The Wall Street money manager diagnoses the ills of America’s political and economic system in a fizzing, irreverent analysis (with promised f-bombs thrown in)

I originally thought we were going to be talking about Wall Street today. But I got the sense from some of your book choices that one of the biggest offenders wasn’t based on Wall Street at all, but on Constitution Avenue in Washington DC.

When you get bit by a dog, you don’t just look at the dog, you have to look at the owner who is holding the leash. To me, a lot of the regulatory changes, and a lot of what the Federal Reserve did, stand on their own as a major factor. But if you’ve read David Hume, if you’ve studied the philosophy of causation, you have to look at what motivated those changes. I have these debates with friends. One group blames everything on big government; the other group blames everything on big corporations. The sad news is that there’s really no difference between the two: Big government and big corporations work hand-in-hand. If you want to know who is the puppet and who is the puppet master, it sure looks like Wall Street has been pulling the strings of Congress for many, many, many years. I remember the Dick Durbin quote, right in the middle of the crisis. He was astonished at all the bankers and bank lobbyists running around the halls of Congress, and said, “I can’t believe these guys – they act as if they own the place.” The fact is, it’s not an act – they do own the place.

But the Federal Reserve itself should be insulated from those kinds of pressures.

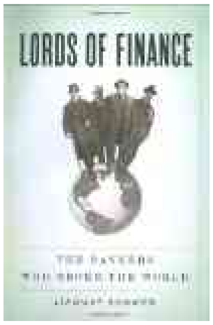
They should be, except in the person of Alan Greenspan. He’s just this gnarly mass of contradictions. He’s an acolyte of Ayn Rand – believes that no intervention in free markets is the right approach – and yet he proceeded to spend his entire career, from 1987 through 2005, with his hands on the levers of Federal Reserve policy. He manipulated interest rates and money supply in order to win the love of traders. In 2001 he took rates down to unprecedented levels – below 2% – and kept them there for three years. Rates were at 1% for a full year! That had simply never occurred before in history. If you look at the late 1950s and early 1960s, rates would dip below 2%, but only for weeks at a time. In the “Who is to blame?” game Alan Greenspan is number one with the bullet, he’s top of the list. You can’t blame everything on him, but he’s the one who let all the gas fumes into the enclosed warehouse, knowing that a bunch of smokers were coming in to have a cigarette. Taking rates down to irresponsibly low rates is what set the stage for everything that took place over the next decade.

Are you saying that just as Ben Bernanke admitted the Federal Reserve had caused the first Great Depression, this crisis can also be blamed on our central bank?

The world isn’t black and white. We can’t just say, “The butler did it.” There were many causes, lots of poor judgements. If you look in the centrefold of my book, *Bailout Nation*, we try to depict everything in a visual form. It’s a great infographic by Jess Bachman that shows all the different factors that came together to cause a big collapse. The Federal Reserve was a significant element. But if you want to do it chronologically, you may want to go back further into the history. The bailout of Chrysler in 1980 set the stage. The rescue of Long Term Capital Management (LTCM) in 1998 encouraged a lot of moral hazard. Then there was all the radical deregulation, the undoing of some of the post-Depression rules that had operated so successfully for 75 years to prevent a major meltdown. The undoing of Glass-Steagall didn’t cause the crisis, but it made it much worse. Then there was the Commodity Futures Monetization Act (CFMA) of 2000, which completely exempted derivatives from any oversight or regulation and removed all reserve requirements. These all built to set up a situation that was extremely dangerous. So maybe the fumes were already in the warehouse and Greenspan taking rates down to 1% was the spark that ignited the conflagration.

So what are the take-homes? What do we do now?

It’s really simple. Go back through the past 20 years of radical deregulation and overturn all the rules that were changed. You don't need all this Dodd-Frank legislation. Just reinstate Glass-Steagall, overturn CFMA. Just undo everything that was done in 2003, 2004, 2005 and 2006, remembering that old expression: If it ain't broke, don't fix it.



Lords of Finance

By Liaquat Ahamed

Buy

OK, let's talk about some of the issues in the context of the books. Your first choice goes into the history of the Federal Reserve, and is called *Lords of Finance: The Bankers who Broke the World* by Liaquat Ahamed.

