



Association of Performing Arts Presenters

Economic Crisis, Civil Society & Creativity

Jeremy Nowak, President of The Reinvestment Fund

Introduction

I want to thank you for inviting me to this opening plenary session. I hope you have a great conference and that despite the gloomy times we live in, your conversations over the next several days remain grounded in the importance and dynamism of your work. We live in a world that has overvalued complex financial instruments and undervalued the creative impulse of citizens, artists, and the myriad processes through which we construct meaning. This conference would be wise to affirm that commonsense observation.

No doubt some of you have experienced the recent economic downturn in terms of your craft and business: decreased sales at the box office and galleries, the impact on philanthropic and public sector budgets, and a decline in individual and organizational wealth and income. This is not a good time to go to market with tax-exempt bond financing for new facilities nor is it the ideal moment to start a new capital campaign. The full impact of economic change is only now being felt and the next year promises to be difficult in terms of the commercial aspects of artistic sales and the commissioning of creative opportunities.

Before making my remarks I would like to mention a few things about myself and what I do as a point of reference. Despite your kind advertisement for my talk, I have to correct you by saying that I am not a professional economist. I deal with money and investments and I currently sit on the Board of Directors of the Philadelphia Federal Reserve Bank. But my academic training is in philosophy and anthropology. Those fields prepared me for understanding the historical evolution of ideas, including those that populate economic theory. It has also given me a comparative perspective on both economic and social systems. One of the joys of the anthropological imagination is its unwillingness to accept an absolute consensus on how the world operates, including conventional assumptions about economic behavior and systems. I am skeptical of systemic inevitability and this keeps life interesting.

I think of economics practice and theory in normative and historical terms, as well as purely technical ones. I prefer those traditions of economic and social thought capable of asking fundamental questions about social life and public good, as opposed to only dwelling on complex algorithms geared toward narrower and narrower subjects of inquiry. The domination of much of economics by the concerns of financial markets and mathematical models brings with it both remarkable insight and dangerous myopia. If we lose the balance between instrumental logic and the capacity to think broadly, public discourse suffers.

For the past several decades, I have had the privilege (through an organization I

founded) of allocating hundreds of millions of dollars into some of America's most distressed cities and communities – building thousands of housing units, providing financing for the finest innovations in inner-city school reform, demonstrating the viability of financing supermarkets in low income communities, and providing investments to hundreds of small businesses. We have also taken a particular interest in financing artistic and cultural spaces: artist work areas, performance spaces, craft-based entrepreneurs, theatres, public plazas, and mural arts efforts. As a result, I appreciate the way in which creativity is a powerful catalyst for place-making, particularly in older industrial cities and towns. Recently, the Rockefeller Foundation, in collaboration with the Social Impact of the Arts Project at the University of Pennsylvania, gave me an opportunity to reflect on issues at the intersection of creativity and urban development – a subject about which we are only scratching the surface.

TRF finances projects that reside in the real economy. I do not romanticize that economy nor the people for whom and places in which it occurs. It is filled with difficulties and obstacles, but it is the organizing infrastructure for our craft. And it is a craft that I love! I love reclaiming blocks of abandoned buildings, creating quality services and schools, figuring out how to manage risk that others frown upon, and most of all linking organized citizens and organized money into a virtual circle of development and confidence. I have no interest in drifting into that part of the economy obsessed with the re-packaging and trading of securities and making obscure bets on future outcomes of those securities; this is an economy where at every stage of the transaction value is extracted and risks are often obscured. I use it in order to create liquidity for my organization, but it never dominates my thinking or operating logic.

In my part of the economy, I have suffered only negligible losses, but neither have I made significant wealth. I run a profitable organization that uses market disciplines to deliver social and economic benefits, but is not hampered by the necessity of maximizing profit. We can distinguish and exert control between profitability and profit maximization as long as we are able to exert control over the capital structure of the organization, the expectations of investors, and the ability to circulate in the grey zone of public purpose and markets.

