

WHO'S TO BLAME FOR THE FINANCIAL CRISIS?

TIME

Homeowners of Texas (HOT) compiled these TIME Magazine articles to provide insight into causes of the global financial collapse. The authors did an outstanding job, but we contend they put too much blame on Wall Street and mortgage-backed derivatives. Some of the nation's largest homebuilders were culprits too, but only one was named by TIME.

Special interest lobbying and tort reform led to relaxed regulatory oversight of the tightly-knit homebuilding and finance industries. Homebuilders, facing no effective opposition from consumer groups like HOT, drove legislation allowing them to build large conglomerates of vertically integrated home construction, mortgage lending, and title and insurance companies.

Without accountability and a minimal risk of lawsuits, the strong profit motive caused many builders to cut corners with substandard materials and workmanship, cover-up known defects and code violations, artificially inflate property appraisals, make risky loans, and then sell and resell the loans to third party investors who didn't know the risks. That's why we say *"companies building substandard homes share blame with those making subprime loans."*



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25 People to Blame for the Financial Crisis

TIME's picks for the top 25 people to blame for the financial crisis includes everyone from former Federal Reserve chairman Alan Greenspan and former President George W. Bush to the former CEO of Merrill Lynch and you — the American consumer. They asked readers to vote for the people they think deserve the most blame, and the least. Here are the full voting results.

Rank	Name	Avg. Rating	Total Votes
1	Phil Gramm	9	140,450
2	Christopher Cox	9	129,418
3	Angelo Mozilo	9	125,825
4	Joe Cassano	9	116,806
5	Franklin Raines	9	115,096
6	Kathleen Corbet	9	111,218
7	Ian McCarthy	9	110,706
8	Bernard Madoff	9	108,230
9	Dick Fuld	9	108,151
10	Herb & Marion Sandler	9	107,188
11	Stan O'Neal	9	104,472
12	John Devany	9	88,173
13	Sandy Weill	9	80,309
14	Jimmy Cayne	9	77,905
15	George W. Bush	8	160,087
16	The American Consumer	8	150,549
17	Alan Greenspan	8	140,543
18	Hank Paulson	8	127,464
19	David Lereah	8	92,768
20	Lew Ranieri	8	85,166
21	David Oddsson	8	79,640
22	Fred Goodwin	8	78,944
23	Bill Clinton	7	152,266
24	Wen Jiabao	7	100,817
25	Burton Jablin	6	93,222

The following table includes information about each person below, followed by (1) a summary of TIME coverage of Wall Street dating back to the great depression in 1929 and (2) full text of recent TIME articles. (Highlights and [bracketed comments] added)

Source: "Who's at Fault – In Defense of the Recession Blame Game," TIME, 02/12/2009
<http://www.time.com/time/business/article/0,8599,1878939,00.html>)

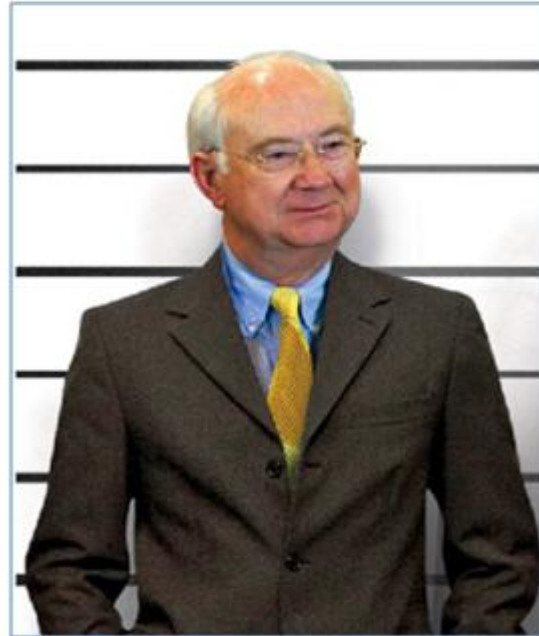
See also: "Texas Homebuilding and the Global Financial Collapse"
<http://www.homeownersoftexas.org/collapse.pdf>)

25 People to Blame for the Financial Crisis

Phil Gramm

As chairman of the Senate Banking Committee from 1995 through 2000, Gramm was Washington's most prominent and outspoken champion of financial deregulation. He played a leading role in writing and pushing through Congress the 1999 repeal of the Depression-era Glass-Steagall Act, which separated commercial banks from Wall Street. He also inserted a key provision into the 2000 Commodity Futures Modernization Act that exempted over-the-counter derivatives like credit-default swaps from regulation by the Commodity Futures Trading Commission. Credit-default swaps took down AIG, which has cost the U.S. \$150 billion thus far.

[HOT: This allowed homebuilders to become vertically integrated conglomerates with their own finance companies. See *Homebuilding and the Financial Collapse*: www.homeownersoftexas.org/collapse.pdf]



Phil Gramm

Photo by Douglas Healey / AP; Getty

Angelo Mozilo

The son of a butcher, Mozilo co-founded Countrywide in 1969 and built it into the largest mortgage lender in the U.S. Countrywide wasn't the first to offer exotic mortgages to borrowers with a questionable ability to repay them. In its all-out embrace of such sales, however, it did legitimize the notion that practically any adult could handle a big fat mortgage. In the wake of the housing bust, which toppled Countrywide and IndyMac Bank (another company Mozilo started), the executive's lavish pay package was criticized by many, including Congress. Mozilo left Countrywide last summer after its rescue-sale to Bank of America. A few months later, BofA said it would spend up to \$8.7 billion to settle predatory lending charges against Countrywide filed by 11 state attorneys general.

[HOT: HUD Secretary Henry Cisneros served on the Board of Directors of both Countrywide and KB Homes, a clear conflict of interest. That's why we added Cisneros as the 26th person to blame.]



Angelo Mozillo

Photo by Mark Wilson / Getty

Chris Cox

The ex-SEC chief's **blindness to repeated allegations of fraud in the Madoff scandal** is mind-blowing, but it's really his **lax enforcement** that lands him on this list. Cox says his agency lacked authority to limit the massive leveraging that set up last year's financial collapse. In truth, the SEC had plenty of power to go after big investment banks like Lehman Brothers and Merrill Lynch for better disclosure, but it chose not to. Cox oversaw the dwindling SEC staff and a sharp drop in action against some traders.



Chris Cox

Photo by Roger Wollenberg / Landov; Getty

Joe Cassano

Before the financial-sector meltdown, few people had ever heard of **credit-default swaps** (CDS). They are insurance contracts — or, if you prefer, wagers — that a company will pay its debt. As a **founding member of** **AIG's financial-products unit**, Cassano, who ran the group until he stepped down in early 2008, knew them quite well. In good times, AIG's massive CDS-issuance business minted money for the insurer's other companies. But those same contracts turned out to be at the heart of AIG's downfall and subsequent taxpayer rescue. So far, the U.S. government has invested and lent \$150 billion to keep AIG afloat.

[HOT: The U.S. Government seems to have become the new AIG. Between the FHA, VA, Fannie Mae and Freddie Mac, taxpayers now insure 80% of all U.S. home mortgages, with more assumed risk than Bear Stearns when it fell. See

<http://www.homeownersoftexas.org/10-05-09-MARKET-Homebuyer-Tax-Credit-and-FHA-Loan-Guarantees-put-Taxpayers-at-Risk.html>



Joe Cassano

Photo by Keith Waldgrave / Zuma; Getty

Frank Raines

The mess that **Fannie Mae** has become is the progeny of many parents: Congress, which created Fannie in 1938 and loaded it down with responsibilities; President Lyndon Johnson, who in 1968 pushed it halfway out the government nest and into a problematic part-private, part-public role in an attempt to reduce the national debt; and Jim Johnson, who presided over Fannie's spectacular growth in the 1990s. But it was Johnson's successor, **Raines, who was at the helm when things really went off course.** A former Clinton Administration Budget Director, Raines was the first African-American CEO of a Fortune 500 company when he took the helm in 1999. He left in 2004 with the company embroiled in an accounting scandal just as it was beginning to make big investments in subprime mortgage securities that would later sour. Last year Fannie and rival Freddie Mac became wards of the state.



