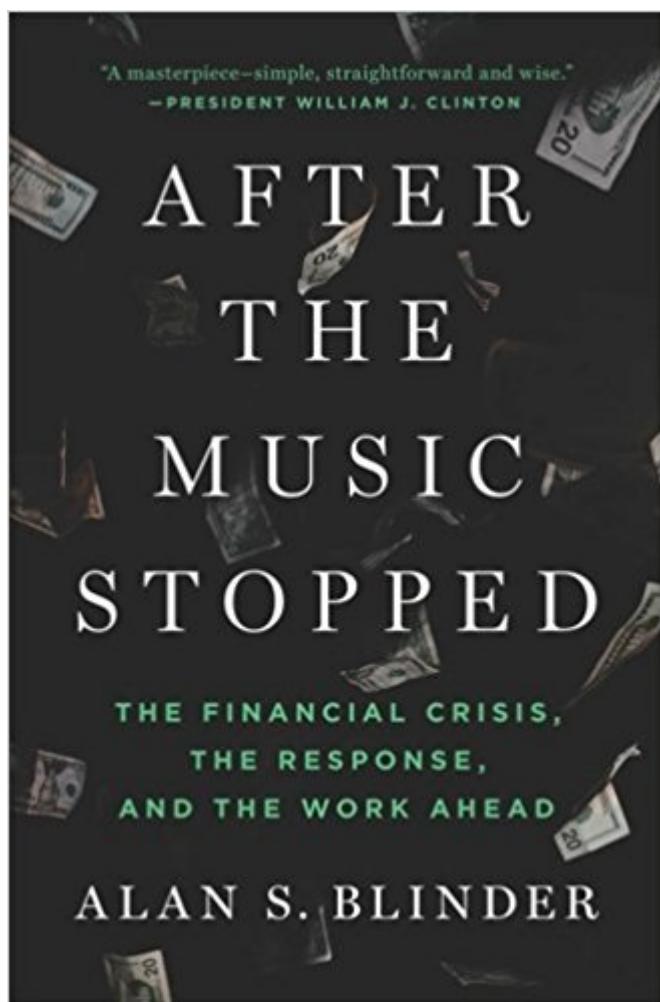


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# After The Music Stopped: The Financial Crisis, The Response, And The Work Ahead



## **Synopsis**

With bracing clarity, Blinder shows us how the U.S. financial system, which had grown far too complex for its own good-and too unregulated for the public good-experienced a perfect storm beginning in 2007. When America's financial structure crumbled, the damage proved to be not only deep, but wide. It took the crisis for the world to discover, to its horror, just how truly interconnected-and fragile-the global financial system is. The second part of the story explains how American and international government intervention kept us from a total meltdown. Many of the U.S. government's actions, particularly the Fed's, were previously unimaginable. And to an amazing-and certainly misunderstood-extent, they worked. The worst did not happen. Blinder offers clear-eyed answers to the questions still before us, even if some of the choices ahead are as divisive as they are unavoidable. After the Music Stopped is an essential history that we cannot afford to forget, because one thing history teaches is that it will happen here again.

## **Book Information**

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## **Customer Reviews**

Blinder, a corporate executive and former vice chairman of the Federal Reserve, sets out to tell the American people what happened during the financial crisis of 2007-09. He explains the events that are still reverberating in the U.S. and globally and will challenge public policy for years. With public policy as his focus, he considers how we got into that mess and how we got out-to the extent we have gotten out. The author considers the future-what have we learned both economically and politically, and will we handle future crises better? What

vulnerabilities do we still have? What future problems have we accidentally created? Finally, Blinder offers a host of recommendations, which include his Ten Financial Commandments, including Thou Shalt Remember That People Forget (people forget when the good times roll) and Thou Shalt Not Rely on Self-Regulation (Self-regulation in financial markets is an oxymoron). This excellent book in understandable language offers valuable insight and important ideas for a wide range of library patrons. --Mary Whaley

