



Federal Reserve Bank *of* Atlanta

MACROBLOG

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On rescues and bailouts

I've been thinking a lot about this topic lately, and though it seems there are a good many folk who approach the issue with great certainty, I do not share their confidence. I have, however, found it helpful to think through the following (not entirely original) scenario:

I am sitting on my back deck one fine afternoon and notice smoke coming from the kitchen window of my neighbor Joe. The color and volume of the smoke—and the fact that I know that Joe is not home—leave no doubt that the kitchen is on fire.

I begin to calculate my possible responses. I think Joe has a sprinkler system installed, so it is possible that safeguards already in place will soon put the fire out. Of course, I'm not entirely sure the system is up to the task—or even if it exists—so I consider a limited intervention in the form of running inside my own house and calling the fire department. They are a pretty efficient unit, but in the best of circumstances it will take them some time to arrive. So I also contemplate the most extreme measure available to me: grabbing my garden house, breaking down Joe's back door, and addressing the fire directly.

It's a hard choice, so I begin to think about the costs and benefits of each option. If I rely on the uncertain quality (or existence!) of the sprinkler system, or wait for the fire department to arrive, the fire could spread rapidly and possibly threaten my property. On the other hand, if I rush in with my hose, I could get hurt—the direct intervention could be costly, too. What's more, my intervention might not do the trick—the fire could be too big, my garden hose too inadequate a firefighting tool.

I decide to throw caution to the wind, grab the hose, and burst into Joe's house. I am able to successfully quell the flames, escaping with only a few minor burns and watery eyes. I feel pretty good about the whole business, but the truth is I discovered that the sprinkler system was indeed operating and may have put out the fire on its own (though it hadn't yet). And just as the last flicker expires, I hear the fire engines in the distance. They may have arrived in time to spare my house (though it is clear that the fire was spreading quickly). So, I wonder. Did I do the right thing?

Actually, my dilemma deepens. When the fire marshal arrives, he discovers that the cause of the fire was a cigarette, foolishly left to burn near a stack of old papers. I knew all along that old Joe was the reckless sort, and now I fear that by stepping in and containing the damage that Joe had brought upon himself I may just be encouraging more such carelessness in the future.

Then again, the kitchen is a total loss, and the smoke has permeated Joe's house and ruined more than a few pieces of furniture. Though it is obvious that Joe has been spared total ruin, will he really feel that his actions have gone without consequence? Will he feel that the fates have bailed him out?

I wonder.

UPDATE: I'm getting some ribbing over the similarity between my scenario and the analogy offered today by a certain well-known candidate for high political office. Though I did note that my story is not entirely original, I assure you that the present coincidence is, well, entirely coincidental.

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