Frank Raines

Photo by Jason Reed / Landov; Jupiter

Kathleen Corbet

By slapping AAA seals of approval on large portions of even the riskiest pools of loans, rating agencies helped **lure investors** into loading on collateralized debt obligations (CDOs) that are now unsellable. **Corbet ran the largest agency, Standard & Poor's,** during much of this decade, though the other two major players, Moody's and Fitch, played by similar rules. **How could a ratings agency put its top-grade stamp on such flimsy securities?** A glaring conflict of interest is one possibility: these outfits are paid for their ratings by the **bond issuer.** As one S&P analyst wrote in an email, "[A bond] could be structured by cows and we would rate it."



Kathleen Corbet

Photo by Laura Cavanaugh / Landov; Jupiter

Ian McCarthy

Homebuilders had plenty to do with the collapse of the housing market, not just by building more homes than the country could stomach, but also by pressuring people who couldn't really afford them to buy in. As **CEO of Beazer Homes** since 1994, McCarthy has become something of a poster child for the worst builder behaviors. An investigative series that ran in the Charlotte Observer in 2007 highlighted Beazer's aggressive sales tactics, including lying about borrowers' qualifications to help them get loans. The FBI, Department of Housing and Urban Development and IRS are all investigating Beazer. The company has admitted that employees of its mortgage unit violated regulations — like down-payment-assistance rules — at least as far back as 2000. It is cooperating with federal investigators.

[HOT: Builders with their own finance companies sold subprime loans to 3rd party investors and didn't care about either the loan quality or construction quality.]



Ian McCarthy

Photo by Brendan McDermid / Landov, Getty

Bernie Madoff

His alleged **Ponzi scheme** could inflict \$50 billion in losses on society types, retirees and nonprofits. The bigger cost for America comes from the notion that **Madoff pulled off the biggest financial fraud in history right under the noses of regulators.** Assuming it's all true, the banks and hedge funds that neglected due diligence were stupid and paid for it, while the managers who fed him clients' money — the so-called feeders — were reprehensibly greedy. But to reveal government and industry regulators as grossly incompetent casts a shadow of doubt far and wide, which crimps the free flow of investment capital. That will make this downturn harder on us all.



Bernie Madoff

Photo by Andrea Renault / Polaris; Jupiter

Dick Fuld

The Gorilla of Wall Street, as Fuld was known, steered Lehman deep into the business of subprime mortgages, bankrolling lenders across the country that were making convoluted loans to questionable borrowers. Lehman even made its own subprime loans. The firm took all those loans, whipped them into bonds and passed on to investors billions of dollars of what is now toxic debt. For all this wealth destruction, Fuld raked in nearly \$500 million in compensation during his tenure as CEO, which ended when Lehman did.



Dick Fuld

Photo by Kevin Lamarque / Landov; Getty

Marion and Herb Sandler

In the early 1980s, the Sandler's World Savings Bank became the first to sell a tricky home loan called the option ARM. And they pushed the mortgage, which offered several ways to back-load your loan and thereby reduce your early payments, with increasing zeal and misleading advertisements over the next two decades. The couple pocketed \$2.3 billion when they sold their bank to Wachovia in 2006. But losses on World Savings' loan portfolio led to the implosion of Wachovia, which was sold under duress late last year to Wells Fargo.

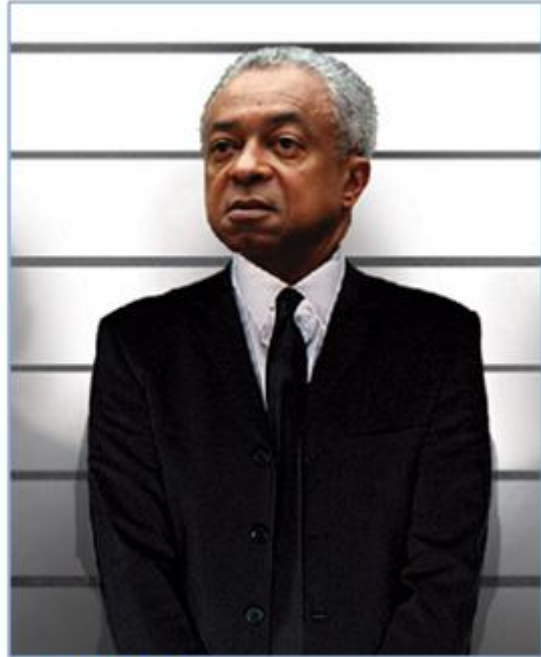


Herb & Marion Sandler

Photo by Elena Dorfman / Redux; Corbis

Stan O'Neal

Merrill Lynch's celebrated CEO for nearly six years, ending in 2007, he guided the firm from its familiar turf — fee businesses like asset management — into the lucrative game of creating collateralized debt obligations (CDOs), which were largely made of subprime mortgage bonds. To provide a steady supply of the bonds — the raw pork for his booming sausage business — O'Neal allowed Merrill to load up on the bonds and keep them on its books. By June 2006, Merrill had amassed \$41 billion in subprime CDOs and mortgage bonds, according to Fortune. As the subprime market unwound, Merrill went into crisis, and Bank of America swooped in to buy it.



Stan O'Neal

Photo by Doug Mills / Redux; Getty

John Devaney

Hedge funds played an important role in the shift to sloppy mortgage lending. By buying up mortgage loans, Devaney and other hedge-fund managers made it profitable for lenders to make questionable loans and then sell them off. Hedge funds were more than willing to swallow the risk in exchange for the promise of fat returns. Devaney wasn't just a big buyer of mortgage bonds — he had his own \$600 million fund devoted to buying risky loans — he was one of its cheerleaders. Worse, Devaney knew the loans he was funding were bad for consumers. In early 2007, talking about option ARM mortgages, he told Money, "The consumer has to be an idiot to take on one of those loans, but it has been one of our best-performing investments."



John Devaney

Photo by Brent Humphreys / Redux: Getty

Sandy Weill

Who decided banks had to be all things to all customers? Weill did. Starting with a low-end lender in Baltimore, he cobbled together the first great financial supermarket, Citigroup. Along the way, Weill's acquisitions (Smith Barney, Travelers, etc.) and persistent lobbying shattered Glass-Steagall, the law that limited the investing risks banks could take. Rivals followed Citi. The swollen banks are now one of the country's major economic problems. Every major financial firm seems too big to fail, leading the government to spend hundreds of billions of dollars to keep them afloat. The biggest problem bank is Weill's Citigroup. The government has already spent \$45 billion trying to fix it.



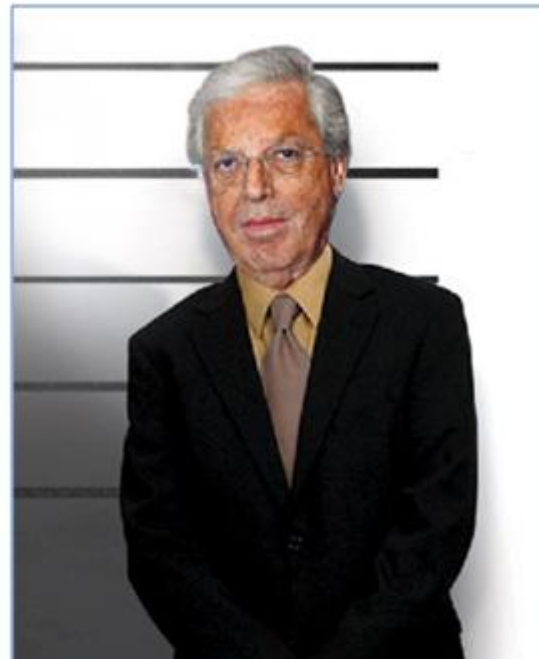
Sandy Weill

Photo by Evan Agostini / AP; Getty

Jimmy Cayne

Plenty of CEOs screwed up on Wall Street. But none seemed more asleep at the switch than Bear Stearns' Cayne. He left the office by helicopter for 3 ½-day golf weekends. He was regularly out of town at bridge tournaments and reportedly smoked pot. (Cayne denies the marijuana allegations.) Back at the office, Cayne's charges bet the firm on risky home loans. Two of its highly leveraged hedge funds collapsed in mid-2007. But that was only the beginning. Bear held nearly \$40 billion in mortgage bonds that were essentially worthless. In early 2008 Bear was sold to JPMorgan for less than the value of its office building. "I didn't stop it. I didn't rein in the leverage," Cayne later told Fortune.

