## Newsweek

## Who's to Blame: Washington or Wall Street?

From the magazine issue dated Mar 30, 2009

It won't help anyone recoup the money lost in the housing bubble or the market crash or the recession, but there's a certain satisfaction in knowing where to put the blame. Pinning it all on CNBC's Jim Cramer, as Jon Stewart attempted to do, made for good television but doesn't offer much guidance in terms of future policy. With that in mind, Intelligence Squared US, which sponsors Oxford-style debates on matters of ethics and public policy, invited six authorities on the financial markets to discuss the proposition "Blame Washington more than Wall Street for the financial crisis."The panelists speaking for the motion were Niall Ferguson, a Harvard and Oxford historian and the author of "The Ascent of Money: A Financial History of the World"; John Steele Gordon, a financial journalist and author of "An Empire of Wealth: The Epic History of American Power"; and Nouriel Roubini, a professor of economics at New York University.

Speaking against the motion were Alex Berenson, an investigative business reporter for The New York Times; Jim Chanos, founder of Kynikos Associates, an investment firm specializing in short selling; and Nell Minow, editor of The Corporate Library, a corporate-governance research firm. The moderator was ABC News correspondent John Donvan. Edited excerpts:

Niall Ferguson: Nothing would be easier than to blame everything on the bankers. I blame them for much of what has gone wrong, but I blame the politician more. It's just too easy to heap opprobrium on Wall Street. And if you noticed, that's exactly what the politicians do. Could it be that they're trying to divert our attention away from Washington's own responsibility for the debacle?

I invite you to consider the roles played by four institutions in bringing about this financial crisis, and I want you to reflect on the location of those institutions. The first is the Federal Reserve Board. Its role has been to allow a housing bubble to inflate, and burst. Between January of 2001 and June of 2003 the Fed cut its federal funds rate from 6.5 percent to 1 percent. Then over three years it very gradually raised rates to 5.25 percent. In that time, house-price inflation rose from 7 percent to 17 percent a year and it stayed above 15 percent a year right until January of 2006.

The second is the Securities and Exchange Commission, which under Christopher Cox allowed the leverage in the banking system to spiral out of control, from 12 to 1 to somewhere in the region of 20 to 30 to 1. My third prime suspect is the Congress that wholly failed to supervise Fannie Mae and Freddie Mac, which on the eve of their destruction were leveraged 65 to 1. And that brings me to the White House. "We want everybody in America to own their own home," declared President George W. Bush, in October of 2002. Everybody in America!

Bankers are nearly always actuated by greed, and so are many ordinary people too. But it's the role of government to strike a balance between market forces and stability, and we should blame Washington more than Wall Street for this crisis. In my view Washington sold itself to Wall Street.

Alex Berenson: The resolution doesn't say we need more regulation going forward; I don't think anyone in this room would disagree with that. And it doesn't say that bankers should all be put on a desert island and forced to make their own society. That would be the Hamptons. It says "Blame Washington." And that is flat wrong.

Think about the airline industry in the U.S. You can count the number of jet crashes this decade on one hand. And I don't think that's because the FAA is a better regulator than the SEC, I think it's because there's a commitment in the airline industry to safety. Now, whether they define that as a moral issue or a practical issue, I don't know, but the airline industry in the U.S. is extremely safe. Compare that to Wall Street, which appears to have been run by a bunch of greedy children for the last 10 years. When you can make a million, or \$10 million or \$100 million for a year's work, you don't have very much incentive to manage for the long term.

John Steele Gordon: Wall Street is not an institution, it's a collection of individuals, inherently susceptible to the madness of crowds. Blaming Wall Street is like blaming the atmosphere for thunderstorms. It's going to happen. Washington is supposed to be the guys with the striped shirts. They make up the rules and enforce them. And then they sometimes change the rules to accommodate some of their friends.

The regulatory apparatus is a total shambles. We have the Comptroller of the Currency, the SEC, the Office of Thrift Supervision, the FDIC, the banking regulatory authorities of the states. All devoted to protecting turf far ahead of actually regulating anything.