The Wall Street Journal:"[Blinder] is a master storyteller... [After the Music Stopped] is one of the best books yet about the financial crisis."Michiko Kakutani, *The New York Times*:"Highly readable... Mr. Blinder draws on the work of many... reporters in his account. But if large portions of *After the Music Stopped* feel familiar, the book nonetheless benefits from its wide-angle perspective, as well as from its vantage point in time, now that it's possible to assess the fallout of decisions that were being made on the run by White House and Treasury officials under extraordinary pressures. It also benefits from Mr. Blinder's clear-eyed prose and nimble gifts as an explainer — gifts that sometimes approach those of Bill Clinton, when it comes to making complicated economic issues and policies understandable to the lay reader. Direct and concise, Mr. Blinder tells it as he sees it."Financial Times:"Blinder's book deserves its likely place near the top of reading lists about the crisis. It is the best comprehensive history of the episode... A riveting tale."The New Republic:"For a reader wondering how we got here, and why the people in charge have seemed, often, to be so chary of stringing up the culprits, or tearing down the system, Blinder's book - not least because his fair-minded approach and pragmatic mindset evokes that of America's current regulators — gives us an invaluable insight."USA Today:"What does all the knowledge mean to generalist readers? A lot, actually. Blinder is no defender of his economist colleagues or other former and current insiders who caused so much damage — or, at minimum, failed to see the collapse on the horizon. He writes clearly — as well as lots of journalists. That combination makes the book a worthy addition to the literature."Seattle Times: "If you want to get between the covers with your favorite econ nerd this season, I recommend Alan Blinder's *After the Music Stopped: The Financial Crisis, the Response and the Work Ahead*. Written by the former vice chairman of the Federal Reserve, this deserves a place among the top reads on the Great Panic and its aftermath."Cleveland Plain Dealer:"A prodigiously detailed yet generally accessible investigation of the roots of the meltdown, its multiple and continuing reverberations in the United States and globally, and the short-term fixes and long-term remedies required to treat, and then heal, the patient."President William J. Clinton:"If you want to understand every aspect of our

economic crisis—how we got into it, how we escaped a depression, why we haven't fully recovered, and what we have to do now—read this book. It's a masterpiece—simple, straightforward and wise."Paul A. Volcker:"True to his scholarly roots and informed by his practical insights, Alan Blinder has produced in *After the Music Stopped* both a comprehensive and, mirabile dictu, engagingly readable analysis of the great financial crisis. Whether or not one agrees with every particular judgment, the force of the argument is clear: here we are, four years later, still short of reforms that are needed."Bob Woodward:"Alan Blinder is one of the world's best informed and most balanced, sensible economists. His credentials include years as a senior adviser in the Clinton White House, then as vice chairman of the Federal Reserve and as regular op-ed contributor to the *Wall Street Journal*. *After the Music Stopped* is the best account available of what really happened in the 2008 financial crisis, why and what it now means for the future."Mohamed A. El-Erian:"Of all the books that I have read on the topic—and I have read quite a few—*After the Music Stopped* provides the most authoritative account of the why, how and what of the global financial crisis. This highly readable analysis takes you brilliantly through the construction of America's fragile house of financial cards, its sudden and dramatic collapse and, as important, the difficult reconstruction and rehabilitation work that must still be done. Whether you are interested in current affairs or in history, read this book if you want an expert and well-written analysis of how economics and politics interacted to create one big mess, not just for America but also for the global economy."

Alan Blinder has been a prominent professor of economics at Princeton since 1971, with only relatively brief stints as Vice Chairman of the Federal Reserve System, and as a member of President Clinton's Council of Economic Advisors. Despite his extensive background in academia, Blinder is able to clearly convey the causes of the financial crisis, the role of the Fed in averting Depression 2.0, and provide an insider's guide to the policy debates that occurred along the way. The book begins by setting forth seven principal "villains" of the meltdown, and then details how they collectively caused such great ruin to the U.S. and international markets. He also sets forth how improved risk management, higher capital and liquidity requirements, and certain other financial regulations may, but may not, reduce the likelihood of a future crisis. As he says, "only time will tell."As noted by many others, Blinder has an excellent writing style that is both informative and coherent. He explains the importance of the financial markets, comparing them to the circulatory system of the economic body: "and if blood stops flowing, well you don't want to think about it." Some have criticized Blinder's political orientation, and it is amply displayed: he twice mentions that President Bush "checked out" and Senator McConnell's statement that the single most important

thing the Republicans sought to achieve was for President Obama to be a one term president. He is also overly critical of Secretary Paulson's proposed 3-page TARP bill, notwithstanding the excessive and endless political fighting over the 2,319 page Dodd-Frank Act. Blinder explains that the economic policy decisions that were made by the three principal players Paulson, Geithner and Bernacke were in many ways inextricably linked to politics, and thus it would be unreasonable to expect an assessment of this period to be devoid of politics. Blinder focuses on the economic implications, and largely praises the actions taken. In sum, this book is an excellent contribution to the analysis of the financial crisis.