[HOT: At a 50 to 1 leverage ratio, the FHA will soon have a smaller capital cushion than did investment bank Bear Stearns on the eve of its crash. See *Homebuilding and the Financial Collapse*: www.homeownersoftexas.org/collapse.pdf]



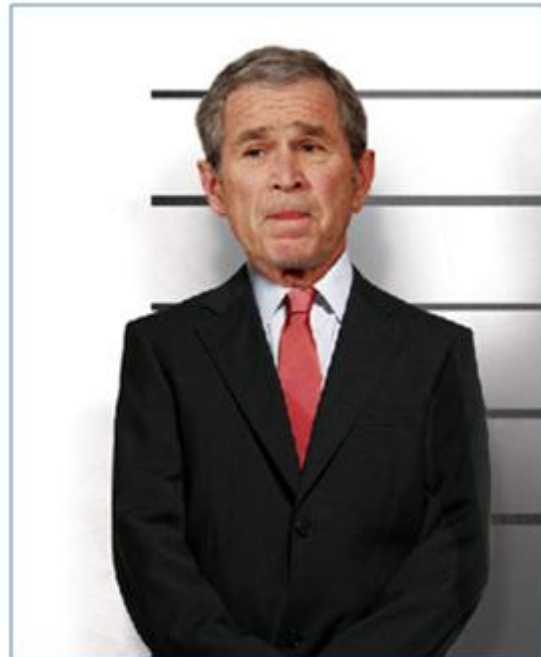
Jimmy Cayne

Photo by Oscar Hidalgo / NY Times; Getty

George W. Bush

From the start, Bush embraced a governing philosophy of deregulation. That trickled down to federal oversight agencies, which in turn eased off on banks and mortgage brokers. Bush did push early on for tighter controls over Fannie Mae and Freddie Mac, but he failed to move Congress. After the Enron scandal, Bush backed and signed the aggressively regulatory Sarbanes-Oxley Act. But SEC head William Donaldson tried to boost regulation of mutual and hedge funds, he was blocked by Bush's advisers at the White House as well as other powerful Republicans and quit. Plus, let's face it, the meltdown happened on Bush's watch.

[HOT: Bush signed the Brownfields Law in the early days of his administration, allowing homebuilding on contaminated land and shielding builders from liability and duty to disclose. See <http://www.homeownersoftexas.org/Brownfields-Law.html>]



George W. Bush

Photo by Jason Reed / Reuters; Getty

American Consumers

In the third quarter of 2008, Americans began saving more and spending less. Hurrah! That only took 40 years to happen. We've been borrowing, borrowing, borrowing — living off and believing in the wealth effect, first in stocks, which ended badly, then in real estate, which has ended even worse. Now we're out of bubbles. We have a lot less wealth — and a lot more debt. Household debt in the U.S. — the money we owe as individuals — zoomed to more than 130% of income in 2007, up from about 60% in 1982. We enjoyed living beyond our means — no wonder we wanted to believe it would never end.

[HOT: Rational consumers simply reacted to messaging from Presidents Clinton and Bush and from advertisers pushing the American Dream, easy credit, 0% down mortgages, and low interest rates. They were told homeownership was better than stocks and that without a home they'd be left behind.]



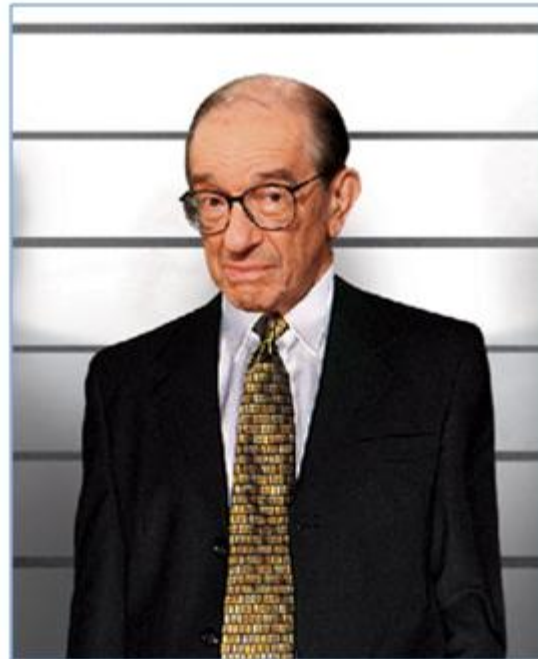
American Consumers

Photo by Getty

Alan Greenspan

The Federal Reserve chairman — an economist and a disciple of libertarian icon Ayn Rand — met his first major challenge in office by preventing the 1987 stock-market crash from spiraling into something much worse. Then, in the 1990s, he presided over a long economic and financial-market boom and attained the status of Washington's resident wizard. But the super-low interest rates Greenspan brought in the early 2000s and his long-standing disdain for regulation are now held up as leading causes of the mortgage crisis. The maestro admitted in an October congressional hearing that he had "made a mistake in presuming" that financial firms could regulate themselves.

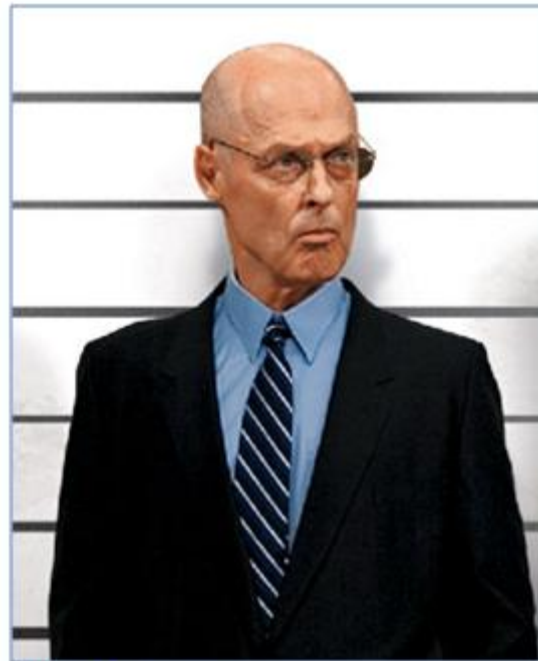
[HOT: His biggest mistake may have been in his near-religious trust in conventional thinking and the system of economics and market forces. He was not accused of greed but should have known that the lack of regulation cause greed to flourish.]



Alan Greenspan
Photo by Alex Wong / Getty

Hank Paulson

When Paulson left the top job at Goldman Sachs to become Treasury Secretary in 2006, his big concern was whether he'd have an impact. He ended up almost single-handedly running the country's economic policy for the last year of the Bush Administration. Impact? You bet. Positive? Not yet. The three main gripes against Paulson are that he was late to the party in battling the financial crisis, letting Lehman Brothers fail was a big mistake and the big bailout bill he pushed through Congress has been a wasteful mess.



Hank Paulson
Photo by Susan Walsh / AP; Getty

David Lereah

When the chief economist at the National Association of Realtors, an industry trade group, tells you the housing market is going to keep on chugging forever, you listen with a grain of salt. But Lereah, who held the position through early 2007, did more than issue rosy forecasts. He regularly trumpeted the infallibility of housing as an investment in interviews, on TV and in his 2005 book, *Are You Missing the Real Estate Boom?* Lereah says he grew concerned about the direction of the market in 2006, but consider his January 2007 statement: "It appears we have established a bottom."

