

# THE CAPITALIST ADVISOR

TOP DOWN INSIGHTS...BOTTOM LINE RESULTS

## Why They Won't Leave Bad Enough Alone

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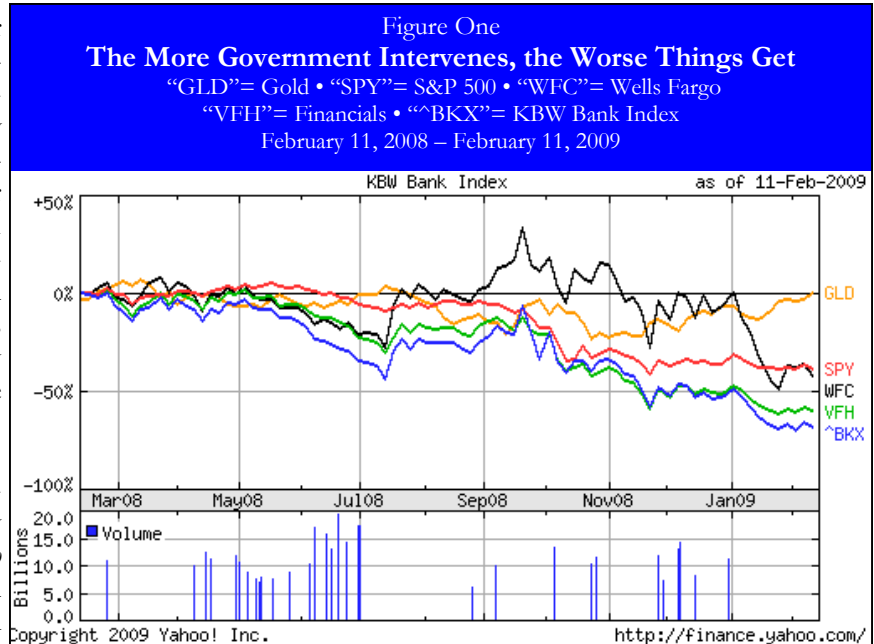
They believe free markets, left to their own devices, are prone to breakdown and “failure,” yet fixable and curable by government intervention. They attribute the recent economic-financial-credit crisis to tax cuts, de-regulation, or “gaps” of non-regulation. They say greed is a vice which breeds fraud and recklessness. They insist that government can “stimulate” an economy by a near-endless printing of its money and bonds. They declare to critics that the only alternative to their interventions is to “do nothing.”

In fact, the only *real* alternative to government intervention, if policy-makers truly wished to encourage prosperity, is to *do something that's pro-capitalist*. But no one in U.S. policy-making today cares very much about doing anything that's even remotely pro-capitalist – because “they” wouldn't approve. Bad as things get, “they” won't leave bad enough alone because they believe markets are the *cause* of all bad.

**Who are “they?”** Anyone who believes the dogmas listed above. It's a large group these days, but concentrated mainly in university economics departments, New York banks, and the media, but especially in Washington (regardless of party), where, most dangerously, the dogmas are codified in law and rammed down the throats of innocents. “They” are those who caused the economic-financial-credit debacle in the *first place*, yet who refuse to leave bad enough alone; instead they blame and scapegoat the innocents and the victims<sup>1</sup> and proceed to intervene still further, destroying still *more* wealth. In this way, they move us inexorably to a system of socialist finance.<sup>2</sup>

<sup>1</sup> “The Scapegoat Phase,” *Investor Alert*, InterMarket Forecasting, Inc., October 27, 2008. See also Richard M. Salsman, “Bankers as Scapegoats for Government-Created Banking Crises in U.S. History,” in Lawrence H. White, editor, *The Crisis in American Banking* (New York University Press, 1993), pp. 81-118.

<sup>2</sup> “Socialist Finance in America,” *The Capitalist Advisor*, InterMarket Forecasting, Inc., Parts I-IV (issued 10/15/08, 11/21/08, 11/30/08, and 12/24/08).



This week has seen a parade of such people – at podiums, press conferences and hearings, whether presenting, testifying about or threatening to impose their range of destructive government plans. Until recently U.S. stocks were recovering, but this week we've seen quite a lot of President Obama, Treasury Secretary Geithner, Fed Chairman Bernanke, House Financial Services Committee chairman Frank, Senate Banking Committee chairman Todd, the G-7 finance ministers – as well those cowardly eight CEOs from America's top banks.