This book won a Pulitzer – it's a wonderful narrative covering a 50-year period from before World War I through the Weimar Republic, the Great Depression, and leading up to World War II. It tells that story through the lives of four central bankers – the head of the Federal Reserve in the US, of the Bank of England in the UK, of the German Bundesbank, and the French central bank. It looks at these four players, their professional actions on behalf of their countries as well as their personal relations. It tells the story of the economy, of the global crises that arose, of how people interacted, how governments interacted, what took place with monetary policy. It's really a fascinating story. Even if you're not interested in finance, it's a great read. When I was making my list, I wanted the books to be informative, to fill in the holes in people's understanding of what happened in the financial crisis. But I also wanted each of these books to be really well written and tell a tale. All five of these books are just masterfully written. I can't recommend this one enough. It's a delight to read.

How bad a job did the Fed do in the Great Depression, then?

Let's put it into a broader context. The US has always had a problem with the concept of a central bank. The initial central bank lasted for 20 years, and was then dissolved. Without a central bank modulating the currency, you tend to have wild swings in money supply, and in the economy you had a series of panics and depressions. So then we had the second Federal Reserve bank. Same thing – it had a 20-year lifespan, and then it died. The result is that by the time we get to the Great Depression the Federal Reserve is a relatively new institution, it's only 15 years or so old. Its basic approach is rather modest – there's not a lot of intervention, not a lot of pulling on the levers, there's very much a recognition that historically, a democratic nation does not like an unelected central bank dictating economic policy. They had a hands-off approach. You really get the concept of that in *Lords of Finance*, not just within the US, but internationally. How it affected the post-World War I, pre-World War II period, what the central bank *should* have been doing – now that we have the benefit of hindsight – to moderate the effects of the downturn caused by the market crash and the Great Depression. And yes, it's fairly obvious that had the central bank been a little looser in its credit policy, we would have had a less severe downturn. They may not have caused the Depression, but they certainly didn't help it and they probably made it a lot worse.

The Great Depression is, of course, the period Ben Bernanke is an expert on. I got the sense from your book, *Bailout Nation*, that you don't think he's done such a great job, though.

My biggest problem with Bernanke is not so much him as chairman, as him as Fed Governor under Greenspan. He didn't see the problem coming and he enabled the ongoing reign of error of Alan Greenspan. When the economy is in an utter freefall, when everything is going to hell in a hand-basket, [Walter] Bagehot had the right ideas. The central bank should be the lender of last resort, it should lend on good credit at high rates. What the Federal Reserve did is that, in an attempt to save the banking system, they focused on saving the individual banks. I don't want to get too wonky, but there are two approaches to respond to a banking crisis. There's the Japanese way, or the Swedish way. The Swedish approach, which, by the way, is followed by the FDIC, is, "To hell with the banks, save the banking system." If any given bank is insolvent, you fire the senior management, you wipe out the shareholders, you take the assets, you sell them to the highest bidder and whatever is left over goes to the bondholders. What you're left with is good assets and preserved accounts. People who ran a bank poorly or invested in bad banks are suitably chastened by the market, and the system is saved.

Japan has its own *keiretsu* system [whereby banks are owned by companies and vice versa across the economy]. When Japan's crisis began in 1989, if they had let Bank of Mitsubishi fail, the whole of Mitsubishi would have collapsed. So Japan's approach was, "To hell with the banking system, save the banks, because if we don't, everything else is going to go down." Unfortunately, we took a page from the Japanese approach. Now it's 30 years later, and Japan is still in a long-term recession.

Do you really believe we should have let those banks go bankrupt then?

Well, the way we let Lehman go down – just take a leap, face down, 50 storeys onto the concrete – no. That's not the ideal way to do it. What we ended up doing with GM and Chrysler was a pre-packaged bankruptcy: You fire the senior management, wipe out the shareholders, renegotiate all the bad deals, and sell off all the bad assets. GM is having its best year in history! Had we done that with the bigger banks, we would be much healthier today. That tearing off the Band-Aid is much more painful at the time, but it would be healthier today, and more importantly, you don't set up the [moral hazard] problems going forward. So five to 10 years from now, we don't have some guy on a trading desk coming up with an idea and saying, "You know, if I take a little more risk, and use a little more leverage, if it works out, it's a home run for me. But if it crashes and burns, it's someone else's problem!"

So how should the banks have been dealt with? You work on Wall Street, give me the specifics.

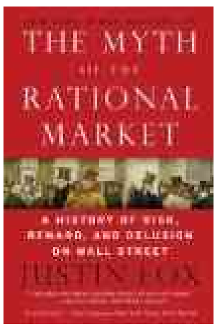
When Bear Stearns starts to wobble, a few people said, "Hey! We can't let Bear Stearns go belly-up." That's where the mistakes start.

