

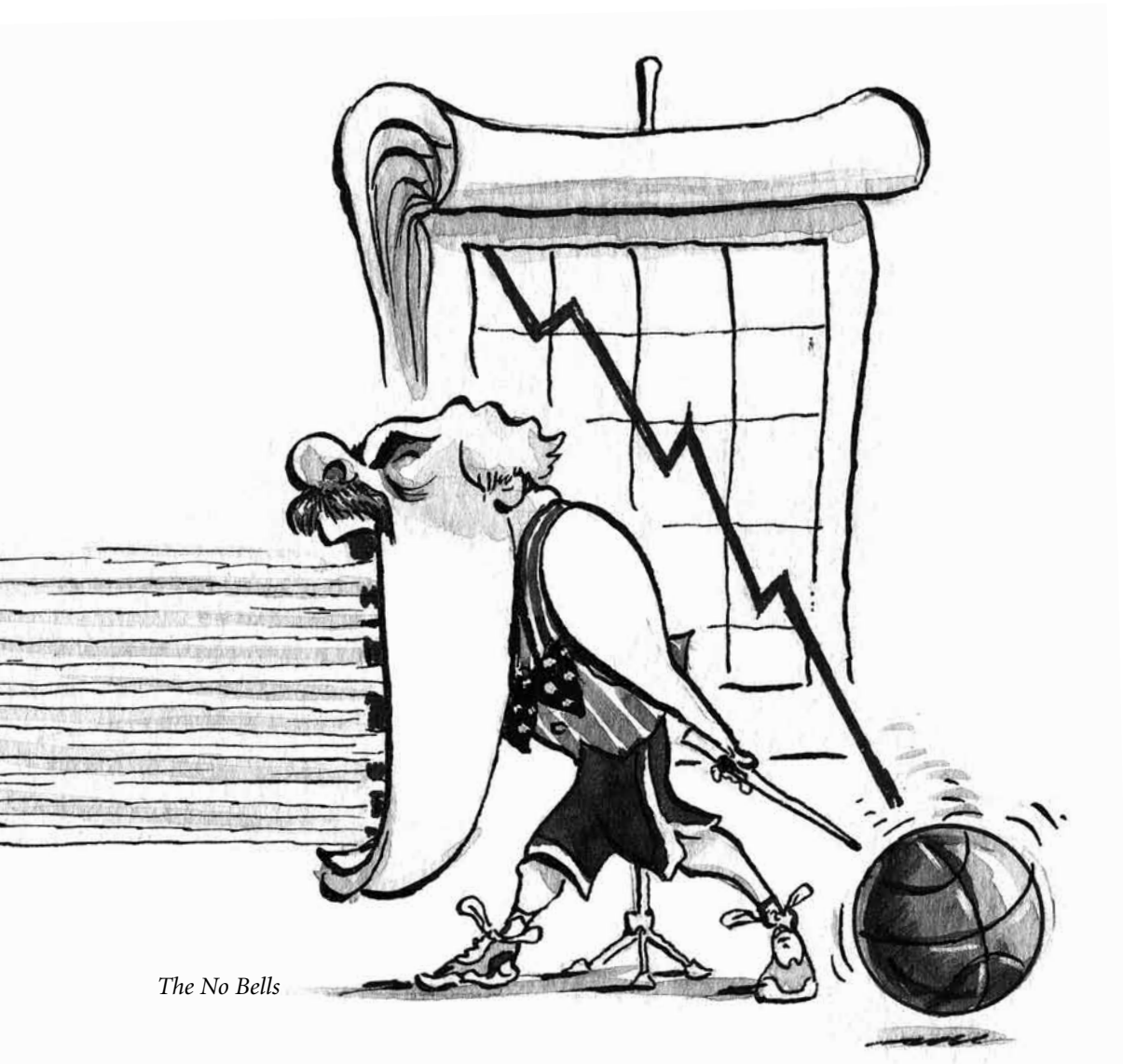
THE SWEET



The HurriKeynes

Last August, the *University of Chicago Magazine* asked

Allen Sanderson, a senior lecturer at the university and a teacher of legendary talents, to come up with an NCAA basketball-like tournament with regions, brackets and seeded competitors, in the spirit of March Madness. But instead of a tournament among basketball teams, Market Madness was to be comprised of the 16 most important factors contributing to the global financial meltdown. (The editors' only instruction to Sand-



The No Bells

erson: The Chicago school of economics had to be one of the “teams.”)

