

Unencumbered by the Thought Process

BY DAVID LEINWEBER (author of *Nerds on Wall Street: Math, Machines and Wired Markets*, John Wiley & Sons) Trying to understand what happened to capitalism in 2008 without serious data collection and analysis is a poster child example of reasoning “unencumbered by the thought process,” the theme of a brilliant commencement address given at the Massachusetts Institute of Technology by two smart graduates of that institution, National Public Radio’s Click and Clack, the Car Talk

like to believe that this crowd will use a careful, scientific approach, despite the distractions of health care, two wars and trying to get reelected. I also like unicorns.

The truth is, these public servants, seeking to interpret the greatest crisis since the Great Depression, are doing no more than rounding up the usual suspects — the fat-cat bankers, the slick fund managers and the like — and saying “You’ve been bad!” in front of a battery of cameras. Such theater may be great for scoring quick political points, but it isn’t particularly enlightening.

While Congress dithers, others have put forth some excellent proposals to help now. One comes from Andrew Lo, director of MIT’s Laboratory for Financial Engineering. He suggests a Capital Markets Safety Board modeled after the National Transportation Safety Board. After the next financial crash, “an experienced team of forensic accountants, lawyers and financial engineers [will sift] through the wreckage” of financial institutions and prepare a public report explaining how it all happened. Not only will the study decipher the immediate causes of the crash, it will generate recommendations on how to avoid crashes in the future.



Click and Clack, a.k.a. the Car Talk Guys

Guys, a.k.a. Tom and Ray Magliozzi. Behind their humorous message was a painful truth. We make all too many important decisions without firing up a full set of cerebral pistons. The U.S. Congress seems particularly prone to action without sufficient thought.

Consider the House Financial Services Committee. It has — count them — 72 members, enough to field a softball league that could be coached by committee chairman, Congressman Barney Frank. Many are in dicey seats, having been placed on the committee to draw cash from this campaign contribution honeypot. I’d



If financial systems had flight data recorders, what would they record? And who would read them when they came back looking like this?



Coach Barney Frank

Another fine suggestion comes from the Committee to Establish the National Institute of Finance, a mix of academics and Wall Street sorts who have the wacky notion that this is a complicated business, and that perhaps keeping an eye on things before they crater the economy would be a good idea (sign up at ce-nif.org).

Either approach — a Capital Markets Safety Board or a National Institute of Finance — would offer a much-needed dose of the scientific method, fully encumbered by the thought process. Let’s not waste this crisis. And don’t drive like my brother. ●●

CAR TALK GUYS: RICHARD HOWARD; BARNEY FRANK: KEVIN LAMARQUE/REUTERS; FLIGHT DATA RECORDER: COURTESY NATIONAL TRANSPORTATION SAFETY BOARD