathaway Annual Report, for 2002" at www.fintools.com/docs/Warren%20Buffet%20on%20Derivatives.pdf.
17. "School Districts Seek $200 Million from Brokerage Firms."
18. Gary Kunich, "Ask Feds to Cover CDO: Union" *Kenosha News*, February 1, 2009, at www.kenoshanews.com/scripts/edoris/edoris.dll?tem=lsearchart&search_iddoc=4290978
19. Noack is cooperating with the school districts and is not being sued.
20. Duhigg and Dougherty.
21. Ibid.

Chapter 2: The Iron Law of Fantasy Finance

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2. Ellen R. McGrattan and Richard Rogerson, "Changes in the Distribution of Family Hours Worked Since 1950," Federal Reserve Bank of Minneapolis, Research Department Staff Report 397, April 2008, p. 6, at www.minneapolisfed.org/research/SR/SR397.pdf.
3. Greg Ip and Mark Whitehouse, "Huge Flood of Capital to Invest Spurs World-Wide Risk Taking: Corporate and Foreign Savings Chase Assets, Driving Prices Up, Keeping Returns Low 'A Global Game of Chicken'," *Wall Street Journal*, November 3, 2005, p. 1, at http://newsgroups.derkeiler.com/Archive/Misc/misc.invest.stocks/2005-11/msg00223.html.

Chapter 3: Is There a Dime's Bit of Difference between Wall Street's "Innovation" and Gambling?

1. Marc Van De Mieroop, "The Invention of Interest," in *The Origin of Value: The Financial Innovations that Created Modern Capital Markets*, William N. Goetzmann and K. Geert Rouwenhorst, eds. (New York: Oxford University Press, 2005), p. 19.

2. Hammurabi Code of Laws, #48, at www.sacred-texts.com/ane/ham/ham05.htm.
3. Aristotle's *Politics* (350 B.C.) translated by Benjamin Jowett, at www.econ161.berkeley.edu/teaching_Folder/Econ_210a_f99/Readings/Aristotle_Politics_brief.html.
4. "Aristotle's View Against Usury" at www.moneymuseum.com/standard_english/raeume/geld_machen/bank/interest/aristotle/aristotle.html.
5. Muhammed A. Asadi, "The Koran, Interest & the Economy," at www.quran.org/library/articles/interest.htm.
6. Executive Committee of the Editorial Board, Lewis N. Dembitz, and Joseph Jacobs, "Usury" at www.jewishencyclopedia.com/view.jsp?artid=58&letter=U.
7. Martin Luther, "On Trading and Usury" at www.lutherdansk.dk/Martin%20 Luther%20-%20On%20trading%20and%20usury%201524/.
8. Adam Smith, *An Inquiry into the Nature and Causes of The Wealth of Nations* (New York: The Modern Library, 1937), p. 339.
9. Ibid., pp. 339–40.
10. Karl Marx, *Capital*, vol. III, part V, "Division of Profit into Interest and Profit of Enterprise. Interest-Bearing Capital," chapter 29: "Component Parts of Bank Capital," at www.marxists.org/archive/marx/works/1894-c3/ch29.htm.
11. John Kay, "Taxpayers Will Fund another Run on the Casino," *Financial Times*, September 16, 2008, at www.ft.com/cms/s/0/770e2a94-840d-11dd-bf00-000077b07658.html.
12. Valerie Hansen and Ana Mata-Fink, "Part II: Records from a Seventh-Century Pawnshop in China," in *The Origin of Value: The Financial Innovations that Created Modern Capital Markets*, William N. Goetzmann and K. Geert Rouwenhorst, editors (New York, Oxford University Press, 2005), p. 58. The authors cite a L.S. Yang, "the author of a classic study about pownshops."
13. This is called Grisham's Law—bad money drives good money out of circulation. The debasement of currency leads to more hording of gold and silver, exacerbating the shortages.
14. Let's say I've given my Dutch East India company shares, worth 1,000 guilders, as collateral to get an 800-guilder loan to purchase another sailing ship. If the price of my shares goes down, the person who loaned me the money will want more shares as collateral. But let's say I can protect myself by buying a futures contract for about 50 guilders. That would give me the option (the right) to sell my shares at a specific future date for 1,000 guilders. My downside is protected. The 50 guilders is an insurance policy for the value of my shares.
15. Robert J. Barro and José F. Ursúa, "Macroeconomic Crises since 1870," Brookings Paper on Economic Activity, May 7, 2008, at http://www.econ.yale.edu/seminars/macro/mac08/Barro-081028.pdf.
16. "A Rosen, with blood-red flares or flames vividly streaked on a white ground, and flakes and flashes of the same color at the petals' edge, Semper Augustus was, by all accounts, an extraordinary flower, and one celebrated at the time for its beauty and rarity." From http://penelope.uchicago.edu/~grout/encyclopaedia_romana/aconite/semperaugustus.html.
17. Edward Chancellor, *Devil Take the Hindmost: A History of Financial Speculation* (New York: Plume Books, 2000), p. 16.
18. Ibid, p. 18.
19. bid, p. 19.