A particular example of our work that may resonate with this audience involves rebuilding one of the communities made famous in the HBO series, "The Wire." This is a neighborhood where four years ago a woman named Mrs. Dawson, who fought to keep drug dealers from running the community, had her house firebombed and lost her life and the lives of her six children. Shortly afterward TRF teamed up with a wonderful group of inner-city churches organized by BUILD, a local organizing group, to buy hundreds of abandoned housing units and begin the process of rebuilding that neighborhood. Prior to doing that we walked every street of East Baltimore, along with hundreds of local volunteers, using commonsense and computer aided design to chart an authentically directed future for the neighborhood. We met in church basements and living rooms, listening, providing information, and co-creating a strategy for change.

The first homes are now being bought and occupied in the midst of the financial meltdown. Two weeks ago, in a magically irrational economic act, we purchased a liquor store that was selling alcohol to young people and functioned as a gathering place for drug distribution. We overpaid because its demise was worth more to us than the market value (and the owners knew it). We then added to this irrational act by publicly burning the liquor license – which we could have sold on the market for

\$75,000. At least it got us a good article and picture in the Baltimore Sun. Now I am no member of the local temperance society, but creating assets and eliminating harmful liabilities is an act of creative citizenship and it marked a high point in my life.

I realize that is a long-winded introduction. But it helps sets the stage for my remarks. My job today is to speak from that grey zone between civic and private in an effort to reflect on four issues: 1) the nature and cause of the current financial situation; 2) where we are headed in terms of public policy; 3) some lessons from the present wreckage; and 4) my sense of what this means for the creative sector as an important part of both the economy and civil society.

1. The Financial Crisis

The current financial crisis is a result of three interrelated events: 1) the bursting of a housing bubble; 2) the decreased solvency of the financial and credit system; and 3) recessionary effects causing a decline in Gross Domestic Product, jobs, and corporate profits, and an increase in personal and small-business bankruptcies. To some extent, all of these issues are now global in reach and threaten the health of both developed economies (Euro zone, Japan) and developing economies.

These events have affected or been affected by the stock market, which has fallen from a high of 14,000 (Dow) to a low of about half of that. Moreover, as stock and housing value declines continue, the aggregate loss of wealth experienced by American households has been acute. In just the past 18-24 months, all of the housing equity gained during the housing bubble of the years between 2002 and 2006 evaporated. And for the first time in many years, we are losing value consistently in asset classes common to most Americans (housing and the stock and bond value of mutual funds and pensions). This wealth loss is widespread and it affects behavior – what we buy, where we travel, what we are able to borrow, and what kind of risks we are willing to take – which in turn creates increased job loss, uncertainty, and deflation in the value of many assets.

We talk about recessions as a normal part of a business cycle and remind ourselves that we have had a half dozen or so recessions in the past fifty years. But this current downturn signifies something unusual. For one, it will last longer (13 months so far, but likely a good 24 months or more). The longest recession in most of our adult lifetimes has been 16 months and most have averaged around 9 or 10 months. Secondly, it will be deeper in terms of negative growth, certainly than the most recent recessions. While the figures are not out yet, I think that the fourth quarter of this year will show negative growth of at least 4% and perhaps higher. Thirdly, it signifies something fundamental about the current economy, especially the institutional culture of American finance and Wall Street. This recession is accompanied by a financial institution crisis and will therefore have deeper significance. It is this third point I will focus on at some length because it ties back to the issues of the session – what this means for our culture, for civic life, and for the creative enterprise in general.

The problems we are experiencing today are partially a result of an extraordinary run-up in debt at every level of society – public sector, consumer, and corporate. The greatest debt expansions have occurred with consumer and corporate debt, although the recent hum of the federal printing press will soon give these other sectors a run for their money. Consumer debt alone, which 25 years ago represented about 45% of GDP, is now about 100% of GDP. And this is not just a matter of

mortgage loans or the subprime lending industry but of a massive extension of credit cards, auto loans, student loans and other consumer debt.

