

Die Welt

“Ökonom John Taylor glaubt nicht an Krise“

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Economist John Taylor does not believe in a crisis

The influential economist and former secretary of state in the U.S. treasury, John Taylor, sees a healthy correction in the turbulences of the past days at the financial markets. “The return on risk has so far been much too low. It has normalized now”, he says.

In particular, institutions that have continued to bet on an extremely low return on risk with second class U.S. mortgage financing, should have lost a lot of money. “It is indeed possible that they need additional financial injections like the IKB”, according to Taylor. “But as long as the economic environment stays robust, the risk of experiencing a similar crisis like in the 90s stays relatively limited.”

As a result of the real estate crisis in the U.S., many home owners can no longer pay back their loans. This has brought losses to many investors, who had invested in the U.S. mortgage loans, such as the German medium-sized bank IKB. But many international hedge funds have over-speculated and went bankrupt.

But even in the case that a number of hedge funds will still go bankrupt and pull the credit giving banks after them, Taylor does not see a problem for the financial system. “However, even in this case there are effective counter measures such as central banks ensuring adequate liquidity.”

This is why he rejects a stronger regulation of the hedge fund industry. This had been requested by the German government during the G-8 summit. “By no means should the state become active”, says Taylor. “This would be counter productive.” The risks for the financial system are controllable and the investors of hedge funds know exactly what they do. “These are rich people, who make great profits, but who also assume a high risk. When they speculate wrongly, their money is just gone. But it should not be our task to protect these investments.”

John Taylor teaches economics at Stanford university, California and is known in the financial world for the “Taylor rule”. It describes the criteria according to which central bankers set short term interest rates. Between 2001 and 2005 he was the state secretary in the U.S. finance ministry.

You can read the complete interview with John Taylor tomorrow in the Welt am Sonntag.