20. "Remarks by Chairman Alan Greenspan," at the Annual Dinner and Francis Boyer Lecture of The American Enterprise Institute for Public Policy Research, Washington, D.C., December 5, 1996. "But how do we know when irrational exuberance has unduly escalated asset values, which then become subject to unexpected and prolonged contractions as they have in Japan over the past decade?" At www.federalreserve.gov/boarddocs/speeches/1996/ 19961205.htm.

    However, there are also powerful economic arguments that describe this process as part and parcel of financial markets—that you don't need herd mentality or irrational exuberance to create a bubble. For example, economists John Maynard Keynes and later Hyman Minsky argued that capital markets were inherently unstable, even if we assume rational behavior on the part of the buyers and sellers in the markets. During the past thirty years many of their ideas were dismissed. But the crash of 2008 has brought renewed attention to their theories. We will return to their theories in the last chapters of this book.
21. Money was provided to the government in return for a fixed payment per year in perpetuity.
22. Chancellor, p. 82.
23. Chancellor, p. 108.
24. Ibid., pp. 109–110.
25. Bob Woodward, *The Agenda: Inside the Clinton White House* (New York: Simon and Schuster Paperbacks, 2005) p. 73.

Chapter 4: Learning and Unlearning the Lessons of the Great Depression

1. Ben Bernanke, *Essays on the Great Depression* (Princeton, NJ: Princeton University Press, 2000), p. vii.
2. Herbert Hoover, *The Memoirs of Herbert Hoover*, vol. 3, *The Great Depression, 1929–1941* (Scranton, PA: The Haddon Craftsmen, Inc., 1952), p. 30.
3. Edward Chancellor, *Devil Take the Hindmost: A History of Financial Speculation* (New York: Plume Books, 2000), p. 197.
4. For an excellent selection of quotations, see Colin J. Seymour, "1927–1933 Chart of Pompous Prognosticators," June 2001, at www.gold-eagle.com/editorials_01/seymour062001.html.
5. John Maynard Keynes, *The General Theory of Employment, Interest and Money* (New York: Harcourt, Brace and World, 1964), p. 159.
6. In modern "fractional" banking, banks only keep on hand a small fraction of the total deposited with them by consumers and businesses. The rest is put out on loan. Almost all of the time this is sufficient to cover day-to-day withdrawals. However, should large numbers of depositors request their money at the same time (as during economic panics) banks can go bust.
7. Traders can speculate that a currency is over- or undervalued. If the bets are very large and in the same direction, the value of a currency can drastically change, which, in turn, can cause large dislocations and disruptions in the economies relying on that currency.
8. The Bretton Woods agreement permitted countries to exchange dollars for a fixed amount of gold—$35 per ounce. By the 1960s the quantity of dollars circulating in the world greatly exceeded the amount of gold backing it. Should several other countries attempt to exchange their dollars for gold at the same time, the United States would run out of gold, just like a bank facing a run of consumers rushing to get their deposits.

9. Milton Friedman, "The Social Responsibility of Business Is to Increase Its Profits," *New York Times Magazine*, September 13, 1970, reproduced at www.colorado.edu/studentgroups/libertarians/issues/friedman-soc-resp-business.html.
10. "Remarks by Governor Ben S. Bernanke before the New York Chapter of the National Association for Business Economics, New York, New York, October 15, 2002, "Asset-Price 'Bubbles' and Monetary Policy," at www.federalreserve.gov/boarddocs/speeches/2002/20021015/default.htm.
11. U.S. Department of Commerce, Bureau of the Census, *Statistical Abstract of the United States, 1996* (Washington, DC: U.S. GPO, 1996), p. 330; and Edward N. Wolff, *The Rich Get Increasingly Richer* (Washington, DC: Economic Policy Institute, 1992), p. 30.
12. Actually, there is little empirical evidence to support the universality of this idea. Those with home insurance, for example, usually take more care in protecting their property. Nevertheless, most financial analysts are convinced "moral hazards" pose severe risks.
13. Paul Oranika, "Alan Greenspan Adds His Voice to the Hedge Fund Regulation Controversy Again," HedgeCo.net, August 25, 2004, at www.hedgeco.net/news/08/2004/alan-greenspan-adds-his-voice-hedge-fund-regulation-controversy-again.html.