Asked today to describe what G-7 ministers were discussing, CNBC's Steve Liesman said “they're talking about bureaucracy and central planning” and “coordinating this chaos of global policy.” It's no wonder markets remain in turmoil and five of the G-7 na-

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tions remain in recession. But “they” are *perplexed*, because *they* expected interventions to make things *better*.

**They advise more coercion.** The more “they” appear in public, the worse stocks perform. Some of their apologists attribute the bad reception to insufficient *detail* in the plans, as if more specifics and “transparency” concerning essentially *destructive* plans can somehow diminish their destructiveness. Upon seeing markets plunge yet again, in the face of the latest plan, others who believe that free markets “fail” while intervention “fixes” them conclude that perhaps the initial plans weren’t “bold” enough, and thus that *more and bigger* interventions are warranted. A more “comprehensive,” more “aggressive” plan is needed, they say. The problem isn’t the intervention itself, in their view, but its size and forcefulness; what’s needed, still others say, is a plan with “real teeth” (i.e., *more* coercion and compulsion).

According to Treasury Secretary Geithner, “it will be cheaper in the long term, it’ll cost the taxpayer less and be less damaging to American business, if we are *more forceful* up front and try to put *enough force* behind this to get it to work.”<sup>3</sup> Meanwhile Vice President Biden condemns and threatens bankers for “thinking the same old thing that got us here, greed. They’re thinking, ‘Take care of me.’ I’d like to throw these guys in the brig.”<sup>4</sup>

***The more the interventionists appear in public, touting their plans, the worse stocks perform; yet they and their apologists conclude that the problem is that the plans are not detailed enough, not bold enough, not aggressive enough, not forceful enough, not dictatorial enough. This is how a nation moves toward a totalitarian political regime and finance system.***

This is how a nation moves tragically and inexorably toward a totalitarian political regime and finance system.

**The failure of hybrid finance.** Figure One (page 1) shows how policy interventions in the past year have only *harmed* the market, even as policy-makers and prognosticators expected bullish results. The trouble began with a massive intervention, by means of Washington’s long-term sponsorship of Fannie Mae and Freddie Mac, those “hybrid” entities (part public, part private) that fostered reckless mortgage lending, before collapsing in an insolvent heap. Yet Washington continues to propose or enact *additional* hybrid schemes, such as Geithner’s “Public-Private Investment Fund.” (see pages 4-5)

Another intervention, Washington’s bailout of Bear Stearns in mid-March of 2008 (\$30 billion of its bad assets were transferred to the Fed’s balance sheet) was also widely applauded as potentially bullish. But that bailout condoned further recklessness and the persistence of thin capital cushions and high leverage, as at Lehman Brothers, which later failed. Assets held by the Fed and the GSEs are hidden from markets, precluding rational price discovery. Whenever assets reside in government hands, instead of private hands (which would occur in a bankruptcy proceeding), their value necessarily deteriorates in ways it otherwise would not.

Only *further* bearishness ensued from the bailout of Bear Stearns. Figure One (page 1) shows how the BKX bank stock index fell 40% from its mid-February level to mid-July. Thereafter the index stabilized and then rallied – amid few policy actions – in late summer and early fall.

Conservative banks (see Wells Fargo), which had avoided the sub-prime mess and had ample capital, outperformed both peers and the S&P 500. But in late August, over-reacting to the pending failures of Lehman Brothers, Merrill Lynch and AIG, Treasury Secretary Paulson and Fed head Bernanke told a BIG LIE: that the U.S. financial system was in a “meltdown” and teetering on “collapse.” The spooky language of these scare-mongers led a clueless Congress to enact in haste, without even a *single day* of debate or testimony, the \$700 billion “TARP” scheme, in early October last year. The scheme had the *unqualified support* of George Bush, John McCain, Barack Obama and Tim Geithner (then head of the New York Fed).

The scare-mongers among America’s political, economic and business “leaders” today blithely presume that markets are fragile and shaky, while the government is a solid, confidence-instilling Rock of Gibraltar. In fact, the U.S. government itself is shaky and unreliable, while markets are remarkably vibrant, flexible and resilient, able to withstand, in part at least, a significant amount of the abuse and thievery imposed on them by politicians

<sup>3</sup> Timothy Geithner, Interview, CNBC, February 10, 2009.