The siren call of debt has been visible in every retail strip and in every mailbox. Could you walk down a commercial avenue in a lower-income or even some middle-income communities during the past two decades without being deluged with pay day loan operations, home mortgage finance companies, check cashing agencies, pawnshops, car title loan outlets, and tax preparer operations that offer revenue anticipation loans? Could you open up your mailbox without being deluged with teaser-rate credit card offers? I am certain that you, like me, were part of carefully selected elite group that was offered a special deal for a few months which eventually calculated out to 20% or more in interest payments. We were all special; to breathe meant you were special.

In one sad but comical episode, I remember getting a call from the nursing home that took care of my 89-year-old mother before she passed away some fifteen months ago. She had no assets and no income outside of social security and the contributions of her children. But she not only continued to receive credit card offers as a result of her excellent credit history, but one day she was sent a stack of checks for immediate use. The nurse found her filling out the checks to pay for her room in Atlantic City, where she often imagined she was vacationing. Luckily she wrote the check out to a hotel that had not existed for forty years or so. And I was able to get them away from her. So much for automated credit scoring systems!

The conventional argument of the Greenspan years was that this massive run-up of debt was not a problem because it was accompanied by a concomitant increase in wealth. But that argument has fallen apart as the decline in wealth has become so significant, making it clear to so many households that they are sitting on a pile of debt with no recourse to pay down through the sale or re-financing of assets. Of course, the Greenspan argument was always somewhat problematic: it did not take into consideration the lack of sustainability between income and debt in households; it did not distinguish carefully among different income cohorts and how the over-indebtedness of the bottom 40% of the population was never covered by a significant wealth increase; nor did it ever (until very recently) come to terms with the utter madness of poor underwriting and the explosive nature of not just a sub-prime mortgage market but, as one commentator called it, a sub-prime financial system. America became a debt machine and we are now paying for it by having to de-lever household, corporate, and government obligations. Moreover, we are paying dearly for a state of denial that up until 2007 was reflected in statements by Fed Chairman Bernanke and Treasury Secretary Paulson that the subprime mortgage problem was largely containable.

We could spend a lot of time on why this happened and who is to blame: profligate consumers, rating agencies, a \$10 trillion shadow banking system with inadequate capital requirements, poor (and often non-existent) public regulation and enforcement, lenders who took advantage of unsophisticated consumers, or structural problems with entities such as Fannie Mae (privatizing gain, while socializing risk).

But one thing ought to be clear: the housing bubble, along with the sale of other capital and consumer goods, was a **debt bubble** facilitated not only by the availability of capital (what economists call liquidity) but by the construction of a new system of debt allocation and risk displacement. All along the continuum of debt provision from brokers to lenders, to appraisers, to rating agencies, to investment houses that bundled mortgages and other assets and sold them to investors, to the

insurers of the debt instruments, there was a profitable but unsustainable system that piled unimaginable levels of debt onto our collective balance sheet. The incentives of this system were misaligned so as to maximize short-term profit and competitive advantage (vis a vis competing firms), while enabling a longer-term crisis.

The system crashed once the underlying value of the assets came back down to earth and the inability to make payments on many of those loans revealed the flaws in the overall architecture of the new financial innovations. As the pricing of assets began to decline on the balance sheets of financial institutions, as their net worth became impaired, as the major sources of government sponsored liquidity (Fannie Mae and Freddie Mac) went into receivership, as the number of Americans facing and experiencing foreclosure rose, and as fears grew about the risk embedded in exotic (and not terribly transparent) derivative products, we experienced the greatest unraveling of the financial system since the Great Depression. It certainly dwarfs in scale, cost, and complexity the S&L crisis, even though they share some interesting elements, not least of which is a common geography of speculation. Indeed, this is no ordinary recession. It is a recession facilitated by and accompanied by a major crisis in the solvency of the financial system itself.

