

P.T. Barnum capitalism

The country PAUSED LAST month to note the seventh anniversary of the Sept. 11 terrorist attacks. How ironic that the economic damage to the U.S. financial system that fateful day was far less than what we just witnessed.

By our own actions we did what a group of hate-driven, cowardly fanatics could not do. It's a black eye for free markets, free societies, and capitalism. And that's a shame, because enemies of our country and economic system will use it to boost their own twisted views.

We abused the freedom we so often take for granted, using it instead as free- license for the biggest money grab the free world has seen in modern times. And the comeuppance is the historic spectacle of financial companies built on the principles of free enterprise turning—voluntarily or otherwise—to the government for a bailout.

In the process we are creating a far more powerful central government. Now that it has accepted literally incalculable risk to the funds of its citizens, more oversight, intervention, and control will inevitably follow. Some of that is clearly needed. But one thing that rarely happens is having the government apply just the right amount of control.

There is something—though it is admittedly Quixotic—that could help ease the burden of risk now borne by the government and the taxpayers, and might help keep regulatory/legislative reaction from being excessive, and restore some luster to our system in the eyes of the world. That would be for more of the private sector to step up voluntarily to help.

To put it bluntly, staggering amounts of money were made by institutions, funds, and individuals in recent years from the financial engineering products and processes built largely around an out-of-control housing market—the same products that have been “deleveraging” with such devastating effect. A great deal of that paper profit, obviously, has evaporated, taking many companies with it, but not all of it by any means.

As others have observed, the private sector happily rakes in the profits while the bubble is inflating, but once it bursts, the government gets left holding the bag whenever some institution is deemed too big, too interconnected, or too systemically important to just simply fail.

How convenient for the hedge fund managers, short sellers, deal makers, mortgage brokers, GSE execs, lenders, and others—many far from Wall St., and some in this industry—to be able to reap the gains and stand aside when things get ugly. This is not free-market capitalism. This is P.T. Barnum capitalism, and the suckers are the taxpayers.

These “winners” may well ask, “Why should we have to support the people who weren’t smart enough or quick enough to get out of the building before it collapsed? It’s all the Fed’s fault anyway.” The answer is that if they were honest, they would admit they were lucky to escape themselves. And also because it’s unfair to have the public at large saddled with hundreds of billions in debt from private-sector shenanigans. No doubt the bailout plan will recoup some of that money, but the process will still cost taxpayers plenty.

At one point last month, a group of large banks ponied up \$77 billion to be used to prop up any of their number that got into more trouble than they could handle. A commendable move. Too bad the Feds can’t broker something similar from a wider range of players to help defray the cost to taxpayers of the wreckage those players helped create and profited from.

Don’t hold your breath.

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By William W. Streeter

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Editor-in-Chief