<sup>4</sup> Cited in “Obama Calls Wall Street Bonuses ‘Shameful,’” *The New York Times*, January 30, 2009, p. A1.

and the deadbeats they sponsor. Thankfully, *capital can go on strike*. But there are limits to how much abuse market-makers and capitalists can (or will) easily sidestep.

TARP has been a massive intervention entailing government “capital” injections into banks, even into healthy banks. Once again, nearly everyone assumed the TARP would be bullish, because most everyone believes intervention “fixes” what is presumed to be “market failure.” But stocks (especially bank stocks) plunged yet *again*. In the 4½ months *since* TARP became law in October, the *Financials* have declined by 52%, *more than twice* the S&P 500’s drop of 24%; in the same 4½ months *before* TARP, the *Financials* dropped *less than half* as much (23%), and by only 2% points worse than S&P 500.

Notably, Figure One (page 1) shows that only *gold* has benefited from this past year’s interventions, as markets have rightly feared the inflationary effects of reckless, gargantuan government spending, debt levels and money-printing. In addition to radically reducing the market value of U.S. firms, the government’s plans have also radically reduced the real value of the dollar (i.e., in gold). This is a negative referendum on intervention.

**Other bearish policies – still in place.** Not shown in Figure One (page 1) is the deleterious effect of an arbitrary and punitive form of “mark-to-market” accounting for financial institutions – FASB 157, imposed by U.S. financial regulators beginning in November 2007 – which helped caused the *Financials* index to plunge 28% from the end of October 2007 until mid-March 2008, or *twice* the S&P 500’s decline of 14%. This is yet another example of a government intervention gone awry. There has been no effort to relax or drop this crazy burden.

Yet another bearish policy is Washington’s on-going enticements to *keep insolvent banks out of bankruptcy court*. Indeed, current law *denies* to bank bondholders the right to sue U.S. banks and forbids banks from filing Chapter 11; it keeps the resolution of an insolvent bank in the *political* hands of the Fed, FDIC and (now) the Treasury. Instead of respecting and protecting the rights of creditors and shareholders, instead of ensuring that truly insolvent firms face a bankruptcy judge, which is government’s *only proper function* in this regard, Washington instead bails them out, and in doing so additionally violates the freedoms and rights of bank managers and tax-

payers. Making matters worse, Washington scares away private capital from U.S. banks. Any person, firm or fund which wants to invest capital in a U.S. bank, but ends up owning more than 9.9% of it, is thereby classified as a “bank holding company” and immediately subject to the vast controls which make U.S. banks risky and less profitable in the first place. Last month, Obama economist Larry Summers said U.S. banks should be required to pay only a “de minimus” level of dividends, even though dividends have accounted for *more than half* of the total return on bank stocks in recent decades.

U.S. policy-makers now decry the fact that private capital is so reluctant to invest in the equity of U.S. banks; but these same policy-makers *won’t dare repeal the laws and policies* which have made the banks so unattractive from an investment standpoint (even in good times).<sup>5</sup>

***As we predicted last fall, only bearishness has resulted from Washington’s dreadful policy of by-passing its own bankruptcy courts and the objective rule of law, in favor of politicized bailouts and the arbitrary rule of men.***

As we predicted last fall, only *bearishness* has resulted from Washington’s dreadful policy of by-passing its own bankruptcy courts and the objective rule of law, in favor of bailouts and the arbitrary rule of men.<sup>6</sup> But the interventionists nevertheless persist in blaming our troubles on the rare cases where a firm *did* file for Chapter 11 (Lehman Brothers), instead of being bailed out. This is also Geithner’s view. It ignores the fact that in Chapter 11 a firm obtains court *protections*, a means of valuing assets and sorting out claims. Bailouts prevent all of this, and worse, entail government forcing money on solvent firms, thus sabotaging freely-chosen, profitable actions.

**Geithner’s bomb.** The latest Treasury “plan” this week promised still *more* interventions, and stocks cratered yet again (by 4% in just one day). Innocent firms like Wells Fargo have seen their stocks unjustly dragged down, as the Treasury forces capital on them, then more intensively controls them. Why would this be? According to one account of Treasury Secretary Geithner’s scheme, “as part of the revamped bailout, cash will go to those *deemed healthy* enough to lend.”<sup>7</sup> By its interventions,

<sup>5</sup> See “Roots of the Latest Banking Crisis,” *The Capitalist Advisor*, InterMarket Forecasting, Inc., July 11, 2008.