So they should have just been left to go under?

No, no. Here's what happened. Jamie Dimon [the chief executive of JP Morgan] completely outplayed Ben Bernanke. Dimon went to Bernanke and said, "Look, we're a counterparty with Bear Stearns, we could probably absorb them – but why should we step up? Normally we wouldn't do this in a shotgun wedding, it would take a year to negotiate. I have a weekend to make this decision, so you have to guarantee $29bn of losses." And the Fed did that.

If I had been the Fed chief, I would have said: "Let me explain this to you, Jamie. I know the history of JP Morgan" (Everybody thinks Dimon is this genius who avoided the subprime situation, but that's actually not true. They just ran into their subprime problem way earlier than everybody else, so when they had to liquidate, there was a bid there.) "I'm looking at the derivative book of Bear Stearns. It's $8 trillion and you're the single biggest counterparty. So if they go down, it's *your* problem. So here is what I am willing to do. When you go into receivership, I'll promise not to put you in jail! If you want to buy them, buy them. If you don't want to buy them, we're going to put them into a pre-packaged bankruptcy and if it ultimately causes JP Morgan to go bankrupt, well, put it this way, this is your opportunity to avoid it. So take a walk once around the park, and have a good think. As Fed chair, I have no problem testifying that I suggested you buy Bear Stearns because, if you didn't, it really looked like they were going to blow up JP Morgan – and good luck with the shareholder lawsuits for the rest of your life."

Instead, Dimon outplayed Bernanke. Bernanke is an academic, he was learning on the job. When the head of one of America's biggest banks says "I'll save your bacon, but you've got to do this for me..." He didn't know better. Even at the time, a lot of people, including me, said, "This is outrageous for the Fed to give $29bn to JP Morgan to buy Bear Stearns."



The Myth of the Rational Market

By Justin Fox

Buy

Going back to the underlying causes, the American obsession with deregulation played a big part. Your second book, *The Myth of the Rational Market* looks at the intellectual underpinnings of that worldview.

Yes, so everything was working fine. The original concept – which started under Carter but was accelerated under Reagan – was that government has gotten too unwieldy. Regulation is too costly, too time-consuming and there's too much red tape. There is a legitimate argument that bureaucracies tend to feed on themselves, and you have to constantly hack back at some of the vines and undergrowth. But somehow, "Let's clear out some regulations and make it easier for business," morphed over time to become, "The market knows better than anybody else, let's get rid of any and all oversight, any and all regulation, any and all things that get in the way of the efficient market." So what started out as, "Let's clear out some of the excesses," became, "Let's get rid of all the rules."

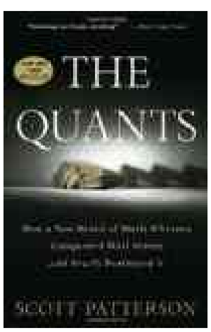
In *The Myth of the Rational Market* Justin Fox explains all of the bad ideas that took root and allowed a very legitimate and worthwhile objective – getting rid of some of the really time-consuming, unjustifiable, expensive regulations that had grown over time – get so wildly imbalanced. He looks at why academics and many market theorists were so wrong about how markets actually operate. He does a wonderful job of telling the story of how the simple concept of the efficient market, the rational economic actor, got completely out of whack. You don't have to be an economist or market theorist to appreciate the personalities, the stories, and some of the obvious delusions that took place and helped set the table for the collapse.

Yes, one review said, "It reads like an intellectual whodunit."

It really does. By the way there are a bunch of other books along the same concept – *Zombie Economics* by John Quiggin, Yves Smith's *Econned*, and Kevin Phillips's *Bad Money*. There are a slew of these that are all about how academic economists – and especially the Chicago School and other believers in the Efficient Market Hypothesis (EMH) – got this totally wrong. There's a simple reason for that, which is that when you build a model, you're building a Platonic shadow of reality. It's not reality; it's a depiction of reality. Naturally, there's going to be some variance and modelling errors. There's that great George Box quote: "All theoretical models are wrong, but some are useful." What that means is that you have to always remember, when you're working from a model, especially a financial model making projections into the future, that you're not dealing with a perfect reflection of everything that takes place in the real world. There are irrational things that take place that models typically don't forecast. Human beings are not perfectly efficient, profit-maximising actors.