Now, politicians also are subject to human nature. If Wall Streeters are in the business of making money, politicians are in the reelection business. They want the good headline tomorrow, and if that produces dreadful policy two or three or five years out, that's after the election, we'll worry about it then.

Jim Chanos: In 1998 Business Week put out a survey, after canvassing the chief financial officers [of the S&P 500 companies] anonymously. They were asked if they were ever asked by their superiors to materially falsify financial results. And the answer was stunning. Forty-five percent said they were asked to do so, but didn't, 12 percent said they were asked and did, and 33 percent said they were never asked. So at the time, 10 years ago, two thirds of CFOs had been asked to cook the books. It's the main reason I have a business [shorting stocks] that I feel will continue to prosper no matter what the markets do.

Nouriel Roubini: I agree that Wall Streeters are greedy. Sometimes they are stupid, arrogant, incompetent. But we've had the worst financial crisis since the Great Depression, so we have to ask ourselves, are bankers and investors more greedy and more immoral than they were 20 years ago? I expect Wall Street to be greedy but I expect good policy-making to control the behavior.

It's been pointed out, the job of the Fed is to take away the punchbowl when the party gets going. Not only did the Fed not take away the punchbowl, it added vodka to it. Greenspan was the biggest cheerleader of this kind of financial innovation—zero down payment [mortgages], no verification of income, interest-only mortgages, negative amortization, teaser rates, all this toxic stuff. The Fed had the power to control it, but they didn't do it. There was an ideology for the last decade in Washington that was critical to this financial crisis, of laissez faire, Wild West unregulated capitalists, that financial institutions will self-regulate. And as we know, self-regulation means no regulation.

Nell Minow: Wall Street did three things that are unforgivable. First, their math was wrong. They didn't take out their slide rules, they relied on bad statistics. Second thing, bad incentives. They were getting paid based on the quantity of transactions, not the quality of transactions. Next, terrible oversight by shareholders. Guess who the big shareholders are? They're on Wall Street. Who was voting in favor of these insane pay packages? Look at the firms on Wall Street. And, yeah, Washington behaved very badly. Do you think the fact that from 1998 to 2008 over \$600 million was spent on lobbying to get rid of regulations, to get rid of capital requirements on banks— do you think that might have had an effect on it?

Gordon: I'm sure that's perfectly true. On the other hand, Washington took the money.

Minow: You know what? Washington has its own market system. And people have to get reelected. They took the money. But you're blaming the victim there.

Ferguson: Nell, I'm struggling to understand how the recipients of bribes are victims. I'm afraid your moral GPS just broke down on you.

Minow:If you look at the lobbying statistics you'll see that half of the people that took the money voted against them anyway. That's part of politics too. People ran for office and were elected on policies of deregulation.

Ferguson:You've hit the nail on the head there. AIG contributed directly to elected officials and parties \$9.3 million since 1989, and the top recipients of the money include the chair of the Senate Finance Committee and the chair of the Senate Banking Committee. Now, if that doesn't tell you that something is morally rotten at the heart of Washington, I don't know what I have to show you.

Chanos: Well, just because the Keystone Cops couldn't catch the gang that couldn't shoot straight, doesn't absolve the gang from its guilt.

Berenson: I think we would all agree that Wall Street has set the conditions of its own regulation in the last 15 years. And then it falls on the people in that industry to act like adults, which they did not do.

Minow: I think there's a lot of blame to go around, but when [former Fed chairman] Paul Volcker says that he does not understand the derivative securities, then it seems to me we should have a Paul Volcker rule, that if Paul Volcker does not understand it you should not be able to sell it.

Ferguson: From the very inception of the United States there was a profound tension between Washington and New York. Alexander Hamilton's vision of the United States as a financial power was not shared by all the Founding Fathers. We need to see this as part of a long argument within American political culture, about how powerful should New York be, and I think what's happened in the last 10 years is that New York did get the upper hand. And I think the rest of the country is ready for a backlash.

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