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End the D.C.-Wall Street Revolving Door, Two Academics Say

By Editor Test *Tue, Sep 22, 2009*

The phenomenal growth of derivatives over the past 30 year has made all our big banks more interconnected, and hence systemically risky, said Peter Boone and Simon Johnson.

In last Sunday's *New York Times*, Peter Boone of the London School of Economics and MIT's Simon Johnson called for specific regulatory changes to prevent future financial crises.

"Our main regulatory bodies, including the Fed, are deeply compromised," they wrote. "Rather than act as tough overseers of the public purse that we need-and that we had before 1980-they have become cheerleaders for the financial sector."

Boone and Johnson recommended that the government:

• "Prohibit companies and senior managers in regulated financial industries from making donations to political campaigns."

• "Restrict public employees involved in regulatory policy from working in those industries from for five years after they leave office."

• "Prohibit people who move to government from the financial sector from making policy decisions on bailout and regulatory-related matters for a minimum of five years."

• "Raise capital requirements for the financial sector-and the bigger the bank, the more capital you should need. The Obama administration should at least triple the current requirements."

"The phenomenal growth of derivatives over the past 30 years," they wrote, "has made all our big banks more interconnected, and hence systemically risky; if one bank falls the others fall with it. Yet our regulators, many of whom remain in office today, watched as this time bomb grew and then exploded with the collapse of the American International Group."

Boone is chairman of Effective Intervention, a British charity, and a research associate at the London School of Economics' Center for Economic Performance. Johnson, who blogs at baselinescenario.com, is a professor at the MIT Sloan School of Management and a senior fellow at the Peterson Institute for International Economics.