As this all happened, major banking and Wall Street firms – AIG, Indymac, WAMU, Wachovia, Bear Stearns – were assisted by the FDIC, Treasury, and the Federal Reserve. The reasons for Federal Reserve and Treasury assistance for major Wall Street (non-bank) companies revolved around the fear that in the absence of a bailout, risk to the broader financial system would ensue. This is the only reason most economists should want to subscribe to a bail-out; its failure would result in significant systemic risk that would affect a critical mass of other firms and individuals and lead to a more significant problem. Of course, we do not have a very good measure for any of this, nor have American citizens who are underwriting the bailouts been given anything resembling an analysis of how it was measured. Thus – as in the case AIG – we have taken this all on faith. And of course, we rarely get a counter-factual, such as what would happen if we simply let it fail (although some would say that Lehman is the closest thing we have to such a counter-factual).

The other side of the systemic risk argument is the familiar concept that came from the insurance industry a few hundred years ago (and has since migrated to economics, various other social sciences, and public policy); the notion of *moral hazard*. Moral hazard posits that if you insure risk, then at a certain point it will subvert behavior by making us more likely to act in a careless and less self-regulated manner. Take away too much risk, and I lower my guard. If I know that the value of assets or income will be covered in some way, then I may change decisions I make. If I see that there are no consequences to a default or non-payment, then I may simply follow suit. At the level of a major corporation, the fear of moral hazard is that if risk is socialized (the bailout), what prevents us from taking undue risks in the name of short-term gain, but long-term instability? Moral hazard is partially linked to the "too big to fail" problem, but they are one and the same.

Now wherever you stand on these issues – wherever you think the sharp edge is that separates moral hazard and systemic risk – we have witnessed an extraordinary set of decisions taken by the Treasury Department and the Federal Reserve that has defined this edge and embedded those costs within the federal budget. And since the time of the early bailouts we have watched a massive flow of government capital that has gone to recapitalizing the financial sector, which in turn has facilitated greater levels of financial sector consolidation. One day, Americans will wake up from

all of this and come to terms with the fact that there are now four major banking holding companies – Bank of America, JP Morgan Chase, Citigroup, and Wells Fargo – that represent about 80% of all bank assets from among a group of about 8,000 banks.

The recapitalization of the banking system and the decision to grant bank holding company charters to the remaining investment houses and others (Goldman, Morgan Stanley), complete with temporary exemptions from such knotty problems as capital adequacy, has led to a more spirited public discussion about the propriety and strategy of recapitalization. Much of this discussion has revolved around the issue of what they are doing with the public dollars. Does it have a public purpose and can citizens reclaim the investment and make money, given the nature of the risk?

Just last week, GMAC received a significant infusion of government capital that will allow it to make auto loans (including subprime loans) as a way of both propping them up and helping to move automobile inventory. I do not know whether this makes sense. I do know that it serves the interest of at least one major private equity firm with a major stake in the company; and I wish that I knew more about the reasoning and management covenants that accompanied the public investment.

So this is where we are in terms of the financial crisis. But I would like to point out one further item. There has been a parallel set of policy options and prescriptions throughout this crisis that have focused more attention on stabilizing housing values and keeping people in homes, rather than focusing on the impaired balance sheets of financial institutions. The two are related but it is a matter of emphasis and strategic priority. By taking the path we have chosen through the Treasury Department's TARP program and the many liquidity instruments and monetary policy changes at the Fed, we have made very explicit choices not only about emphasis, but about causality. We had better be right!

2. The Next Major Policy Moves

All of the data available leads prognosticators to believe that 2009 will be a very difficult year in terms of economic growth and that 2010 will record only a very slow recovery. Today, retail sales are anemic, manufacturing data shows dramatic declines, and there is not great news in terms of employment and corporate earnings. There will be additional bank failures, although hopefully not at the scale of Indymac or Wamu. Moreover, the cavalcade of non-bank financial institutions that have closed recently – from mortgage companies to hedge funds – will continue. (More than 300 mortgage companies in about 36 months.)