It's a very readable book about a complex and sometimes boring topic. In fact, the author is incredibly talented at making things simple and easy to understand. That being said, the last quarter of the book is really difficult to get through. For example, it discusses the various responses to the crisis, including all of the politics involved with the Dodd Frank act and the various programs developed to help borrowers at risk of foreclosure. The main criticism I have is that I think the book tries to do too much. As mentioned, the first three quarters are pretty interesting in its portrayal of the crisis and the factors that led up to it. It's good to have such a relatively recent history written of such an event, so that we haven't yet had a chance to distort how things went down or the problems involved. That being said, the rest of the book would benefit from being written a little further down the road after policies and programs have shaken out and we've gained a little perspective about the impact of the response.

Alan Blinder, a former vice-chair at the Fed's Board of Governors, doesn't break any new ground in "After the Music Stopped: The Financial Crisis, the Response, and the Work Ahead." But he has created a wide ranging and always readable account of the economic and business forces that created the Great Recession and the effective, but not perfect, remedial actions of the Federal government. IMHO, Blinder has also produced an interesting book that deserves wide readership. And for those of you considering "After the Music Stopped" for your book group, we have helpfully prepared the following questions, which will elicit discussion about subjects Blinder raises in FINANCE GOES MAD, the second section of this strong book. Our questions are:

- o Blinder identifies seven economic and business forces as the primary causes of the Great Recession. These are: inflated asset prices, excessive leverage, lax financial regulation, disgraceful banking practices, unregulated securities and derivatives, abysmal performance by rating agencies, and perverse compensation systems. Which forces does Blinder consider the "main villains"? Why?
- o In

2006-2007, the American residential housing bubble burst. What beliefs about housing created this bubble? How did the magic of leverage support these housing delusions?o By definition, investors who underestimate the risk of a bond overestimate its value. How did this dynamic affect the value of mortgage backed securities (MBS) and other bonds before the Great Recession? What policy at Greenspan's Fed exacerbated conditions underlying mispricing during the bond bubble?o In 2006, the five largest investment banks embraced a similar business model--that is, rely on short-term borrowing for funding while leveraging capital by 30-to-1 or more. At such businesses, what happens when the value of assets drops a mere 4 percent? Why?o When the bubble for MBS burst, a much larger associated bubble--that for leveraged bets on MBS--also burst. What was the role of derivatives in this second and larger bubble? What is synthetic leverage?o In 2005, subprime lending amounted to 20 percent of all new mortgages. And by 2007, more than half of all subprime mortgages were originated by brokers, not banks. What was the regulatory reaction to this change in the mortgage business? What was the justification for this reaction?o What is a derivative? Do derivatives hedge or create risk? Explain.o What is a credit default swap? Does a CDS hedge or create risk? In 2008, 80 percent of the CDS outstanding were "naked". What does this indicate about CDS usage?o In the 2003-2007 period, the balance sheets of Fannie Mae and Freddie Mac shrank slightly while the balance sheets of banks and investment banks were roughly doubling in size. In light of this fact, is it sensible to blame Fannie and Freddie for the collapse of mortgage market?To meet demand, we may prepare discussion questions for the subjects Blinder raises in PICKING UP THE PIECES, THE ROAD TO REFORM, and LOOKING AHEAD, which are parts two, three, and four of "After the Music Stopped." But for those of you who cannot wait and want to know now, now I say, where Blinder stands on the management of the financial catastrophe, the regulatory response, and the winding down of the crisis, we will tell you that he thinks:o Paulson, Bernanke, and Geithner did a very good job, all things considered.o The Dodd-Frank Act is surprisingly strong; but regulatory reform can be no better than its rules, which are now being written in Washington.o The Fed knows how to shrink its enormous balance sheet. But it will be tricky to do so while unemployment remains high and economic growth is lackluster.Binder gets the final two observations:o The phrase "job-killing government spending" became John Boehner's mantra. Never mind that it made no sense.o It is a measure of the Obama administration ineptitude in communication that the public came to see Geithner, Summers, & Co. as tools of Wall Street while at the same time the bankers who were saved from oblivion came to hate the administration for scapegoating them. Acquiring one of these two images was excusable, maybe even unavoidable. Acquiring both at the same time amounted to gross political negligence.

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