

Yale University

*Robert J. Shiller
Arthur M. Okun Professor of Economics
Cowles Foundation for Research
in Economics
Department of Economics
P.O. Box 208281
New Haven, Connecticut 06520-8281*

*Campus address:
30 Hillhouse Avenue
Telephone: 203 432-3708
Fax: 203 432-6167
Email: robert.shiller@yale.edu
www.econ.yale.edu/~shiller*

May 14, 2010

Mr. Gary Gensler
Chairman
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581

Dear Gary:

First let me thank you for your recent invitation to help you last week. I am very sorry to have to say no to this. I have various other connections and commitments that stand in the way, as I explained to you. I hope I can help you in some way in the future.

But I want also to say that you have a crucial mission at the CFTC. I think that it is very important to get our rules regarding derivatives right. The public is angry at this time of economic crisis, and we have to make sure that the anger is dealt with constructively, and that everyone is fairly treated. The response to this anger I believe must be to democratize finance - that is, make financial markets work better on behalf of the people. This does not mean "reining in Wall Street," however. It means allowing the most free and transparent expressions of market tendencies where possible, and along constructive lines.

That means that all attention of regulators should be focused on the malfunctioning of markets, and not on imposing arbitrary restrictions.

For example, I was talking with Howard Lutnick yesterday, head of Cantor Fitzgerald, and he told me of concerns that his company will not be allowed to create a futures market to hedge exposure to domestic box office receipts of new film releases. He said he was concerned that the new contracts would be deemed inconsistent with your new directions.

But, this market is exactly the kind of thing that we need if we are to democratize finance. Making financial markets work well means making risk management deal with risks that impact everyone's lives, not just the traditional or most obvious risks. Think of the benefits of better risk management within the motion picture business: If film producers can manage the risks of their productions better, by trading in such markets, more film industry entrepreneurs would be encouraged to start new businesses and compete; filmmakers could produce more adventuresome

films, films with more risk attached to them, and, by the same token, more diverse films. This would ultimately lead to more choices and better entertainment experiences for the general public. The film industry would be protected, and movie-goers would benefit from a better and less expensive product.

I know that film industry people are in some cases opposed to such a market. But, I believe that they have it wrong. Enabling and fostering new risk management capacity makes it possible for any industry to enhance overall performance and societal value.

I am sure there are many other examples of futures market that serve the public.

I should disclose that, while I am a full-time professor at Yale, I have business interests on the side that involve me in the futures and securities industries (via the firm that I co-founded, MacroMarkets LLC, via Standard & Poor's, who publish the Case-Shiller Home Price Indices, and via The Chicago Mercantile Exchange, where a market for residential home prices that I helped them establish is traded, and where I am on their Competitive Markets Advisory Commission. I may possibly have future business dealings with Howard Lutnick).

I am enclosing a copy of my 2003 book *The New Financial Order: Risk in the 21st Century* which outlines my belief in the democratization of finance. I know that sending you my book is no substitute for the more serious help I may have given you, if that were only possible.

Sincerely,



Robert J. Shiller

cc:

Commissioner Dunn
Commissioner O'Malia
Commissioner Sommers
Commissioner Chilton