At least in the near term, the crisis in liquidity or the absence of available credit at reasonable pricing and terms to even healthy companies has become a problem. Thus a manufacturing company in my portfolio runs a small profit but has its accounts receivable or inventory-working capital line cancelled; at the same time that its vendors demand faster pay on trade accounts. Moreover, the company lacks the working capital to bid on certain contracts. So what does it do? It does what many small businesses do: it becomes cautious, it cuts back on workers and production capacity, and it pays a greater price for capital.

These are the natural consequences of an economy without liquidity, due to the fact that nobody trusts the balance sheets of the other companies. Lending institutions are staying on the sidelines until they feel that they are in a position to plunge back into the economic water. Meanwhile, popular anger grows around the distribution of

Treasury assets to these same companies that are not lending. But only a few papers – The New York Times, Wall Street Journal, Financial Times, and the Washington Post – have given anything close to quality coverage of these issues. Most papers can't afford to follow it or don't understand it.

Looking at 2009, we hope that the unemployment rate does not get to the 10% range as it did in the recession of the early 1980s. The consensus view – for what it is worth - is 8% or a bit north of that. Finally, the massive borrowing that we are doing right now in order to salvage the financial system and stimulate the economy will have its own day of reckoning, although we have collectively decided not to worry about that for a few years. A responsible new national administration worried about rising U.S. debt, higher unemployment, an economic slowdown, and the spectre of the federal entitlement crisis hitting all at once has no choice but to ask tough questions about the nature of Treasury Department banking allocations, as well as the economic multiplier of stimulus dollars.

In the midst of all of this, four extraordinary policy events will unfold over the next several years: 1) a stimulus program; 2) a more serious foreclosure mitigation strategy; 3) the reorganization or reinventions of the financial regulatory system; and 4) the reorganization of the housing finance system.

First, we will create an economic stimulus of about ? trillion dollars – less than some say is needed – designed to create spending power, employment, and optimism. The nature of this stimulus is still being debated and we will not really know its content until the Obama administration moves it through the congressional process. But it will largely flow through State block grants; it will be partially oriented toward *ready-to-go* public infrastructure projects, but also geared toward some longer-term economic investments. How we define stimulus or infrastructure spending will mean a lot to the people in this room.

Secondly, we will be forced to offer a more radical solution to housing foreclosures than the present smaller, scattered-shot approaches at Federal, state, and local levels. It will ultimately have to be on the scale of the Depression-era HOLC program, and it must be able to buy down principal as well as re-structure debt terms. There are some important ideas about this floating around including one that I recently read authored by Mark Zandi, the chief economist for Moody's Economy.com. Something more fundamental will have to take place sooner rather than later. Recent data from the Office of the Comptroller of the Currency demonstrates the futility of partial solutions, as almost 60% of the households that had re-structured loans, went back into foreclosure within a short period of time. Keeping people in homes is now a systemic risk problem that if not solved will lead to the further devaluating of real estate in general. It lies at the same edge between systems risk and moral hazard.

Third, as we pick up the wreckage of the past several years, we will have to re-think the overall (and outdated) regulatory system for financial markets. We have too many important institutions and financial products that are not transparent. We have a Securities and Exchange Commission that is fully inadequate to its oversight task; we have multiple banking regulators that have competed for customers rather than competing for quality; we have had a failure of private rating agencies; and we are not able to aggregate across institutions and borders the global information we need to assess risk. Moreover, at almost every level of government – certainly at the Justice Department – we have decided against real enforcement measures that would protect consumers and small investors.

Finally, the major Government Sponsored Enterprises that defined housing finance liquidity and held mandates for middle- and lower-income affordability are in shatters. Two of them are in receivership and one of them, FHA, is overwhelmed and hobbled with a new wave of subprime loans that were loaded into the agency as the housing finance system began to melt down. We will have to decide what we want to privatize and what we want to nationalize, and what is not longer needed. America has a long history of GSEs, going back to our rural populist days when we created the Farm Credit Bureau; what is their meaning and function in the 21st century and what form should they take? Moreover, we must re-engineer securitization for all asset classes in ways that insist that risk remains, at least partially, in the hands of originators. George Soros wrote an op-ed in the Wall Street Journal several months ago suggesting that we adopt a securitization system along the Danish model. I do not know if that is the right answer, but it is time to re-think the present system.