[HOT: Realtors and Builders are pushing for an extension and expansion of the home buyer tax credit, but such action would make matters far worse and send us into a much deeper recession. See <http://www.homeownersoftexas.org/Homebuyer-Tax-Credit.html>]



David Lereah

Photo by Kevin Dietsch / Landov; Corbis

Lew Ranieri

Meet the father of mortgage-backed bonds. In the late 1970s, the college dropout and Salomon trader coined the term securitization to name a tidy bit of financial alchemy in which home loans were packaged together by Wall Street firms and sold to institutional investors. In 1984 Ranieri boasted that his mortgage-trading desk "made more money than all the rest of Wall Street combined." The good times rolled: as homeownership exploded in the early '00s, the mortgage-bond business inflated Wall Street's bottom line. So the firms placed even bigger bets on these securities. But when subprime borrowers started missing payments, the mortgage market stalled and bond prices collapsed. Investment banks, overexposed to the toxic assets, closed their doors. Investors lost fortunes.

[HOT: Ranieri served on the National Association of Home Builders Mortgage Roundtable and helped builder-owned mortgage companies offload their loans as mortgage-backed derivatives.]



Lew Ranieri

Photo by Jamie Rector / Bloomberg / Corbis

David Oddsson

In his two decades as **Iceland's Prime Minister** and then as central-bank governor, Oddsson made his tiny country an **experiment in free-market economics by privatizing three main banks, floating the currency and fostering a golden age of entrepreneurship**. When the market turned ... whoops! Iceland's economy is now a textbook case of macroeconomic meltdown. The three banks, which were massively leveraged, are in receivership, GDP could drop 10% this year, and the IMF has stepped in after **the currency lost more than half its value**. Nice experiment.



David Oddsson

Photo by Arnaldur Halldorsson / Bloomberg; Getty

Fred Goodwin

For years, the worst moniker you heard thrown at Goodwin, the **former boss of Royal Bank of Scotland (RBS)**, was "Fred the Shred," on account of his knack for paring costs. A slew of acquisitions changed that, and some RBS investors saw him as a megalomaniac. Commentators have since suggested that Goodwin is simply **"the world's worst banker."** Why so mean? The face of over-reaching bankers everywhere, Goodwin got greedy. More than 20 takeovers helped him transform RBS into a world beater after he assumed control in 2000. But he couldn't stop there. As the gloom gathered in 2007, Goodwin couldn't resist leading a \$100 billion takeover of Dutch rival ABN Amro, stretching RBS's capital reserves to the limit. The result: the British government last fall pumped \$30 billion into the bank, which expects 2008 losses to be the biggest in U.K. corporate history.



Fred Goodwin

Photo by Murdo Macleod / Polaris: Getty

Bill Clinton

President Clinton's tenure was characterized by economic prosperity and **financial deregulation**, which in many ways set the stage for the excesses of recent years. Among his biggest strokes of free-wheeling capitalism was the **Gramm-Leach-Bliley Act [with Phil Gramm]**, which repealed the Glass-Steagall Act, a cornerstone of Depression-era regulation. He also signed the **Commodity Futures Modernization Act**, which exempted credit-default swaps from regulation. In 1995 Clinton loosened housing rules by rewriting the **Community Reinvestment Act [with Henry Cisneros heading HUD]**, which put added pressure on banks to lend in low-income neighborhoods. It is the subject of heated political and scholarly debate whether any of these moves are to blame for our troubles, but they certainly played a role in creating a permissive lending environment.



Bill Clinton

Photo by Saul Loeb / AFP / Getty; Jupiter

Wen Jiabao

Think of Wen as a proxy for the Chinese government — particularly those parts of it that have supplied the U.S. with an unprecedented amount of credit over the past eight years. **If cheap credit was the crack cocaine of this financial crisis — and it was — then China was one of its primary dealers.** China is now the largest creditor to the U.S. government, holding an estimated \$1.7 trillion in dollar-denominated debt. **That massive build-up in dollar holdings is specifically linked to China's efforts to control the value of its currency.** China didn't want the renminbi to rise too rapidly against the dollar, in part because a cheap currency kept its export sector humming — which it did until U.S. demand cratered last fall.



Wen Jiabao

Photo by Oli Scarff / AP; Getty

Burton Jablin

The programming czar at Scripps Networks, which owns HGTV and other lifestyle channels, helped inflate the real estate bubble by teaching viewers how to extract value from their homes. Programs like *Designed to Sell*, *House Hunters* and *My House Is Worth What?* developed loyal audiences, giving the housing game glamour and gusto. Jablin didn't act alone: shows like *Flip That House* (TLC) and *Flip This House* (A&E) also came on the scene. To Jablin's credit, HGTV, which airs in more than 97 million homes, also launched *Income Property*, a show that helps first-time homeowners reduce mortgage payments by finding ways to economically add rental units.



Burton Jablin
Photo by Getty

Henry Cisneros [added by HOT]

As a former San Antonio mayor and Housing and Urban Development Secretary under Clinton, Cisneros also played a pivotal role in the housing implosion. He did this while personally making millions on the board of directors of KB Homes and Countrywide Financial and from his own development company, Lago Vista. He promoted homeownership for all; advocated for builders of urban, working-class homes; greased the mortgage wheel for first-time buyers by insuring billions of dollars in loans; and allowed lenders to hire their own appraisers rather than rely on a government-selected panel. Cisneros says his mistake wasn't the greed but his unwavering belief in homeownership benefits and not knowing that the federal push of that agenda would end so badly.



Henry Cisneros
AP Photo

2008: How Wall Street Sold Out America

For years the financial markets roared along as if there were nothing to fear. Now it's payback time--and all of us will be feeling the pain.

From: [How Financial Madness Overtook Wall Street, Sep.18.2008](#)

Even after committing \$285 billion over the past couple of weeks to bail out mortgage lenders Fannie Mae and Freddie Mac and insurer AIG, the Federal Government is now looking to fork over more — much more.

[Washington Prepares the Mother of All Bailouts, Sep.19, 2008](#)

[HOT: Full text of both articles follow later.]



2001: Bear Market

"The staggering amount of lost wealth over the past year is perhaps the most oppressive development. Half of all households own stocks, up from 4% in the early 1950s. Stocks account for about 20% of total household assets, and because stocks fell last year, the net worth of the average American declined for the first time since 1945, according to the Federal Reserve. In the past six months, the market value of household stocks and stock funds fell more than \$2 trillion--roughly the same amount of money households earned through wages."

From: [Zap!, Mar. 26, 2001](#)

[HOT: As retirement shifted from pension plans to stock-based 401(K) plans, the success of CEOs and governments was based on quarterly stock price, leading to short-term decision making and policy decisions to artificially prop up stocks and home prices.]



1999: Rubin, Greenspan & Summers

"Although the U.S. economy has been nothing but sunshine, it has been a terrifying year in world markets: famed financier George Soros lost \$2 billion in Russia last summer; a hedge fund blessed with two Nobel prizewinners blew up in an afternoon, nearly taking Wall Street with it; and Brazil's currency, the real, sambaed and swayed and then swooned. In the past 18 months 40% of the world's economies have been tugged from robust growth into recession or depression."

From: [The Three Marketeers, Feb. 15, 1999](#)

[HOT: Financial instruments became "too complex to understand and manage," and then companies became "too big to fail." Some say they were intentionally too complex to understand, or regulate. Likewise, some legislation is too complex to understand, so lawmakers rely on what they're told about it rather than reading it themselves.]



1994: Derivatives on Wall Street

"Wall Street's new products are so complicated and interdependent that only the advanced number crunching of the quants can untangle the risks involved; without it, the market crushes you. The result is that techies in large numbers -- engineers who lost jobs at the superconducting supercollider, doctoral students bored with their computer-science dissertations -- are heading for Wall Street. Wall Street as the real world is a concept that could raise eyebrows. But some financial experts wonder whether the quants are weakening whatever contact with reality the street may have had."

