



## What 'short-termism' and the outsourcing of responsibility led to ...

THE tendency to look at economic booms as though they would last forever, pretending that economic models are capable of capturing all uncertainties, and banks outsourcing responsibility for assessing risks,

These are some of the behaviours that underpin the financial crisis, and it is important to look closer at them to better mitigate their effects, as they could well resurface in future crises, said Finance Minister Tharman Shanmugaratnam.

Speaking at the inaugural Harvard Asia & World Malaysia/Singapore public lecture at the Nanyang Technological University yesterday evening, Mr Tharman said it was important to bear these issues in mind as the industry analyses what went wrong.

For example, there had been an explosion of "short-termism" and an underestimation of the "long-term risk of short-term

decisions", regulators had attenuated it, such as by allowing banks to shift risk off the balance sheet.

"Short-termism is inherent in human behaviour and financial markets, but the excesses need not happen, and we should learn lessons from what happened, and correct them," said Mr Tharman.

Also pronounced in the last decade was the "overreliance" on mathematical models resulting in the suspension of judgement by banks and regulators; while banks had "outsourced responsibility" by passing on risk assessment to credit rating agencies.

Avoiding these behaviours was "vital" and can mitigate the severity of future recessions. "We have to keep reminding ourselves that culture matters, not just instruments, models and architecture," he said. LIXIANG/IN