These four initiatives create an opportunity to re-think the relationship between public, private, and civic spheres. It is a once-in-a-lifetime opportunity that will affect us for generations. The financial systems collapse of the last two years marked the end of an ideology of market fundamentalism as preached through the constant deregulatory actions and aversion to enforcement that was not just a Republican/Bush-era relic (although much more egregious in the past 8 years). It also resulted from the Democratic Party's awkward grappling with 21st century market mechanisms as it balanced complex constituencies that spanned inner-city neighborhoods and cosmopolitan hedge fund managers. Authors such as Kevin Phillips have done a good job pointing out the influence of Wall Street ideology on both parties and its capacity to limit political discourse and options.

Our task today is to construct a regulatory system that, while not constraining market dynamism and innovation, nonetheless restores the public purpose of finance through more sophisticated forms of transparency, accountability, and responsibility. Most regulatory schemes solve yesterday's problem and not tomorrow's problems. We are going to have to be a little smarter this time if we want to restore confidence in the banking and finance system.

3. What should we learn from all of this?

The short answer is, I hope something. Unfortunately, markets have a peculiar capacity to foster amnesia. When they are moving upward, we feel they will never come down and when they are moving downward, we assume the end of civilization as we know it.

Beware of bubble mania: The first thing we ought to learn is to be cautious about the bubble syndrome and how it distorts logic. When the technology bubble was at its height we were willing to believe in pretty much anything. We all decided that 'pre-revenue' companies with interesting web sites could have fabulous market values in the absence of any proof that they could make money. We became instant technology experts and bought arguments about the ways in which productivity gains were no longer measured through the profit and loss statements of companies. They represented mysterious forms of productivity that would eventually demonstrate the rationality of market values that seemed unworldly. A few certainly did, but many did not and we watched the NASDAQ evaporate.

At the height of the real estate boom, we decided contrary to history that residential real estate markets only rise and that turning a house into a credit card would be a prudent strategy. In fact, if you still considered your house as just a home, you were

thought of as kind of quaint and old-fashioned. Ten years ago if you borrowed money for a house you could afford a mortgage that represented about 3 times your annual income. Thanks to low interest rates, teaser rate loans, and bad underwriting we began to make loans to people where the value of the house was 10 times their annual income. The assumption was that the capacity to refinance or sell the ever-accelerating value of the asset would forestall payment problems. We know the eventual result.

The laws of gravity still prevailed. We were not living in a magical period where all the old paradigms could be dismissed no matter how fancy the logic, how popular the sentiment, or how revered the spokesperson.

Disruptive change is rarely predictable: A second lesson I hope we learn is what Nassim Taleb teaches in his fabulous book, *The Black Swan*. We have a tendency, he notes, to overvalue what we know and undervalue what we do not. This is always the prognosticator's dilemma. And in a world where events and change appear to happen so quickly, it is hard to hang your hat on the certainty that disruptive change will not emerge. I once watched an old C-Span re-run of the 1984 Presidential debate (shows you what an exciting life I have) and saw each candidate top the other in terms of their bellicose statements regarding the Soviet Union. Neither of them, nor any of the Soviet scholars at leading Universities at the time, predicted the rapid demise of the Soviet Union in what turned out to be a matter of just a few years.