It's a lot about what you choose to take away from these theories, though. I read Burton Malkiel's *A Random Walk Down Wall Street* straight out of university 20 years ago. It's a very accessible account of what the EMH is all about. The main thing I remember is that you should be extremely suspicious of people who claim they can beat the market. Don't put your money with a fund manager, buy-and-hold is better than trading stocks, index funds are best. It remains very practical, sensible advice and it imbued me with a lifelong suspicion of Wall Street and financial professionals. At no point in the book did I think,"Oh wow, this seems to indicate markets are perfect, they don't need regulation."

And yet, that's where things ultimately ended up going. By the way I do agree that *A Random Walk Down Wall Street* reached the right conclusion, but it was for the wrong reasons. It's not that markets are mostly efficient, it's that human beings are *so* irrational. We engage in *such* emotional decision-making – especially in times of distress – that we're just not built for making intelligent decisions in capital markets. I'm just in the middle of reading Daniel Kahneman's new book, *Thinking Fast and Slow*. You only have to read the first five to 10 pages, and you realise that human beings have no place making *any* decision other than: I hope I remember to put on pants today and let me not eat something unhealthy. Beyond that, our cognitive processes, our ability to make intelligent decisions, are so flawed, it's just astonishing. The average investor is probably better off dollar cost indexing – putting the same amount of money every month into a broad index, rather than trying to pick stocks.



The Quants

By Scott Patterson

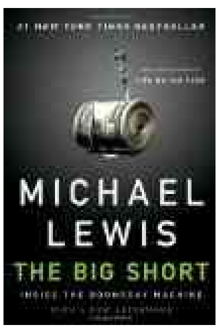
Buy

Tell me about your next book, *The Quants*, and their role in the crisis.

The Quants explains how maths, combined with a lot of leverage and a bit of modelling error led to a lot of disasters. It's about the mathematicians and, literally, rocket scientists who came up with a series of concepts as to how to use mathematics to try to game the market. The fun thing about mathematics is that you can identify these really small, really tiny edges that you wouldn't find otherwise. But if you have a 0.015% edge, you can't really make a lot of money unless you really ramp up the leverage, so most of these guys traded with a lot of leverage. But the laws of mathematics are all the same – no matter which firm you're at – so you ended up with lots of people doing, if not identical trades, certainly very similar trades. Then you have a series of wobbles. The first one was LTCM and the Asian contagion. But really it hit in the summer of 2007, when the first errors took place with the Bear Stearns hedge fund. You have a huge correlated move with all the quant shops. That was really problematic, and it only got worse over the next couple of years. That really exacerbated a lot of the moves. It's a very entertaining book. There's a lot of really interesting personalities in it. I have a math background, but it's written for really pretty much anybody. You only need to know two plus two is four and you'll enjoy it. Same thing with *The Myth of the Rational Market* – it's good wonky fun.

And again, goes back to the theme that theoretical models need to be approached with caution.

Yes, there are hundreds of variables, and yet people are making these massive, multi-billion dollar bets based on these models. It's like aiming your rocket for Mars. If you're only off by an inch or two when you're launching that rocket, project that error out hundreds of millions of miles and you'll miss Mars by hundreds of thousands of miles. It's the same thing, when a model is off a little bit, and you extrapolate it out throughout the entire economy, and at the same time put billions of dollars at risk with it, you end up with a real crisis situation.



The Big Short

By Michael Lewis

Buy

Let's go on to Michael Lewis's book, *The Big Short*.

Michael Lewis, to me, is the preeminent narrator [of this crisis]. He is the guy who constructs the story better than anybody else. He tells the narrative in just an utterly fascinating and delightful way. I have a review of *The Big Short* that I haven't published yet, because it's too profane. There's a story in there of a fund manager who starts out as an archconservative, and ends up, at the end of the crisis, as this staunch liberal. That's because he sees the entire subprime, securitisation thing as nothing more than Wall Street finally figuring how to extract profit from the poor. There's a whole section of the book where he rails about it being an attempt to "fuck the poor". So I had this fantasy of Michael Lewis going in with his manuscript to his publisher, and instead of calling it *The Big Short*, he called it *Fuck the Poor*. I had this whole debate between him, his publisher and his agent. "Michael! Be reasonable! You can't call a book *Fuck the Poor*…" If you've ever seen Lewis speak, he's a very low-key guy, he speaks in a very matter of fact way, and I just had this hilarious image of him saying, "Gentleman, this book is called *Fuck the Poor*. That's what the story is, that's what the main players say it's about. If you want to subtitle it The Big Short, that's fine. If you don't like it, I will take my manuscript elsewhere."