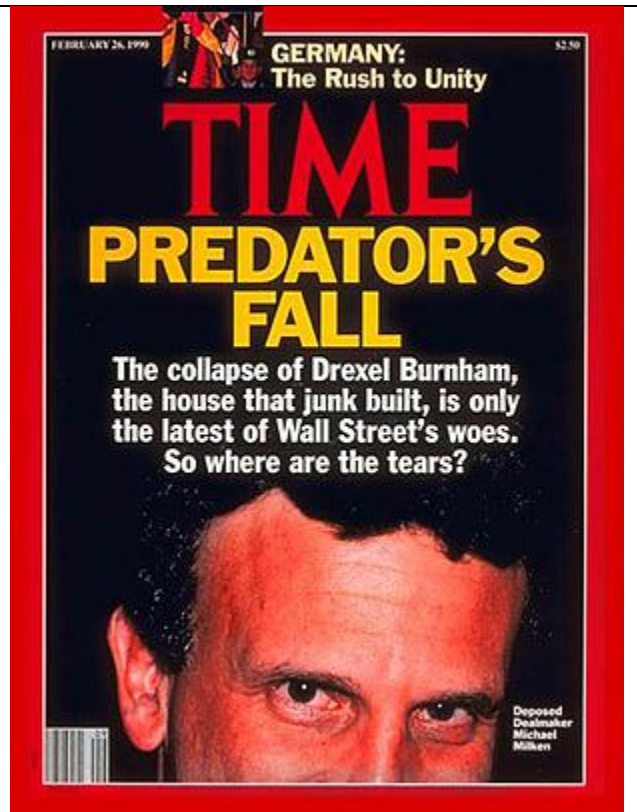
From: [Attack of the Data Miners, Apr. 11, 1994](#)

[HOT: Too complex to regulate?]



1990: Collapse of Drexel Burnham

"The final plunge of the most powerful and dreaded firm on Wall Street in the Roaring Eighties came with astonishing speed. Like the abrupt fall of the Berlin Wall thousands of miles away, the collapse suddenly confirmed what everyone in the financial world could already feel in the wind: a new era had arrived."



1982: Bull Market

"For the brokers who work the floor of the Big Board, the past two weeks have been as exhausting and exhilarating as a triumphant run in a marathon race. Never have they logged so many miles rushing between the buzzing telephones along the walls of the exchange and the bustling trading posts in the middle. Never have the stock prices, which are flashed in green on the electronic tapes overhead, surged, dipped and surged again with such stupefying speed."

From: [Wall Street's Super Streak, Sep. 06, 1982](#)



1972: Is the U.S. Going Broke?

"The nation is not running out of money so much as it has misallocated its resources so badly that it now faces a staggering bill for the public services that citizens have a right to expect. Tax and governmental reforms can and must apportion that bill more fairly; to the extent that the taxpayers' revolt is a protest against inequity, it is only too justified."



1971: Shultz v. Burns: Battle of the Economy

"Today's lingering inflation hangs on — and on and on. It is a particularly joyless affliction. Instead of expanding fast, businessmen are holding down their capital budgets and laying off workers.

Instead of spending and investing, the public is saving at record rates and staying out of the stock market. For one of the rare times in U.S. history, almost everyone feels less well off than he was several years ago."

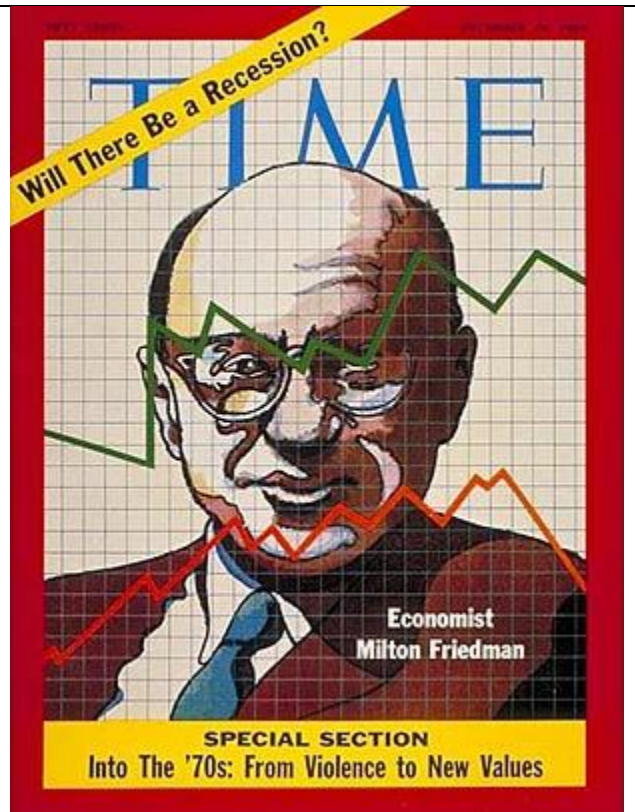
From: [The Showdown Fight Over Inflation, Aug. 16, 1971](#)



1969: Economist Milton Friedman

"Friedman blames unknowing monetary policy in large measure for the magnitude of the Depression of the 1930s. Partly because so many banks failed between 1929 and 1933, the U.S. supply of money shrank by 33% — and that compounded a worldwide economic collapse. The **Federal Reserve**, which took a narrow view of its responsibilities, felt itself almost powerless to reverse the tide of events. **Not really understanding what should be done, it did practically nothing to offset the contraction of the money supply.**"

From: [The Rising Risk of Recession, Dec. 19, 1969](#)



1968: John Galbraith: The All-Purpose Critic

"As a popular economist and polished diplomat, a veteran lecturer and fledgling novelist, a former presidential adviser and current cynosure of the Eastern intellectual set, John Kenneth Galbraith has long been a purveyor of predictions. For two decades they have come tumbling from his typewriter and tongue in prodigious quantities, covering every topic from women to world politics."

From: [The Great Mogul, Feb. 16, 1968](#)



1962: Bear v. Bull on Wall Street

"Of course this was no 1929 again — there are too many safeguards around for that — but Wall Street's news was disquieting nonetheless.

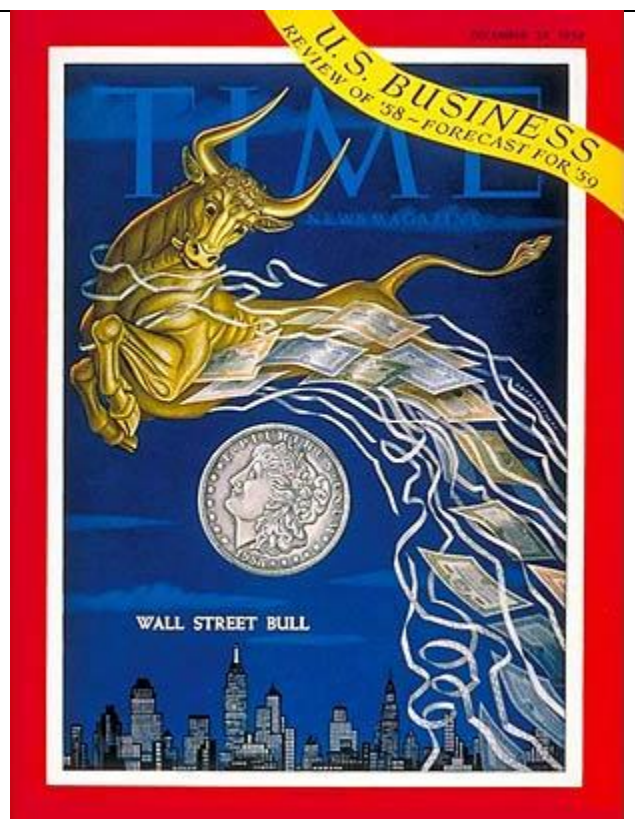
Today's stock market is neither the clubby preserve of the rich nor a Monte Carlo for bet-a-million adventurers: it is a national institution into which one U.S. adult in eight has placed part of his savings. So much has been invested in the market by private pension funds (\$17 billion on the New York Stock Exchange alone) and insurance companies (\$12 billion) that what happens on Wall Street affects every pocketbook in the land."