<sup>6</sup> See “Bankruptcies are Bullish, Bailouts are Bearish,” *Investor Alert*, InterMarket Forecasting, Inc., September 22, 2008.

<sup>7</sup> See Deborah Solomon and Damian Paletta, “Banks to Get Stress Test Before Aid,” *The Wall Street Journal*, February 10, 2009, p. A3.

Washington either “helps” the insolvent banks or the solvent ones; if it bails out the *insolvent* ones, it permits these zombies to suck the life-blood out of the healthy banks; if it injects taxpayer funds into *solvent* ones, it controls and strangles them. Either way, markets suffer. Not coincidentally, even after all the bearishness of January, U.S. stocks this week fell 5%, while *Financials* dropped 10% and bank stocks plunged 14%. This is what the markets think of Washington’s latest interventions.

Only the most ignorant or dishonest of observers today – i.e., “they” – could deny that Washington’s interventions have been an unmitigated disaster. Yet “they” continue to insist upon still *greater* doses of intervention. Recall that King Midas had the “Midas Touch,” because everything he touched turned to gold; government intervention entails what might be called *the Reverse Midas Touch*: whatever the government touches turns to dross.

As do others, Geithner blames financial turmoil on markets and market-makers, not on government bureaucrats or policy-makers (those who continue to mandate, incentivize or immunize those who act recklessly). Geithner this week unveiled what he called a “Financial Stability Plan” – a scheme which markets could barely *decipher*, except for its obvious interventions, and thus deemed bearish – to prevent what he called “a complete collapse of our financial system.” So the market got *more scare-mongering* plus a vague promise (threat?) of further, coercive interventions.

**\$2.5 trillion more.** Geithner says the Treasury will establish a “Financial Stability Trust,” a “Public-Private Investment Fund,” and a “Consumer and Business Lending Initiative,” all together costing an *extra* \$2.5 trillion, on top of the \$5-7 trillion that’s *already* been committed by Treasury and the Fed. Apparently, in the estimation of Geithner and the Obama administration, markets *just haven’t had enough* in the way of government “initiatives,” spending and borrowing in the past year. In addition, Geithner believes the markets will need a bit of *moral conditioning and discipline* – courtesy of him. In the CNBC interview given soon after the public presentation of his gargantuan but vague scheme, Geithner said:

I very much share the basic view that the quality of judgments we’ve seen across the financial system are

just deeply troubling. They have made our jobs [in government] so much harder, because it makes it so much harder to explain to people why the things we think are necessary, to help small businesses and families get access to credit, are so important. We need to bring a much higher standard of basic responsibility and care of judgment across the system. (interview, CNBC, February 10<sup>th</sup>)

Geithner believes markets have made it difficult for policy-makers and bureaucrats (like him) to do their jobs; in fact, it’s *the other way around*: policy-makers and bureaucrats have made it difficult for *market-makers* to do *their* jobs. Having spent trillions of dollars beyond its means in the past decade – having depleted Social Security and turning it into a Ponzi scheme – having sponsored the corrupt, scandal-ridden GSEs that dominated and infested the residential mortgage market, before going bust and spreading panic last fall – neither the U.S. gov-

ernment nor especially the sanctimonious, tax-cheating Geithner is in any position to be dispensing advice or setting standards about sound character, responsibility and judgment in markets. Geithner also attributes the nation’s ongoing financial turmoil to *insufficient* government intervention:

The lesson of the crisis is that government tends to underestimate the ultimate costs and damage, they tend to move too late to try to address the crisis and that makes the crisis worse, more expensive and more damaging. . . . [Government programs so far have been] too limited, too late, too tentative, with too little trust and transparency, and with too little direct government support [capital injections] of banks. (interview, CNBC, February 10<sup>th</sup>)

**Still more hybrid finance.** Despite the disastrous effects of public-private “partnerships” in money, credit and banking – “hybrid” systems, such as when Washington monopolized money (by founding the Fed), when it boosted moral hazard through wider FDIC coverage, and when it sponsored Fannie Mae and Freddie Mac – Geithner proposes an *even greater expansion of hybrid finance*, and this time with “a more *forceful*” approach:

We want to provide *government financing alongside private capital*, to help get these markets working again. . . . If we provide substantial financing which is something only the government can do now, we can do this in a way that protects the taxpayer while also

providing maximum benefits to markets. . . . It's going to cost resources and it's going to require that government take risks that the markets *cannot* take, but that's what governments exist to do. . . . Our judgment is that it will be cheaper over the long term, it'll cost the taxpayer less and be less damaging to American business, if we are *more forceful* up front and try to put *enough force* behind this to get it to work... There are lots of ideas out there, but this basic structure, which will *leverage private capital with government financing*, we believe has the best prospect for success, with the least risk. . . .

