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Excerpts from

The Squam Lake Report: Fixing the Financial System*

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† This article reprints most of Chapter 1 (Introduction) and Chapter 11 (Conclusions) of *The Squam Lake Report: Fixing the Financial System* (Princeton: Princeton University Press, 2010). It is reprinted here with the permission of Princeton University Press.

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Abstract

In these excerpts from *The Squam Lake Report*, fifteen distinguished economists analyze where the global financial system failed, and how such failures might be prevented (or at least their damage better contained) in the future. Although there were many contributing factors to the crisis—including "agency" problems throughout the financial system and a bankruptcy code poorly suited for reorganizing financial firms—at the core of the problem is a potential conflict between the risk-taking proclivity of financial institutions and the interests of the economy at large that must be managed at least in part through more effective regulation. *The Squam Lake Report* provides a nonpartisan plan to transform the regulation of financial markets in ways designed to limit systemic risk while preserving—to the extent possible and prudent—the economies of scale and scope that justify the existence of today's large financial institutions.

To reduce the risks that large banks will fail, the authors call for higher capital requirements based

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