From: [One Hectic Week, Jun. 01, 1962](#)



1958: Wall Street Bull

"In 1958 the U.S. just missed the moon. But Wall Street's Bull made it and over with ease. Starting in January, stocks on the big board took off with a whoosh that by December sent the market up 37% and carried every average out into space. Coming in a time of recession, the market's amazing moon shot baffled most of the experts. But it was no mystery to the investors whose buying sent it up. In 1958 they could plainly see for the first time that the U.S. was blessed with a new kind of economy, different from any ever seen on the face of the earth."



1954: Bull Market

"In the economic year of 1954 the world had a clear and easily understandable measure of the soaring strength of the U.S. That measure was the great bull market in stocks. The fact was that the 1954 bull was a different breed from any other that had gone before. From almost every angle he seemed made of muscle. He stood against the background of an entirely new economy made up of many industries that did not even exist in 1929, and with a gross national product more than three times as big."

From: [Business in 1954, Jan. 10, 1955](#)



1929: Stock Market Crash

"Promptly at 10 a. m. on Thursday Oct. 24, sounded the gong of the New York Stock Exchange and 6,000 shares of Montgomery Ward changed hands at 83 —its 1929 high having been 156. For so many months so many people had saved money and borrowed money and borrowed on their borrowings to possess themselves of the little pieces of paper by virtue of which they became partners in U. S. Industry. Now they were trying to get rid of them even more frantically than they had tried to get them. Stocks bought without reference to their earnings were being sold without reference to their dividends. At around noon there came the no-bid menace."

From: [Bankers v. Panic, Nov. 04, 1929](#)



In Defense of the Recession Blame Game

By Nancy Gibbs Thursday, TIME Magazine, Feb. 12, 2009

<http://www.time.com/time/business/article/0,8599,1878939,00.html>

Vengeance is mine, saith the Lord, except that right now everyone wants a little piece of it. The mob has been chanting for months, ever since former Treasury Secretary Henry Paulson arrived in late September on Capitol Hill to warn of disaster, pass around his three-page plan and demand \$700 billion to fix the problem. Most members of Congress were so spooked they were ready to write a check, until their phone lines started melting with the angry voices of taxpayers demanding details about the likely return on the investment. But even the minimal strings attached did not prevent the first \$350 billion from vanishing, with the government overpaying about \$78 billion for the assets it bought. The banks told pesky reporters and congressional watchdogs that how they spent the bailout cash was really none of their business. And now, Tim Geithner informs us, the financial system needs \$2 trillion more.

The crowd has gotten crankier in the face of the brash indifference to its fury. It seems that the mighty have been hit with some virulent strain of arrogance common to those told that they were Too Big to Fail. First the auto executives swooped into town in their Gulfstream IVs to ask for \$25 billion; then Merrill Lynch superman John Thain spent \$1,405 on a trash can and suggested he deserved a \$40 million bonus for losing \$15 billion in the fourth quarter. Even Tom Daschle, whose loyal Senate brethren were set to confirm him to the Cabinet, discovered the radioactivity of the phrase "unpaid taxes on his chauffeured limousine."

The modern civilized state claims a monopoly on punishment. Mobs with pitchforks, vigilantism, frontier justice — all seem sweaty and coarse compared with the men in powdered wigs duly processing the law. But as this crisis makes clear, we are in a new frontier now, in financial badlands created by technology and globalization, with no maps and few rules, and the law has not caught up to us. Until it does, we are left with the old sanctions: symbols and shame. That still leaves the problem of knowing whom precisely to scorn. "Capitalism," John Maynard Keynes once argued, "is the astounding belief that the most wickedest of men will do the most wickedest of things for the greatest good of everyone." It is tempting to blame the whole political-industrial complex, starting with whoever first had the idea of lending \$750,000 to someone making \$17,000 a year; the regulators who said that was O.K. and the politicians who encouraged them; the financial geniuses who rolled up all those mistakes into a big ball of bad loans, chopped them up and sold them; and above all, the presiding executives who got performance bonuses whether they performed or not, buying and selling things whose value they could not possibly know, finding ways to reduce risk that instead greatly increased it, unleashing on the markets what Warren Buffett called "financial weapons of mass destruction."

The problem with smashing the whole system, however, is that it's a lazy answer to a fierce challenge. Modern capitalism has created unprecedented wealth in our lifetime, shown its power to lift people out of poverty and spread a culture of competitive genius. So we make a case for who got us here, and who might have saved us and didn't. Even faith itself can be faulted when it turns into blind optimism that sees no risk, hears no sirens. There are plenty of prosecutors who will have a chance to make their case against anyone who crossed a line. But there are also culprits who committed no crime, bankers and builders and prophets and Presidents, and the face in the mirror — since many of us in the mob now wish to punish those who gave us just what we asked for.

How Financial Madness Overtook Wall Street

By Andy Serwer and Allan Sloan, TIME, Thursday, Sep. 18, 2008

<http://www.time.com/time/business/article/0,8599,1842123,00.html>

If you're having a little trouble coping with what seems to be the complete unraveling of the world's financial system, you needn't feel bad about yourself. It's horribly confusing, not to say terrifying; even people like us, with a combined 65 years of writing about business, have never seen anything like what's going on. **Some of the smartest, savviest people we know — like the folks running the U.S. Treasury and the Federal Reserve Board — find themselves reacting to problems rather than getting ahead of them.** It's terra incognita, a place no one expected to visit.

Every day brings another financial horror show, as if Stephen King were channeling Alan Greenspan to produce scary stories full of negative numbers. One weekend, the Federal Government swallows two gigantic mortgage companies and dumps more than \$5 trillion — yes, with a *t* — of the firms' debt onto taxpayers, nearly doubling the amount Uncle Sam owes to his lenders. While we're trying to get our heads around what amounts to the biggest debt transfer since money was created, Lehman Brothers goes broke, and Merrill Lynch feels compelled to shack up with Bank of America to avoid a similar fate. Then, having sworn off bailouts by letting Lehman fail and wiping out its shareholders, the Treasury and the Fed reverse course for an \$85 billion rescue of creditors and policyholders of American International Group (AIG), a \$1 trillion insurance company. Other once impregnable institutions may disappear or be gobbled up.

The scariest thing to average folk: one of the nation's biggest money-market mutual funds, the Reserve Primary, announced that it's going to give investors less than 100 cent on each dollar invested because it got stuck with Lehman securities it now considers worthless. If you can't trust your money fund, what can you trust? To use a technical term to describe this turmoil: *yechhh!*

There are two ways to look at this. There's Wall Street's way, which features theories and numbers and equations and gobbledygook and, ultimately, rationalization (as in, "How were we supposed to know that people who lied about their income and assets would walk away from mortgages on houses in which they had no equity? That wasn't in our computer model. It's not our fault"). Then there's the right way, which involves asking the questions that really matter: How did we get here? How do we get out of it? And what does all this mean for the average joe? So take a deep breath and bear with us as we try to explain how financial madness overtook not only Wall Street but also Main Street. And why, in the end, almost all of us, collectively, are going to pay for the consequences.

[See the winners and losers of the Wall Street mess here.](#)

Going forward, there's one particularly creepy thing to keep in mind. **In normal times, problems in the economy cause problems in the financial markets because hard-pressed consumers and businesses have trouble repaying their loans. But this time — for the first time since the Great Depression — problems in the financial markets are slowing the economy rather than the other way around. If the economy continues to spiral down, that could cause a second dip in the financial system — and we're having serious trouble dealing with the first one.**

The Roots of the Problem

How did this happen, and why over the past 14 months have we suddenly seen so much to fear? Think of it as payback. Fear is so pervasive today because for years the financial markets — and many borrowers — showed no fear at all. Wall Streeters didn't have to worry about regulation, which was in disrepute, and they didn't worry about risk, which had supposedly been magically whisked away by all

sorts of spiffy nouveau products — derivatives like credit-default swaps. (More on those later.) This lack of fear became a hothouse of greed and ignorance on Wall Street — and on Main Street as well. **When greed exceeds fear, trouble follows.** Wall Street has always been a greedy place and every decade or so it suffers a blow resulting in a bout of hand-wringing and regret, which always seems to be quickly forgotten.