Chapter 5: The Oracle Blesses Derivatives, the Newest Game in the Casino

1. James L. Bothwell, "Financial Derivatives: Actions Needed to Protect the Financial System," Testimony before the Subcommittee on Environment, Credit, and Rural Development, Committee on Agriculture, June 14, 1994 (Washington, DC: United States General Accounting Office), GAO/T-660-94-169, p. 1, available at http://archive.gao.gov/t2pbat3/151816.pdf.
2. Ibid., pp. 1–2.
3. Ibid., p. 2.
4. Ibid.
5. Ibid., p. 3.
6. There's some ambiguity about who has earned the title of "Oracle." We follow along with E. Ray Canterbery's book, *Alan Greenspan: The Oracle behind the Curtain* (Hackensack, NJ: World Scientific Publishing Co., 2006); but some financial insiders also give the title to Warren Buffett.
7. Frank Partnoy, *Infectious Greed: How Deceit and Risk Corrupted the Financial Markets* (New York: Henry Holt and Company, 2003), p. 151.
8. "Statement by Alan Greenspan, Chairman, Board of Governors of the Federal Reserve System, before the Committee on Banking, Housing and Urban Affairs, U.S. Senate, January 5, 1995," *Federal Reserve Bulletin*, March 1995, at http://findarticles.com/p/articles/mi_m4126/is_/ai_16795142.
9. Partnoy, p. 151.
10. For more technical definitions see Gunter Meissner, *Credit Derivatives: Application, Pricing, and Risk Management* (Malden, MA: Blackwell Publishing, 2005).
11. Satyajit Das, *Traders, Guns and Money: Knowns and Unknowns in the Dazzling World of Derivatives* (New York: Prentice Hall/Financial Times, 2006), p. 7.
12. Ibid., p. 214.
13. Ibid.
14. Ibid., p. 127.

15. Ibid., p. 215.
16. Bob Baker, "Psychic, Astrologer Influenced Citron, Grand Jury Told," December 28, 1995, at www.newsthinking.com/story.cfm?SID=130.
17. James Sterngold, "Orange County Bankruptcy: The Poor Feel the Most Pain, *New York Times*, December 5, 1995, at www.nytimes.com/1995/12/05/us/orange-county-bankruptcy-the-poor-feel-the-most-pain.html.
18. According to Investopedia.com, *arbitrage* is "The simultaneous purchase and sale of an asset in order to profit from a difference in the price. It is a trade that profits by exploiting price differences of identical or similar financial instruments, on different markets or in different forms. Arbitrage exists as a result of market inefficiencies; it provides a mechanism to ensure prices do not deviate substantially from fair value for long periods of time."
19. Partnoy, p. 255.
20. Ibid., p. 260.
21. Ibid.
22. For this and the following quotes from Born, see "A Conversation with Brooksley Born," originally published in *Washington Lawyer*, October 2003, available at www.dcbar.org/for_lawyers/resources/legends_in_the_law/born.cfm.
23. Peter S. Goodman, "The Reckoning: Taking Hard New Look at a Greenspan Legacy," *New York Times*, October 8, 2008, at www.nytimes.com/2008/10/09/business/economy/09greenspan.html.
24. David Corn, "Foreclosure Phil," *Mother Jones*, July/August 2008, at www.motherjones.com/news/feature/2008/07/foreclosure-phil.html. But give the guy credit: In this new century, our financial industry *has* led the world . . . right over the cliff.
25. "A Conversation with Brooksley Born."