Each team got a name, along with a capsule explanation for why it was included in the tourney. Chicago alumni and friends were invited to vote online for each sequential match-up. The winner, of course, was the voters’ choice for person, persons or thing most responsible for the recession. We’re delighted to offer our readers a chance to sample Sanderson’s wit and wisdom – and to second-guess Chicago alums.

Region I:

WASHINGTON, DC

1. The Federal Reserve System squad, the **Voyos**, coached by Greenspan and Bernanke, pursued up-and-down interest rate strategies, aided and abetted bailouts and bankruptcies, and engaged in accommodating monetary policy actions that now threaten to turn recession into inflation.
2. The Bush administration team, the **Indifferences**, cut taxes like (and for) Republicans, spent money like Democrats, looked the other way on regulation and, with sheer disengagement and an anything-goes attitude, forgot to mind the store or guard the piggy bank.
3. Never failing to profit from a crisis, the **PROGS** (Pelosi, Reid, Obama, Geithner, Summers) team relied on stimulus spending and fiscal sleight of hand, produced massive, unsustainable deficits, and stirred up market and individual anxieties over the next tax and regulatory shoes to drop.
4. The **Distavores**, the only foreign entry, looked beyond the beltway to wreak havoc with too many international balls in the air: terrorism and wars, trade imbalances, meltdowns in Europe, energy security and climate change concerns, China, and the slightly insane nuclear bad guys.



The Distavores



The Progs

Region II:

WALL STREET

1. The financial sector's **Moral Hazards** team is outstanding. They froze credit markets (except for themselves – the twerps got TARP) and forced us to Google “securitization” and “credit default swaps.” You do need a scorecard to tell the players: AIG, Bear Stearns, JPMorgan Chase, Bank of America, Merrill Lynch ... can you say “risk management”?
2. The **Excesses** featured executive compensation schemes, Madoff mentalities, and enough hide-the-fraud techniques and three-card-Monte dexterity to keep intellectually- and morally-challenged boards and regulators at bay. They could make even an ardent capitalist blush.
3. What could be more American than apple pie, the Cubs choking – and Toyota? Detroit (auto firms and their unions) dug an enormous hole for themselves. Then these same **Bailouts** wanted the rest of us to climb in with them. No more cash for these clunkers. What's good for General Motors is ... probably never a good idea.
4. Give your tired, your poor, your huddled masses (as well as your unemployed debtors) and we'll feature them on Page 1 and the Ten O'Clock News. Consumer (and business) confidence is an important gauge of economic activity, and the **Feeding Frenzies** media team is unrelenting in its self-interested pursuit of bad news.



The Excesses



Region III:

MAIN STREET

1. Addicted to credit cards and donuts, the **Big MACs** – Middle American Consumers – feature a spreading offense. They believe in free lunches and the debt-relief fairy, that mall-browsing is an excellent form of exercise, and that saving money is “so 20th century.”
2. In pre-season rankings, the **Foreclosures** were favored to win it all. The real estate market, egged on by ill-advised government policies that subsidized home ownership (think subprime mortgages, low interest rates and mega-tax breaks), provided incentives and arbitrage opportunities for folks to buy and/or flip large houses.
3. Satchel Paige warned us not to look back (because something might be gaining on us). But not looking forward is also unwise. In this case, changing demographics, brought on by the aging of baby boomers and myopic immigration policies, have affected (and will continue to affect) health care costs and Social Security commitments for the **Malthusians** starting-five.
4. **Stuff Happens** is a reliable team to pencil in. Business cycles are normal, recurring events in any economic system. We’ve experienced stock-market and dot-com bubbles; now, it’s housing’s turn. We had downturns in 1990-91 and 2000-01; we were about due for another one. As the first-do-no-harm doctor would advise, take two aspirin, drink plenty of liquids, and get some rest.



The Malthusians



The Feeding Frenzies



The Watchdogs

Region IV:

THE EGGHEADS

1. The **Invisible Hands** from the Chicago School of Economics, featuring the laissez-faire abandon of Milton Friedman, the efficient-market mantra of Eugene Fama, and the rational expectations of Robert Lucas, almost take pride in being cast in the role of spoiler – or spoiled sport – in this tourney.
2. The **HurriKeynes**, coached by JM Keynes. Strong on psychology, irrationality and herd-like behavior, these “behavioral boys” boast a starting lineup of George Akerlof, Robert Frank, Paul Krugman, Robert Shiller and Joe Stiglitz. But can they stand up against the rational, calculating play of the Chicago Boys?
3. Armed with models and data that have predicted 22 of the last 5 recessions, why didn’t the profession – academic and real-world, private and public macroeconomists – do a better job of alerting us to (and providing remedies for) this crisis? The make-up of the **No Bells** team makes one appreciate the appeal of magic and pine for the accuracy of weather forecasts.
4. The **Watchdogs**, the credit-rating experts and their performance handlers (where Moody’s is supposed to be an agency, not a feeling, and SEC does not stand for Southeastern Conference) bring their AAA game to this tournament. But can they hold their slice-and-dice tactics in check, learn other letters of the alphabet, and remember that being paid by the very people whose bonds they are rating just might constitute a conflict of interest?