One of the most acute problems today is the *absence of the availability of private financing*, to clean up these balance sheets and get these markets going again. That's something the market *cannot* now do and cannot now provide. That's really something only governments and central banks can do. And a necessary path to getting through this is to have the government use that capacity to provide financing in a way that helps get private markets in. Part of the reason why these markets are not working is because there's no liquidity in these markets, and because of the acute uncertainty about whether there will be financing available. So we're trying to design a structure where the government will come in, in ways that will allow some private capital to come in too. (interview, CNBC, February 10<sup>th</sup>, emphasis added)

In noting the "absence of the availability of private financing," Geithner insists that private capitalists "*cannot*" assume the risks or make the investments needed for financial stability and economic recovery. This is nonsense. In fact, private capitalists *will not* do so, because they are on strike, and precisely because policy-makers like Geithner have been *crowding them out* and/or threatening to *strangle them* once they become "partners" with government (see also "partnerships" with the Mafia). Geithner seems to believe private capitalists are *stupid*, and/or *unaware* of how *previous* government interventions and *hybrid financial schemes* have panned out.

**Attraction – or repulsion?** Geithner assumes, naively, that government equity injections will somehow *attract* private capital, whereas in fact it tends to *repel* it. According to Orin Kramer, an Obama campaign advisor and board member for the New Jersey Investment Council, Geithner "is undertaking the most significant intervention in the financial system since the 1930s, with \$2.5 trillion, a material number" (CNBC, February 12<sup>th</sup>).

Yet only two days prior (February 10<sup>th</sup>), soon after the public presentation of his plan, Geithner insisted that he was a champion of a *private-enterprise* banking system:

Our objective, and really our obligation, is to try to make sure we preserve this financial system in private hands, and where we have to do exceptional things, to help protect the economy as a while, we want to do so in ways in which private capital will replace public capital as soon as possible. Governments are not good at running banks. (interview, CNBC, February 10<sup>th</sup>)

Indeed, "governments are not good at running banks," but that's not stopping Geithner at Treasury, Obama at the White House, Bernanke at the Fed, Bair at the FDIC, Frank in the House, or Dodd in the Senate from continuing to do just that. They persist in forcing banks to take government "capital," then subject them to profit-sapping mandates on pay, lending, dividends and mergers. Like Treasury Secretary Paulson before him, Geithner pays lip service to the need for a private banking system, but his policies only *undermine* that system and hasten America toward a system of socialist finance.

**Obama too blames free markets.** Most interventionists echo the fable of the crisis given this week by Democrat strategist Richard Goodstein: "The combination of tax cuts and the belief that the free market, left to its own devices, will cure all ills, has gotten us into this financial crisis."<sup>8</sup> President Obama concurs in the fable; here is his own story on the alleged origins of the crisis:

Banks took exorbitant, wild risks with other people's money based on shaky assets, and because of the enormous leverage, where they had \$1 worth of assets [equity?] and they were betting \$30 on that \$1, what we had was a crisis in the financial system. That led to a contraction of credit."<sup>9</sup>

Did Obama say government policy mandated, subsidized or incentivized wild lending? No. Did he say *government-sponsored* enterprises (GSEs) like Fannie Mae and Freddie Mac fostered reckless mortgage lending and shaky securitizations, went broke, sapped liquidity and spread panic? No. Do the GSEs *still exist* today? Yes. Did Obama stress how the Fed's doctrine of "too big to fail" (TBTF) and government deposit insurance (FDIC) elevated both moral hazard and leverage while giving banks access to "other people's money," against their

<sup>8</sup> Richard Goodstein, Interviewed on Fox Business Network, February 10, 2008.

<sup>9</sup> President Obama, Press Conference, The White House, February 9, 2009 ([http://www.whitehouse.gov/the\\_press\\_office/PressConferencebythePresident/](http://www.whitehouse.gov/the_press_office/PressConferencebythePresident/)).

will? No. Does the TBTF policy and FDIC *persist* today, indeed with *expanded* coverage, at *greater* risk to taxpayers? Yes. On top of all this, as the jobless rate rises, Washington expands and extends subsidies to the unemployed, thereby fostering a *still higher* jobless rate. Like President Bush before him, President Obama complains about the deleterious effects but ignores obvious causes.