If one year ago you told me that Merrill Lynch and Bear Stearns would go out of business and that Freddie Mac and Fannie Mae would have less net worth than most of the people in this room, I would have suggested you seek counseling. But there were some people a few years back who understood this more than conventional experts (and here I am not just talking about professional flat earth and end of time types). The problem of course – is that we have too few people that delve into information and systems in sustained, structural, and historical ways. And more importantly, people are afraid to depart from conventional wisdom; it can be career ending. But in an age when the interconnectedness of events is so extraordinary and the flows of information and values so rapid, the potential for disruptive change (for better and worse) has increased and it is not so easy to predict. This is not a call for crack-pot alarmism (although I like that in small doses) but for a broader range of debate. The NYU economist Nouriel Roubini has turned into a well-respected sage because he called the financial meltdown with remarkable precision in an essay he published in February 2008. I assure you, he was viewed as less than a sage at the time of his analysis – which was, by the way based on pretty sound analytical work.

Expand the realm of legitimacy: This brings me to a third point. We have a tendency to limit the nature of legitimate discourse and ideas. This constrains the capacity to learn and innovate. One of the hidden narratives of this crisis is the significant amount of solid research that was done by those of us that work in inner city communities. We were looking at the statistical relationships between subprime loans and foreclosures for a decade or more. We were asking questions about the sustainability of business models that were lending more money to people than they could afford to pay. In some instances we wondered about corruption in a system where brokers appeared to originate assets doomed to fail for which they had no financial stake and all the incentives in the world to keep origination costs high.

To be fair, none of the studies I could reference, including ones authored by my organization, made a case that in any way demonstrated the links between abusive lending or the mounting foreclosure crisis and the broader crisis of American finance.

So TRF was not exactly prescient in a structural sense, but we understood as others did that something new was happening and that there were clear problems with product sustainability and market regulation. But in a world where we legitimate too narrow a band of ideas, we lose the ability to understand the complex systems within which we operate.

Now you may say that the internet and blogosphere has cured some of the legitimacy problem or is on the way to curing it. I think this is a reasonable assertion. But while it may have helped elect a President (in terms of fund raising and organizing voters), it has not yet created an atmosphere where the current consensus on economic and foreign policy, for example, is infused with more substantive debate and options. This is something that we all must insist on if we are ever going to move beyond the silliness of Cable TV news program options.

Lack of transparency and information degrades citizenship: An additional lesson that we ought to learn from all of this has to do with the radical asymmetry that exists today between the financial sector and our ability to understand it. At one odd point of the recent crisis when LIBOR was in the news, the search engine Google recorded millions of hits by Americans trying to figure out what LIBOR stood for, let alone what its meaning was for their lives. I can only imagine that similar numbers were recorded by Google and Yahoo around terms like credit default swaps and derivatives. The important point here is that most of us do not have the ability, time, or interest to understand the very financial instruments that affect us. Financial products and asset classes undergo constant change and this is not only a problem for us ordinary mortals but for those responsible for the governance of financial institutions or those we ask to do appropriate due diligence for investing the assets of nonprofit endowments. I can tell you with certainty that there are many people sitting on the boards of major banking institutions who do not adequately understand the financial statements of the organizations for which they are responsible.

Consumer protection and system risk are linked: This financial crisis demonstrated the direct link between systemic risk and consumer knowledge and protection. If you walk into any Federal Reserve Bank you will quickly become aware of the distinctions made between the regulatory part of the operation that oversees banking institutions and the department that enforces and promotes consumer safety and protection. But this crisis should make it clear that the bright line between them is not so bright. We cannot afford a public that is kept out of the loop of how these systems work. We certainly don't have to all become financial experts (God forbid!) but it would be a start to create a framework for a national financial systems literacy campaign and the insistence on consumer safety information that offers some protection and warning. We are better today at regulating the safety of ovens and the transparency of gambling casinos than we are at regulating a \$50 trillion credit default swap industry.

Tragedy of short-term thinking: Finally, this crisis has taught us that we suffer from a potentially terminal case of short-term thinking. Short-term profit and loss presentations that drive stock values do not function as long term guardians of corporate value. Now I do not know how you get around this issue but it is an endemic problem. And it is understandable that the short term horizon of institutional investors and the late afternoon report card that comes out every day from the Stock Exchange makes it difficult to execute long-term strategies. This is true not only for public companies but for many companies funded by private equity. When investment banks demanded more and more mortgage products to make incredible securitization fees, they were competing with other firms that were doing

the same thing. They ostensibly thought about the risk of their own balance sheets but not the longer-term national or structural risks. Again, this kind of accountability ought to reside in the province of a regulatory system able to ask more fundamental questions. Short-term market adjustments are not adequate for regulating longer-term structural dislocations that are beyond the capacity of a firm or sector.