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3. Janet L. Yellen, "Opening Remarks to the 2008 National Interagency Community Reinvestment Conference," March 31, 2008, at www.frbsf.org/news/speeches/2008/0331.html.
4. "The Community Reinvestment Act: A Welcome Anomaly in the Foreclosure Crisis. Indications That the CRA Deterred Irresponsible Lending in the 15 Most Populous U.S. Metropolitan Areas," January 7, 2008, prepared by Traiger and Hinckley, LLP, at www.traigerlaw.com/publications/traiger_hinckley_llp_cra_foreclosure_study_1-7-08.pdf.
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6. Stuart Taylor, "When Fannie and Freddie Opened the Floodgates," *National Review*, October 18, 2008, at www.nationaljournal.com/njmagazine/or_20081018_3384.php.

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8. Wallison and Calomiris.
9. Dean Baker, *Plunder and Blunder: The Rise and Fall of the Bubble Economy* (Sausalito, CA: PoliPointPress, 2009), p. 85.
10. *New York Times*, "An Estimate: Adding Up Bank Losses," a chart based on RGE Monitor data, February 12, 2009, at www.nytimes.com/imagepages/2009/02/12/business/20090213_INSOLVENT_graphic.html.
11. Peter S. Goodman, "Taking Hard New Look at a Greenspan Legacy," *New York Times*, October 8, 2008, at www.nytimes.com/2008/10/09/business/economy/09greenspan.html.
12. For a concise description of the New Deal housing programs, see Robert J. Shiller, *The Subprime Solution* (Princeton, NJ: Princeton University Press, 2008), pp. 11–16.
13. For a description of Ginny Mae see www.ginniemae.gov/about/about.asp?subTitle=About.
14. Richard Tomlinson and David Evans, "The Ratings Charade," *Bloomberg Markets Magazine*, July 2007, at www.bloomberg.com/news/marketsmag/ratings.html.
15. For an entertaining introduction, see the video, "Crisis Explainer: Uncorking CDOs," by *Marketplace* senior editor Paddy Hirsch at http://vimeo.com/1876936. Also, Portfolio.com provides an animated flow chart, "What's a C.D.O.?" at www.portfolio.com/interactive-features/2007/12/cdo.
16. Adapted from Paddy Hirsch's video noted above.
17. CDOs can also be constructed from pools of credit card payments, student loan payments, car leases, or any other cash flow—the riskier the better.
18. For more complex versions, see an excellent set of videos by David Harper posted on You Tube including "Synthetic CDO that Fails in Subprime Securitization," at www.youtube.com/watch?v=-8vmzvfEuk0.
19. David Evans, "Banks Sell 'Toxic Waste' CDOs to Calpers, Texas Teachers Fund," Bloomberg, June 1, 2008, at www.bloomberg.com/apps/news?pid=newsarchive&sid=aQWoYszGR6w0. Many pension funds have rules that allow them to buy some lower-rated (but not junk) securities, so that these are, at most, a small percentage of the total pension holdings. Derivative dealers found ways to package the toxic waste with government bonds so that it would seem that the investment was protected, and so could get these equity tranches rated above junk status. More recently, the ratings have been lowered to junk and so those investments are now off-limits to pension funds.
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4. "Prepackaged Bankruptcy Could Trigger GM CDS: Analyst," Reuters, December 5, 2008, at www.reuters.com/article/asiaDealsNews/ idUSTRE4B44NR20081205.
5. "Testimony of Robert Pickel, Chief Executive Officer, International Swaps and Derivatives Association before the Senate Committee on Agriculture," October 15, 2008, p. 4, at http://agriculture.house.gov/testimony/110/h81015/Pickel.pdf.
6. The following examples are adapted from a primer on credit default swaps that first appeared on the web on May 2, 2008. I'm working from the version posted by Daniel Amerman, "AIG's Dangerous Collapse & A Credit Derivatives Risk Primer," September 17, 2008, at www.financialsense.com/fsu/editorials/amerman/2008/0917.html.
7. That would be a 2.4 percent fee or what they call in the trade 240 basis points—a basis point being 0.01 percent.
8. Amerman.
9. Jane Baird, "UPDATE 2-CDS Payout for 3 Icelandic Banks About $7.3 Bln," Reuters, November 6, 2008, at www.reuters.com/article/rbssBanks/ idUSL628743320081106.
10. The value could be 99 cents on the dollar, which Fanny and Freddie bonds fetched. Or it could be more like Lehman Brothers bonds, which fetched only 8 cents on the dollar.
11. Louise Story and Eric Dash, "Banks are Likely to Hold Tight to Bailout Money," *New York Times*, October 16, 2008, at www.nytimes.com/2008/10/17/ business/17bank.html.