MARKET MA

1st Round

2nd Round

3rd Round

Final

The Yo-Yos



YO-YOS 68%

DISTAVORES 32%

YO-YOS 40%

WASHINGTON, DC

INDIFFERENCES 83%

PROGS 17%

INDIFFERENCES 60%

INDIFFERENCES 60%



INDIFFERENCES 80%

INDIFFE

MORAL HAZARDS 77%

FEEDING FRENZIES 23%

MORAL HAZARDS 82%

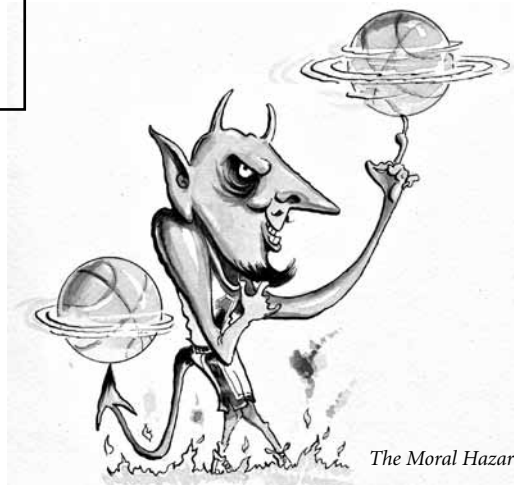
WALL STREET

MORAL HAZARDS 40%

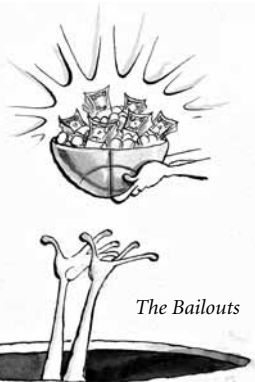
EXCESSES 56%

BAILOUTS 44%

EXCESSES 18%



The Moral Hazards



The Bailouts

DNES 2010

Round 3rd Round 2nd Round 1st Round

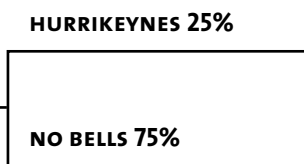
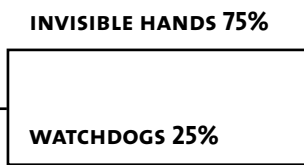
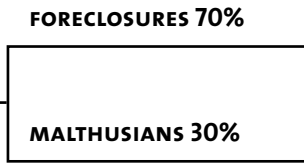
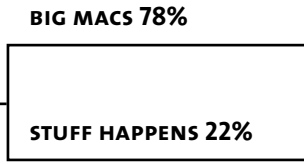
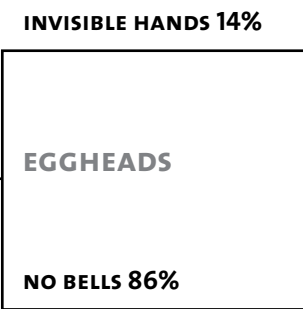
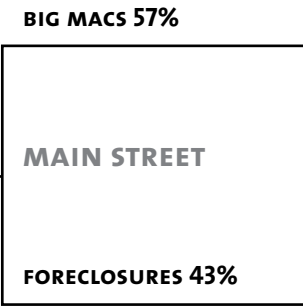
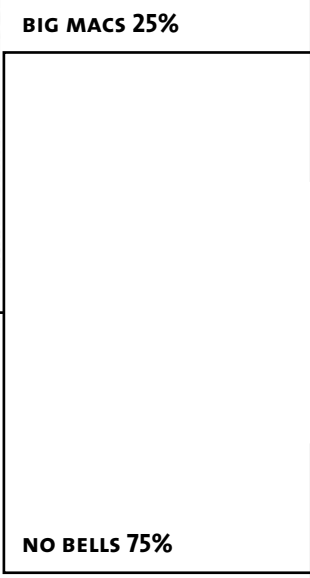


Indifferences



The Big Macs

DIFFERENCES!



The Invisible Hands



The Foreclosures