According to Obama, the government did nothing to cause the latest recession, crisis, or joblessness – *except* it “cut taxes” (even though tax revenues grew under Bush), as if allowing people to *keep more of their wealth* somehow causes financial crises and recessions. At this stage, Obama says, only government can “jolt” the economy to life; and although Japan’s *policy*makers triggered the NIKKEI stock crash of 1989-90, intervened with six separate Keynesian “stimulus” plans in the decade of the 1990s, and boomed the national debt amid a persistently stagnant economy, Obama believes Japan’s government somehow didn’t intervene “boldly” enough:

We’re going through the worst economic crisis since the Great Depression. We’ve lost 3.6 million jobs, but what’s more disturbing is that almost half of that loss has taken place in the last three months, which means the problems are accelerating . . . As we’ve learned very clearly and conclusively over the last eight years, tax cuts alone can’t solve all of our economic problems – especially tax cuts that are targeted to the wealthiest few Americans. We have tried that strategy time and time again, and it’s only helped lead us to the crisis we face right now. . . . The federal government is the only entity left with the resources to jolt our economy back into life. It is only government that can break the vicious cycle where lost jobs lead to people spending less money which leads to even more layoffs. . . . If you delay acting on an economy of this severity, you potentially create a negative spiral that’s more difficult to get out of. We saw this happen in Japan in the 1990s, where they did not act boldly and swiftly enough, and as a consequence they suffered what was called the “lost decade” where essentially for the entire 1990s they did not see any significant economic growth.<sup>10</sup>

**Obama’s model is FDR and the New Deal.** Obama believes “only government can break the vicious cycle,” but in fact government itself has been *causing* the vicious

cycle. In speaking to businessmen at the White House today, the new president declared that by “crafting New Deal policies” at “a moment when economic turmoil threatened the foundations on which our society was painstakingly built,” FDR and Washington’s politicians refused to trade away “our heritage of freedom” for “the illusion of a living,” and thus “we boldly defended our system of free enterprise and enacted policies to transform the ways that it would function,” “even as FDR was leading unprecedented public interventions into the private sector.” Obama says he’s thankful that in the 1930s “we did not give in to [pro-capitalist] ideologies who dismissed or derided the role of government.”<sup>11</sup> In fact, the dismissal of pro-capitalist views and policies in the late 1920s and 1930s, and the embrace of socialist ones, both *caused* and *prolonged* the Great Depression

The utter illogic of Obama – and of so many others like him in positions of “leadership” today – is truly breathtaking. He contends that one can “boldly defend free-enterprise” and simultaneously enact “unprecedented public interventions into the private sector.” That’s like a plan to keep a young woman virginal and chaste, while raping her. Obama represents no “change,” in this regard, for his predecessor was no different; in two television interviews last December President Bush said “I’m a free market guy, but I’m not going to let this economy crater in order to preserve the free market system.” He had “obviously made a decision to make sure the economy didn’t collapse” and had “abandoned free market principles in order to save the free market system.” The sheer illogic and idiocy of today’s top politicians is clearly bipartisan; like President Bush, President Obama would *torch* the village in order to *save* it.

**Sacrifice to the state – and to Barney.** One of the crucial gimmicks of the interventionists is to accuse market-makers of vicious “greed,” to scapegoat them, to make them feel guilty, and finally, to call on them to sacrifice themselves and their firms to the greater good of the people and the state. Just read the following bilge from Rep. Barney Frank (D-MA), chairman of the House Financial Services Committee and one of the biggest enablers of Fannie Mae and Freddie Mac in recent decades, and still today. In hearings held February

***Obama blames the crisis on bankers taking “exorbitant, wild risks with other people’s money,” but instead of repealing the government policies that have caused such recklessness, he seeks to expand them.***

<sup>10</sup> President Obama, Press Conference, The White House, February 9, 2009 ([http://www.whitehouse.gov/the\\_press\\_office/PressConferencebythePresident/](http://www.whitehouse.gov/the_press_office/PressConferencebythePresident/)).