Chapter 8: Fantasy Finance Meets Reality: The Great Crash of 2008

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2. Danielle DiMartino and John V. Duca, "The Rise and Fall of Subprime Mortgages," *Economic Letter—Insights from the Federal Reserve Bank of Dallas* 2, no. 11 (November 2007), Federal Reserve Bank of Dallas at http://dallasfed.org/ research/eclett/2007/el0711.html.
3. "S&P/Case-Shiller Home Price Factsheet," p. 1, downloaded March 22, 2009, from www2.standardandpoors.com/portal/site/sp/en/us/page.article/0,0,0,0,1145771405992.html.
4. Nell Henderson, "Bernanke: There's No Housing Bubble to Go Bust," *Washington Post*, October 27, 2005, at www.washingtonpost.com/wp-dyn/ content/article/2005/10/26/AR2005102602255.html. One must also wonder what kind of rose-colored glasses Bernanke had on when he looked at the fundamentals. For example, as we see in chart 2 on page 14, "Actual Wages vs. Productivity-Enhanced Wages," real wages for most Americans were as stagnant in 2005 as they'd been for the prior thirty-plus years.
5. I got hooked on the game through my roommates, sports writers Larry Fine (who owned a fantasy team) and Ouisie Shapiro (who was the league's first "commissioner"). In those days Ouisie had to do the statistics each week by

hand, and I did what I could to help. Soon, Larry brought me in to become his partner in what has become the fabled fantasy franchise, the Fine Tooners. For several years I wrote the statistical sections of *How to Win at Rotisserie Baseball* by Peter Golenbach. Larry and I still manage the Fine Tooners.

6. Frank Partnoy and David A. Skeel Jr., "The Promise and Perils of Credit Derivatives," University of Pennsylvania Law School, Scholarship at Penn Law paper 125, September 11, 2006, p. 35, at http://lsr.nellco.org/upenn/wps/papers/125.
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10. Frank Partnoy, *Infectious Greed: How Deceit and Risk Corrupted the Financial Markets* (New York: Henry Holt and Company, 2003), p. 383.
11. Ben Bernanke, C-SPAN video archive of testimony before the House Financial Services Committee, February 25, 2009, video time code 01:43:30, at www.c-spanarchives.org/library/indexphp?main_page=product_video_info&products_id=284296-3&showVid=true.

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2. Thomas L. Friedman, "If Larry and Sergey Asked for a Loan . . .," New York Times, October 26, 2008, at www.nytimes.com/2008/10/26/opinion/26friedman.html.
3. Ibid.
4. Frank Partnoy, *Infectious Greed: How Deceit and Risk Corrupted the Financial Markets* (New York: Henry Holt and Company, 2003), p. 385.
5. For the record, although my sample is very small, some of the brightest people I've met work for rating agencies.
6. Partnoy, pp. 387–88.
7. Ibid., p. 388.
8. Ibid.
9. Thomas Philippon and Ariell Reshef, "Wages and Human Capital in the U.S. Financial Industry: 1909–2006," NBER Working Paper no. 14644, January 2009, p. 32, at http://pages.stern.nyu.edu/~tphilipp/papers/pr_rev15.pdf.
10. From Chairman Henry Waxman's opening statement, October 22, 2008, House Committee on Oversight and Government Reform, "Credit Rating Agencies and the Financial Crisis."
11. Shannon Moody to Rahul Dilip Shah, April 5, 2007, at http://oversight.house.gov/documents/20081022112325.pdf.
12. Richard Tomlinson and David Evans, "The Ratings Charade," Bloomberg Markets, July 2007, at www.bloomberg.com/news/marketsmag/ratings.html.

