

## Summary of the Afternoon Roundtable with Professor Richard Mancke

On Friday, January 22<sup>nd</sup> 2010, the ASL had the great pleasure to welcome Richard Mancke, a distinguished professor of economics, to an afternoon roundtable. Prof. Mancke, who is specializing in industrial organization, has had a remarkable career, teaching at the University of Chicago Graduate School of Business, the University of Michigan, and Tufts University's Fletcher School before he moved to Germany in 1999. Until two years ago, he taught at the Handelshochschule Leipzig. Besides his academic appointments, Prof. Mancke also served as Staff Economist of the President's Cabinet Task Force on Oil Import Controls and testified on several occasions before Congressional Committees on US energy policy.

The topic of the event was "The World Economic Crisis and the United States: Causes, Consequences, and Scenarios for the Future." Students, staff and faculty members who filled the seminar room to the last seat, had been prepared for the discussion through a number of articles, ranging from obituaries of Paul Samuelson and Milton Friedman, and the crisis of the financial sector to comments on the political debate surrounding cap-and-trade system and tax reform.

In the first part of the roundtable, Prof. Mancke demonstrated the current dilemma of US economy by presenting a few measures of the US macro economy: the real GDP, the household net worth, and the value of US stocks have all dropped significantly in the United States while at the same time US net dept to non-Americans has increased to the staggering figure of \$3.5 trillion in 2009.

How was this possible? To answer this question, Prof. Mancke started with the dynamics that have determined the US real estate sector in the years before the crisis. In order to maximize profits, banks started to increase leverage on real estate credits, which led to enormous amount of "bad" credits. The resulting risk from these credits has been distributed in financial packages, such a hedge funds, which were then sold to investors in the US and abroad; a system that generated immense profits for banks and investors as long as real estate prices were rising in the United States. When prices began to fall, the whole system collapsed: borrowers could not pay back their loans, banks lost their money. At this moment, the crisis had hit the financial sector; first in the USA then abroad. The consequences are well-known: the collapse of the Lehmann Brothers, the crisis of Hypo Real Estate and the *Landesbanken* in Germany etc. Soon afterwards the lack of bank liquidity led to a crisis of the economy as a whole.

Moving away from the specifics of the current economic crisis, Prof. Mancke turned his attention to the underlying socio-economic problems in the United States. Although declaring himself a supporter of the Reagan presidency, he sees the soaring income inequalities (partly a result of Reagan's economic and fiscal policy) since the 1980's as one of the most fundamental problems in US society. Additionally he detected four long-term failures of US economic policy that are likely to turn the current financial crisis into a long-lasting economic crisis: (1) the low taxation of motor vehicle fuels; (2) the inefficient high-cost healthcare system; (3) US adventurism, such as the Vietnam and the second Iraq war; and (4) the underinvestment in public infrastructure.

So what are the solutions that Prof. Mancke has to offer for the structural deficits in the US economy? Being a supporter of the classical school of economics, as advocated by Milton Friedman, he sees little virtue in the bank rescue measures of the Obama administration. Instead he proposed that banks that lost too much money due to high-risk real estate policies should have gone bankrupt or should have been nationalized. This would have had an educating effect: "It is better to hit the ground fast and then rebuild trust in the financial sector as quickly as possible," said Mr. Mancke, even with the significant short and mid-term consequences that would consequently hit large parts of the US population. A position that probably surprised at least some of the participants of last Friday's roundtable. The government should counteract moreover the overall wastefulness of US society with measures like the introduction of a sizeable tax on gasoline. The money from such a measure could then be invested in a more sustainable healthcare system and in public infrastructure or in financing the Social Security system (America's state retirement program).

The last part of the roundtable was open for a general discussion of the current political situation in the United States. The topics of the discussion ranged from the primary system, the Massachusetts election, and the introduction of a bonus tax in the US to general reflections on Barack Obama's political situation one year after he moved into the White House and less than a year before mid-term elections. Most participants agreed that at the moment the political will, which would be needed to conduct substantial structural reform, is missing. Instead, power struggles between Democrats and Republicans determine day-to-day politics.

Overall the participants of this ASL roundtable spent three very entertaining and informative hours with Prof. Mancke. Maybe not everyone would agree with everything he had to say, but it is certain that everyone was grateful to meet such a distinguished scholar and intimate expert of the financial scene and get to know his refreshing perspectives. We all hope that this was not the last time that Mr. Mancke pays a visit to the ASL.

Martin Walter

Institute for American Studies