This latest go-round featured hedge-fund operators, leveraged-buyout boys (who took to calling themselves "private-equity firms") and whiz-kid quants who devised and plugged in those new financial instruments, creating a financial Frankenstein the likes of which we had never seen. Great new fortunes were made, and with them came great new hubris. The newly minted masters of the universe even had the nerve to defend their ridiculous income tax break — much of the private-equity managers' piece of their investors' profits is taxed at the 15% capital-gains rate rather than at the normal top federal income tax rate of 35% — as being good for society. ("Hey, we're creating wealth — cut us some slack.")

The Root of the Problems

Warren Buffett, the nation's most successful investor, back in 2003 called these derivatives — which it turned out almost no one understood — "weapons of financial mass destruction." But what did he know? He was a 70-something alarmist fuddy-duddy who had cried wolf for years. No reason to worry about wolves until you hear them howling at your door, right?

Besides a few prescient financial sages, though, who could have seen this coming in the fall of 2006, when things were booming and the world was awash in cheap money? There was little fear of buying a house with nothing down, because housing prices, we were assured, only go up. And there was no fear of making mortgage loans, because what analysts call "house-price appreciation" would increase the value of the collateral if borrowers couldn't or wouldn't pay. The idea that we'd have house-price depreciation — average house prices in the top 20 markets are down 15%, according to the S&P Case-Shiller index — never entered into the equation.

As for businesses, there was money available to buy corporations or real estate or whatever an inspired dealmaker wanted to buy. It was safe too — or so Wall Street claimed — because investors worldwide were buying U.S. financial products, thus spreading risk around the globe.

Now, though, we're seeing the downside of this financial internationalization. Many of the mortgages and mortgage securities owned or guaranteed by Fannie Mae and Freddie Mac were bought by foreign central banks, which wanted to own dollar-based securities that carried slightly higher interest rates than boring old U.S. Treasury securities. A big reason the Fed and Treasury felt compelled to bail out Fannie and Freddie was the fear that if they didn't, foreigners wouldn't continue funding our trade and federal-budget deficits.

You've heard, of course, that subprime mortgages — *subprime* is Wall Street's euphemism for *junk* — are where the problems started. That's true, but the problems have now spread way beyond them. Those predicting that the housing hiccup wouldn't be a big deal — what's a few hundred billion in crummy mortgage loans compared with a \$13 trillion U.S. economy or a \$54 trillion world economy? — failed to grasp that possibility. It turned out that Wall Street's greed — and by *Wall Street*, we mean the world of money and investments, not a geographic area in downtown Manhattan — was supplemented by ignorance. Folks in the world of finance created, bought, sold and traded securities that were too complex for them to fully understand. (Try analyzing a CDO-squared sometime. Good luck.)

For an example in our backyard, consider Lehman Brothers. Lehman was so flush, or at least felt so flush, that in May 2007 it sublet 12 prime midtown-Manhattan floors of the Time & Life Building — across the street from Lehman headquarters — from TIME Inc., which publishes this magazine. Lehman signed on for \$350 million over 10 years. (It's not clear what kind of hit, if any, TIME Inc. will now face.)

Lehman's fall shows the downside of using borrowed money. Even though Lehman has a 158-year-old name, it's actually a 14-year-old company that was spun off by American Express in 1994. AmEx had gobbled it up 10 years earlier, and it wasn't in prime shape when AmEx spat it out. To compensate for its relatively small size and skinny capital base, Lehman took risks that proved too large. To keep profits growing, Lehman borrowed huge sums relative to its size. Its debts were about 35 times its capital, far higher than its peer group's ratio. And it plunged heavily into real estate ventures that cratered.

Here's how leverage works in reverse. When things go well, as they did until last year, Lehman is immensely profitable. If you borrow 35 times your capital and those investments rise only 1%, you've made 35% on your money. If, however, things move against you — as they did with Lehman — a 1% or 2% drop in the value of your assets puts your future in doubt. The firm increasingly relied on investments in derivatives to produce profits, in essence creating a financial arms race with competitors like Goldman Sachs. Even though the Fed had set up a special borrowing program for Lehman and other investment banks after the forced sale of Bear Stearns to JPMorgan Chase in March, the market ultimately lost faith in Lehman. So out it went.

Uncle Sam Steps Back In

The market lost faith in AIG too, but the government was forced to save it. A major reason is that AIG is one of the creators of the aforementioned credit-default swaps. What are those, you ask? They're pixie-dust securities that supposedly offer insurance against a company defaulting on its obligations. If you buy \$10 million of GM bonds, for instance, you might hedge your bet by buying a \$10 million CDS from AIG. In return for that premium — which changes day to day — AIG agrees to give you \$10 million should GM have an "event of default" on its obligations.

But as a way to make sure that swap-meisters can make good on their obligations, they have to post collateral. If their credit is downgraded — as was the case with AIG — they have to post more collateral. What put AIG on the brink was that it had to post \$14 billion overnight, which of course it didn't have lying around. Next week, the looming downgrades might have forced it to come up with \$250 billion. (No, that's not a typographical mistake; it's a real number.) Hence the action. **If AIG croaked**, all the players who thought they had their bets hedged would suddenly have "unbalanced books." That could lead to firms other than AIG failing, which could lead to still more firms failing, which could lead to what economists call "systemic failure." Or, in plain terms, a financial death spiral in which firms suck one another into the abyss.

AIG, like Lehman, was ultimately done in by credit-rating agencies, of all things. The main credit raters — Moody's and Standard & Poor's — had blithely assigned top-drawer AAA and AA ratings to all sorts of hinky mortgage securities and other financial esoterica without understanding the risks involved. Would you know how to rate a collateralized loan obligation? Or commercial-mortgage-backed securities? Sophisticated investors took Moody's and S&P's word for it, and it turned out that the agencies didn't know what they were doing. Credit raters, who claim to offer only opinions, are party to Wall Street's cycles too. At the beginning, they're far too lenient with borrowers, who are the ones who pay their rating fees. Then, after a couple of embarrassments — remember Enron and WorldCom? — the raters tighten up, maybe too much. Then memory fades, and the cycle repeats.

What doomed AIG was the rating agencies' decision — they had suddenly awakened to AIG's problems — to sharply downgrade the firm's securities. That gave AIG no time to react, no time to raise more capital, no more time to do anything else but beg for help. Because AIG is in a much scarier situation than Lehman — the insurer has assets of \$1 trillion, more than 70 million customers and intimate back-and-forth dealings with many of the world's biggest and most important financial firms — Uncle Sam felt that it had no choice but to intervene.

Right before the markets began to unravel last year, Lloyd Blankfein, chief executive of Goldman Sachs, presciently quipped that he hadn't "felt this good since 1998," referring to the Wall Street wipeout precipitated that year by Russia's defaulting on its ruble debt. Blankfein argued that confidence in global markets had built up to a dangerously giddy level and that investors weren't being compensated for assuming outside risk in securities like esoteric bonds and Chinese stocks. Blankfein was right, of course, but even he wasn't paranoid enough. Though Goldman stands, along with Morgan Stanley, as one of the last two giant U.S. investment banks not to collapse (as Lehman and Bear Stearns have) or be sold (à la Merrill Lynch), Goldman too has been pummeled. The firm's quarterly profit plunged 70% — results considered to be relatively good. While analysts generally believe that Goldman and Morgan Stanley will survive the meltdown, that view is not unanimous. Says doomster New York University economics professor Nouriel Roubini: "They will be gone in a matter of months as well. It's better if Goldman or Morgan Stanley find a buyer, because their business model is fundamentally flawed." Both firms would beg to disagree, but their stock prices have been hammered.