13. Ibid.
14. "Testimony of Dr. Alan Greenspan," House Committee of Government Oversight and Reform, October 23, 2008, p. 3, at http://oversight.house.gov/documents/20081023100438.pdf.
15. Partnoy, p. 406.
16. Ibid., p. 403. In fairness, Partnoy may no longer view derivatives in such a positive light, as evidenced by his 2006 paper with Skeel cited in chapter 8.
17. Ibid., p. 390.
18. "Testimony of Dr. Alan Greenspan," p. 2.
19. As of November 2008 the Bush administration backed away from the original TARP plan to buy toxic-waste assets from financial companies in favor of direct cash infusions. They said the process would take too long. But in February 2008, the Obama administration returned to the plan of buying up the toxic assets through a public-private partnership that would protect investors from losses. That plan was launched in late March 2009 and brought great cheers from Wall Street.
20. This example assumes the bank was subject to an 8 percent reserve requirement, which is about where it generally is in practice. If the banks receive a $100 dollar deposit, then they can lend out $92. When that $92 gets deposited into a bank, then $84.64 can be lent out, and so on. The total loaned out will add up to $1,150.
21. Charles R. Morris, *Trillion Dollar Meltdown: Easy Money, High Rollers, and the Great Credit Crash* (New York: Public Affairs, 2008), p. xii.
22. See George Soros's testimony before the House Committee on Oversight and Government Reform, November 13, 2008, at www.c-spanarchives.org/library/index.php?main_page=product_video_info&products_id=282391-2. Soros makes clear he believes the problem is inherent to normal-functioning financial markets, and that it stems from the uncontrolled increase in leverage.

Chapter 10: Proposals Wall Street Won't Like

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2. Adam Nossiter, "Alabama School Districts Feel the Economic Pinch as Tax Revenues Decline," *New York Times*, November 4, 2008, at www.nytimes.com/2008/11/05/us/05alabama.html.
3. David Brooks, "A Date with Scarcity," *New York Times*, November 3, 2008, at www.nytimes.com/2008/11/04/opinion/04brooks.html.
4. Niall Ferguson, *The Ascent of Money: A Financial History of the World* (New York: Penguin, 2008), pp. 4–5.
5. Dean Baker, in *Plunder and Blunder: The Rise and Fall of the Bubble Economy* (Sausalito, CA: PoliPointPress, 2009), p. 131, estimates that a "tax on the purchase or sale of an option of credit default swap might be 0.01 percent of the price . . . [and] can easily raise $150 billion a year."
6. Daniel B. Klein, "Economists Against the FDA," The Independent Institute, September 1, 2000, citing Durk Pearson and Sandy Shaw, *Freedom of Informed Choice: FDA Versus Nutrient Supplements* (Neptune, NJ: Common Sense Press, 1993), p. 39, at www.independent.org/publications/article.asp?id=279.
7. Adam Davidson, "Wisconsin School Investment Has Worldwide Implications,"

Weekend Edition Sunday, November 2, 2008, at www.npr.org/templates/story/story.php?storyId=96414824.

8. Variable rate municipal bonds are the municipal equivalent of adjustable mortgages—the rate the public agency must pay varies, in some cases, daily. During low interest-rate periods, public agencies can save money. But the rates can rise rapidly. Also these bonds depended on insurance provided by companies that lost billions on insuring CDOs and other toxic debt. When the insurers were downgraded, the rates on the variable rate municipal bonds shot up, costing public agencies billions of dollars. See Anastasija Johnson, "Bond Insurer Troubles Hit Variable-Rate Munis," Reuters, January 24, 2008, at www.reuters.com/article/companyNews/idUSN2423063820080124.
9. This is a particularly strong formulation of the problem. However, it is extremely difficult to find any evidence that suggests that, on the whole, these financial instruments contribute to the public good. Hopefully, more careful academics will develop an objective way to assess them.
10. "Statement of George Soros before the U.S. House of Representatives Committee on Oversight and Government Reform," November 13, 2008, p. 10, at http://oversight.house.gov/documents/20081113120114.pdf.

Chapter 11: Proposals Wall Street *Really* Won't Like

1. "The Forbes 400," *Forbes*, October issues, 1982–2008.
2. These billionaires didn't make all of their money in the financial sector. Bill Gates, Michael Bloomberg, and others gained their riches through stock appreciation of the firms they started. But many of the top 400 have strong ties to the financial sector. Also, there's a nontrivial connection to the rise of stock equities and financial booms.
3. Louise Story, "Top Hedge Fund Managers Do Well in a Down Year," *New York Times*, March 24, 2009, at www.nytimes.com/2009/03/25/business/25hedge.html.
4. "President Obama's Remarks on Executive Pay," *New York Times*, February 4, 2009, at www.nytimes.com/2009/02/04/us/politics/04text-obama.html.
5. "TARP Recipients Paid Out $114 Million for Politicking Last Year," Center for Responsive Politics, press release, February 4, 2009, at www.opensecrets.org/news/2009/02/tarp-recipients-paid-out-114-m.html.
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