4. What does this mean for the creative sector?

Despite the wide variety of circumstances and forms that comprise the creative sector, I think that there are a few general observations that can be made in the midst of the present situation.

Necessity for collaboration: There is no top-down, organized bailout for civil society, including that part of civil society that involves arts and culture. We have no Federal Reserve or Treasury Department to define the meaning of systemic risk. We will try to define the stimulus package in ways that support the arts and cultural activity and I am certain that we will have some success. But our work is too often undervalued and disorganized in terms of information and coordinated action. We have ourselves, our customers, our funders, and some important voices in the public and private sector. The principal bailout will only come from organizing those constituents and developing common strategies whose number one goal is to preserve the gains and capacities that currently exist. Today, preservation is growth and development. At the local level there is an exceedingly important role for philanthropy. Philanthropy has the power to convene, facilitate shared resource allocation, and provide technical services that help smaller institutions make tough decisions regarding core functions and short-term preservation measures.

Defining what counts: A crisis brings an opportunity to define what is most important – the core part of what you do and what counts the most. In this sense, a crisis can be a painfully clarifying opportunity. A crisis also creates a political screen to eliminate legacy programs and initiatives that are hard to remove for historical reasons but can be justified at a point of financial duress. A crisis is a time to preserve what is core; organize your constituents (including funders) and define what efficiencies can be instituted. How you use a crisis says much about your capacity for strategic thinking and action. Some of the smartest people I know in the business world are *turn around* specialists. They specialize in getting to the essence of what matters and what has to be done and devising ways to move along a path that will get you to a relative state of health or seek an orderly shut down. There are many small organizations and businesses in our sphere that need this kind of turn around logic and assistance to help them get to the essence of what they have and what they must do next.

Manage cautiously, but think ambitiously: While the caution instilled by a financial crisis forces us to manage carefully, cautious management should be accompanied by ambitious planning for the post-crisis period. None of us can afford to define our institutional soul only through the logic of scarcity and preservation. A distinction has to be made between short-term caution and long-term vision. On the one hand we have to define what is core and irreducible (and manage around that) and on the other hand we have to define how we will grow and innovate from that core position at the point at which we are able to expand once again. We shrink to grow.

Emphasize creative sector economic value: We have built up a very important narrative over the past twenty years regarding the importance in economic

development terms of the work that we do. I do not need to recount the various dimensions to this audience: they range from regional sector value to the critical inputs of creativity in all aspects of the production and circulation of goods, to the importance of creativity to 21st century workforce skills that span many occupations, to the residential and commercial real estate aspects of arts and cultural organizations and entrepreneurs. Arts organizations and cultural entrepreneurs straddle the business world and civil society as well as any category of people. This is not the time to be shy regarding the economic value of what we do. We have ready-to-go projects with economic meaning that are every bit as important as restoring a road.

Stand up for the counter-cultural logic of creativity: This is a society in need of breaking out of the consensus logic that all too often drives us over the cliff. As I mentioned earlier we lack the essential mirrors and symbols that allow us to expand the bounds of legitimacy, ask questions in new ways, demonstrate the irrationality of bubble logic, and explore the suddenness and complexity of disruptive change. These are some of the reasons that I go to the theatre. I want to be challenged and forced to look inside and outside simultaneously. I want to laugh at the seriousness of our collective folly. I want to be able to recognize the drive over the cliff and the other roads that could be taken. So my most important point is that you have a contribution not only as citizens, but as creative people and producers to help us understand the world we live in, in new ways. And you should not shy away from saying something about all of this in the ways that are most authentic to your own craft.

Thank you.

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