All of us are now paying the price for Wall Street's excesses. Some of the cost is being paid by prudent people, like retirees who have saved all their life. They're now getting ridiculously low rates of 2% or so on their savings because the Federal Reserve has cut short-term rates in an attempt to goose the economy and reassure financial markets. Taxpayers are going to get stuck too. By the estimate of William Poole, former head of the St. Louis Fed, bailing out the creditors of the two big mortgage firms, Fannie Mae and Freddie Mac, could cost taxpayers \$300 billion. Think of that as about a year and a half in Iraq.

Didn't the folks on Wall Street, who are nothing if not smart, know that someday the music would end? Sure. But they couldn't help behaving the way they did because of **Wall Street's classic business model**, which works like a dream for Wall Street employees (during good times) but can be a nightmare for the customers. Here's how it goes. **You bet big with someone else's money. If you win, you get a huge bonus, based on the profits. If you lose, you lose someone else's money rather than your own, and you move on to the next job.** If you're especially smart — like Lehman chief executive Dick Fuld — you take a lot of money off the table. During his tenure as CEO, Fuld made \$490 million (before taxes) cashing in stock options and stock he received as compensation. A lot of employees, whose wealth was tied to the company's stock, were financially eviscerated when Lehman bombed. But Fuld is unlikely to show up applying for food stamps.

Fuld is done with the grueling job of trying to stave off financial crisis. Not so for regulators, of course. It's difficult to imagine the pressure and stress. Key players such as Treasury Secretary Hank Paulson and New York Fed chief Tim Geithner have been working around the clock for weeks now, putting out fire after fire. Besides having to comprehend and solve the mind-bending financial woes of some of the world's biggest companies, they are also briefing and seeking counsel from CEOs of the surviving companies, never mind President George W. Bush and the two presidential candidates, plus central bankers from around the globe.

Where Do We Go from Here?

There's no question that the crisis has gone so deep that it cannot be halted by one stroke. Banks and other financial companies around the globe are struggling to pull themselves out of this mess. Rebuilding will take time, vast amounts of money and constant attention. Sooner or later, the hundreds of billions (or trillions) of dollars that the Fed and other central bankers are throwing into the markets will stabilize things. Sooner or later, housing prices will stop falling because no financial trend continues forever.

Given that this is a political year and *change* is the buzzword, how do Barack Obama and John McCain intend to see us out of this mess? Good question. We don't know, and it's not at all clear that they've thought about it in greater than sound-bite depth.

Obama has called for increased regulation, which seems like a no-brainer, but he hasn't articulated many specifics. Meanwhile, McCain has talked about ending "wild speculation" and railed against Wall Street greed. Well, duh. Know anyone who is in favor of naked greed? Whoever wins will face a massive job of righting the financial ship and restoring confidence that has been badly shaken. The next President will have to cast away partisan predispositions and add the just-right measure of regulation and oversight to the mix. As Treasury Secretary (and former Goldman Sachs chief executive) Paulson recently said, "Raw capitalism is dead."

Whatever the politicians do, we as a society are going to be poorer than we were. We've lost credibility with foreigners; they will be less likely than before to lend us endless amounts of cheap money. Will that ultimately lead to higher borrowing costs? It's hard to see how it won't.

Coping in this new world will require adjustments by millions of Americans. We all will have to start living within our means — or preferably below them. If you don't overborrow or overspend, you're far less vulnerable to whatever problems the financial system may have. And remember one other thing: the four most dangerous words in the world for your financial health are "This time, it's different." It's never different. It's always the same, but with bigger numbers.

(Additional photo credits -- Paulson: AP; AIG Ticker: Andrew Harrer / Bloomberg / Landov; Lehman: Getty; Federal Reserve Bank of New York: AP; Foreclosure: AP; AIP sign: Getty; Dow Jones: AP)

Washington Prepares the Mother of All Bailouts

By Justin Fox, TIME, Friday, Sep. 19, 2008

<http://www.time.com/time/printout/0,8816,1842706,00.html>

Even after committing \$285 billion over the past couple of weeks to bail out mortgage lenders Fannie Mae and Freddie Mac and insurer AIG, the Federal Government is now looking to fork over more — much more.

The Treasury Department and Federal Reserve now are making plans to buy troubled mortgage securities en masse from banks and other financial firms. This would amount to moving from ad hoc loans and bailouts to a more systematic approach to resolving the bad-debt problems at the heart of the current financial crisis. Systematic apparently sounds good — the Dow jumped 400 points after CNBC first reported Thursday that such an effort was in the works, and on Friday, markets around the world opened sharply higher. But the price tag could be steep. "We're talking hundreds of billions," Treasury Secretary Hank Paulson said at a press conference Friday morning. "This needs to be big enough to make a real difference and get at the heart of the problem." The more alarmist economists are saying the cost of resolving the current crisis will exceed \$1 trillion. To put that in context, total U.S. government spending in 2007 was \$2.7 trillion.

The closest historical parallel to this effort is the Resolution Trust Corporation, which was formed by Congress in 1989 to buy up and dispose of the assets of failed savings and loans. The difference is that while the RTC took over the assets of corporate corpses already in government hands, the assets everybody's worried about now are on the books of still alive banks, investment banks and other firms. The idea would be to get them off the books of these institutions, hold on to them for a few years and possibly try to renegotiate their terms to slow foreclosures. The big challenge will be coming up with a

way to do this that avoids bestowing a wholly unearned windfall on the shareholders of the companies ditching the toxic securities.

There's also the question of whether Congress, which was planning to adjourn at the end of next week so its members could go home to campaign for re-election, could create such an entity on short notice. On Wednesday the answer from several key lawmakers was no, but on Thursday House Speaker Nancy Pelosi told President Bush she'd keep the chamber in session longer if needed. It's also possible that the Treasury and the Fed could come up with an improvised solution that doesn't need congressional approval. Paulson and Fed Chairman Ben Bernanke visited Capitol Hill Thursday night to talk over the possibilities, and Paulson said Friday that he would "spend the weekend working with members of Congress of both parties" to come up with legislation that he hoped to pass "over the next week." In the meantime, Treasury on Friday announced a \$50 billion guarantee program meant to calm mounting fears about the safety of money-market mutual funds.

Why should government (and by extension taxpayers) even be contemplating such action? The clearest explanation is probably that of Paul McCulley, a managing director of the money-management firm PIMCo, who wrote an essay last summer on "[The Paradox of Deleveraging](#)" that continues to resonate in financial and economic circles. **When a debt-fueled investment bubble bursts, financial institutions that make their living off borrowed money (banks, investment banks, hedge funds) tend to want to reduce their leverage — their ratio of debt to equity. That's perfectly rational. But when everybody does it at the same time, big trouble ensues.** "[N]ot all leveraged lenders can shed assets and the associated debt at the same time without driving down asset prices, which has the paradoxical impact of increasing leverage by driving down lenders' net worth." **Basically, if all lenders de-leverage at once, the financial system implodes — and everybody, not just the bankers, suffers.**

To halt this implosion, somebody has to leverage up, not down, and acquire assets, not sell them. The government is the institution in by far the best position to do so. The Federal Reserve System can play this role on a short-term basis — halting panics by lending dollars in exchange for momentarily hard-to-sell assets, as it did early Thursday morning. But while the exigencies of the moment have led it to make longer-term investments in Bear Stearns and now AIG, it's widely agreed that this is bad policy. "The Fed is the guardian of the currency," says William Silber, a professor of finance and economics at New York University. "That's its job. Its job is not to subsidize people who made credit mistakes."

And whose job would that be? Well, it's your job, U.S. taxpayers! If this seems unfair, that's because it is. **Mortgage brokers, investment bankers, house flippers and other sharpies got rich causing this mess. Now all of us have to pay to fix it.** The one possible bright side is that, if done right, bailouts don't ultimately have to cost a lot of money. **If the government buys assets when everybody's panicked and sells them when markets have calmed down again, it could even turn a profit.**