<sup>11</sup> President Obama, Remarks before the Business Council, at the White House, February 13, 2009

11<sup>th</sup>, in which CEOs of the top eight U.S. banks were forced to testify, Frank told them to *obey and sacrifice*.

In the interest of getting the system working again, I strongly *urge you to cooperate with us*, not grudgingly, not doing the minimum, but understanding that there is a substantial public anger, and alleviating that anger, not with mumbo-jumbo but with reality, is essential. Mr. Paulson told me last fall that Wall Street would resist government-imposed compensation limits for TARP recipients, that you wouldn't cooperate in that. I hope that's not true. *I hope the argument that people would put their own economic self-interest in the narrow term, ahead of a necessary government program to get the country back, isn't the case.* I think some of you have been laggard in understanding that. I urge you to be *ungrudgingly cooperative*, and understand that *these are extraordinary times and we will be taking extraordinary measures . . .* There has to be a sense, in the American people, that you understand their anger, their frustration, and that you willingly cooperate and in fact are *willing to make some sacrifices . . .* (Hearings of the House Financial Services Committee, February 11<sup>th</sup>, emphasis added)

Jamie Dimon, CEO of J.P. Morgan Chase, was one of the eight CEOs who sat dutifully attentive to Frank's "urging" of "cooperation" with (i.e., *obedience to*) the U.S. government. But Dimon had *already cravenly* agreed to this serfdom, two months earlier, when he declared it "selfish" to defend his rights and liberty, or those of his employees and shareholders. Asked in a December 11<sup>th</sup> interview about getting a TARP injection of \$25 billion, Dimon said:

We didn't ask for it. We didn't want it. We didn't need it. We were asked by the Secretary of the Treasury and the chairman of the Federal Reserve to do this, because they thought it would be good for the system. They wanted all nine of us to do it, because they didn't want to have a stigma attached to any banks avoiding it. When the government asks you to do something like that, you want to do it, so we agreed. *We didn't think J.P. Morgan should be selfish and stand in the way of what the government was trying to do.* We did get the money – \$25 billion – and *we're going to try to do exactly what they want us to do*, to make more loans and make this economy grow. (CNBC, December 11, 2008)

Mr. Dimon promises that he and his firm will be *selfless* (not profit-seeking?) and will obey Washington's strong-

men. Soon he'll be making less money than either Obama or Frank, as mandated by a provision buried deep in the bowels of this week's so-called "stimulus" bill. A financial system that requires accomplished bankers like Jamie Dimon to take marching orders (and "ethics" sermons) from corrupt swine like Barney Frank is a system headed for complete contamination and ruin.

In recent days we heard a lone voice of reason in Washington. Congressman Jeb Hensarling (R-TX), member of the House Financial Services Committee, said:

Some members of Congress today sought to hold up the nation's top bankers to public ridicule. But as I look at the major causes of the crisis, it came from Congressional policies and Fed policies, particularly policies that ultimately, no matter how noble the intent, tried to put people in homes who couldn't afford to keep them. So federal policy and Congress either brow-beat, mandated or incentivized lending to people who couldn't afford to pay back. Now we're blaming the people who were responding to those mandates and incentives. Congress needs to look at itself. . . . What we don't want is a Congress which helped bring us to this crisis in the first place, to have industrial policy, picking winners and losers and essentially nationalizing our banking system.

The cure would be worse than the illness. (interview, CNBC, February 11<sup>th</sup>)

The only mistake in this account is the claim that it was "noble" for Washington to put people in homes they couldn't afford. In fact, this policy *favored the undeserving* – a plain injustice

to the lenders. The guilty parties are *predatory mortgage borrowers*, but especially the politicians and bureaucrats who compelled or induced lenders to finance them with other people's (taxpayers') money. Such immoral, reckless and destructive acts never would have been rewarded, let alone *institutionalized systemically*, in a free market. But that's precisely what "they" deny.

Nearly *everyone* today has his own pet "plan" or intervention, or a quibble with the latest one; everyone fancies himself an "expert" on central planning, while few dare to oppose central planning *per se*. We no longer see *business* plans, only *government* plans. *Eventually*, markets and the economy will recover and revive, not *because* of these interventions but in *spite* of them. But when they do, be assured of at least this much: nearly everyone – especially "they" – *will assign all the credit to the interventions.*

***Eventually, the markets and economy will revive, not because of government interventions but in spite of them; yet when they do, just watch – as nearly everyone credits . . . the interventions.***