

## THE PURITAN GIFT

List of predictions of the Credit Crunch published in March 2007.

On page 157, we quoted the Fannie Mae's regulator, Armando Falcom, as saying in 2004 that Fannie Mae had engaged in *a pervasive and wilful misapplication of generally accepted accounting principles*.

On page 212, we asserted (quoting Adam Posen of the Institute for International Economics who wrote in the FT in 2004) that *if present trends continue, we can see the US economy following the path to extended decline of the British economy in the 1960s and 1970s and of Japan in the 1990s*.

On page 275, we quoted the dire warnings which Paul Volcker, former chairman of the Fed, uttered in 2005: *circumstances seem to be as dangerous and intractable as any I can remember, and I can remember quite a lot. What really concerns me is that there should be so little willingness or capacity to do much about it*.

On page 276, we quoted Warren Buffett as saying in 2005, ironically, that *when you combine ignorance with borrowing, you get some pretty interesting results*. (Regrettably we did not quote him as saying in 2003 that *the rapidly growing trade in derivatives poses a "mega-catastrophic risk" for the economy*.)

On page 157, we also quoted Randy Quarles, Undersecretary at the US Treasury, as saying in 2006 that *Fannie Mae posed a systemic risk to financial markets*.

Also on page 223, we also quoted the Wall Street Journal journalist, Edward Chancellor, as saying in 2006: *What about scandalously incompetent borrowing? Only when the [economic] cycle has turned down will the full extent of profligate lending be revealed*.

On page 180, we said that the doctrine of Stockholder Value *had been used to justify personal greed and corporate rapine on a scale not experienced since the late nineteenth century*.

On page 223, we said that *credit is to the economy what steroids are to an athlete; it enhances performance but, unless used in moderation, at serious cost to the economic health of the nation*.

On pages 224 and 225, we said that the slicing and dicing of debt in the derivatives market meant that no one was in control of the lending process. *A mighty edifice is reared on feeble foundations... 'systemic risk' is the inevitable result – risk to the entire monetary system of the world*.

On page 237, we attacked the bonus culture, saying *essentially performance-related pay is irrational... Why pay [senior executives, including bankers] large bonuses for doing what they were supposed to do in the first place?*

On page 276, we said: *one day the nation's credit will run out, in both the literal and the metaphorical sense of this expression; when that happens, there may be a second, even more profound, shock to American public opinion, which should with luck lead to a profound re-assessment of priorities. The key problem to be addressed will be ... a failure of management at many significant levels of society*. (The first shock had occurred in the 1980s, when the American public realised that US manufacturing practices were thoroughly out-of-date.)

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Did we forecast the *timing* of the Credit Crunch? That question is more difficult to answer in the affirmative. However, by publishing our book in March 2007, only five months before the storm broke in August, 2007, and eighteen months before Lehman collapsed in September, 2008, we can say: 'probably yes'. Luck played a part.

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