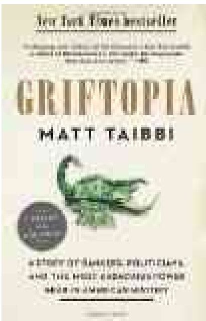
In the book, he does what he does in all his books, which is he identifies these quirky, off-kilter guys that have some odd defect. One of them has Asperger's, I think. They're outsiders, not in the mainstream. Lewis just tells the same story over and over again, whether it's technology or baseball or football or subprime mortgages. And the story is essentially a few people looking at the universe from outside, and seeing something everyone else misses. In this case, you have guys who not only capitalised on it, but also managed to raise a stink about how things are done, which of course we've promptly forgotten all about.

So it really was about fucking the poor?

I don't know if the guy who said that was being a little flamboyant, but, ultimately, yes. Here's the problem with banking. People have described a banker as someone who is willing to lend you an umbrella on a sunny day, ie, if you really need the money, you can't get it. As I said in *Bailout Nation*, the history of commercial credit has, for millions of years, been based on the borrower's ability to service the debt. What took place from 2002 to 2007 is that the borrower's ability to service the debt was replaced with a new standard for making loans. That standard wasn't, "Hey, how do we fuck the poor?" but it was the ability of the lender to sell that debt to a Wall Street securitiser.

All this goes back to the Fed taking the rates to such crazy low levels, that every bond manager had to scramble [for yield]. Most foundations and charities and pension funds and large trusts – especially the not-for-profit entities – as long as they give away 5% of their assets every year, they are completely tax free, and oversight is de minimis. Five per cent doesn't sound like a big number. Typically, over long periods of time, the market returns are anywhere between 6-10% if you include dividends, and over a similar period of time bonds give you between 4-7%. What took place after the 2001 crash is that first you had markets down a ridiculous amount every year, and secondly Greenspan took rates so low that the 10-year [US Treasury bond] followed. If equity returns are negative, and bonds below 5%, how is a foundation or trust going to make 5%? If you were smart, you'd say, "We made so much money in 1998-2000, we don't have to take any additional risk. We'll just give away the 5% out of those profits and not worry about it." But that's not how human beings operate. Instead, they panicked. "We're not going to make 5%! We're going to have dip into the corpus of the trust or foundation!" And every bond manager got a phone call. "Hey dude, go and get me more than 5% and if you can't do that, I'll fire you and get someone else." So along comes this product from Wall Street, securitised subprime mortgages. It's triple-A rated, just like Uncle Sam, but yielding much more. You could get your 5-6%. So everybody piled into that product. They sold out. The more they sold out, the more Wall Street went to these non-bank lenders, mostly located in California, and said, "We need more subprime loans to securitise, and by the way if you do this many we'll give you this much of a bonus." That's how you ended up with these mortgage companies giving loans to people who could barely fog a mirror.

My favourite example was the two grape-pickers in California, who each made $14,000 a year and qualified for a $750,000 mortgage. If they took 100% of their salary and used it to pay the mortgage, they would still default. Also, by the way, these 30-year mortgages were sold with a 90-day warranty. You can buy a toaster that has a longer warranty than a 30-year mortgage! Your obligation, when finding a borrower, is "Just don't default these first three months. Whatever you do after that is not my concern."



Griftopia

By Matt Taibbi

Buy

Let's get on to your last book, which you've chosen because it best expresses outrage about what happened: *Griftopia* by Matt Taibbi.

Matt Taibbi is the poet laureate of vitriol. There is no one better to capture the gestalt of the country's angst, fury, and anger, and how upset people are that, essentially, these banks blew themselves up, and then managed to twist Congress's arm to give them billions of dollars, much of which, by the way, has not been repaid. Every time I see some idiot say all the TARP [Troubled Asset Relief Program] and bailouts have been repaid, it's nonsense. Even if you count all the Citigroup stock, all the Bank of America stock and the GM stock – none of which you can really sell because you'll crush the stock price – we're not back to break-even. We still have massive liabilities thanks to the huge losses at Freddie [Mac] and Fannie [Mae] and the losses at AIG. And anyway, who undertakes a trillion dollars' worth of risk in order to break even? The deals that were negotiated were just so absurd, so ridiculous. It's outrageous. That sense of outrage is just throughout *Griftopia*. Matt Taibbi is the guy who coined the phrase "Vampire Squid", he's the one who put Goldman Sachs as a great evil on the map. I've been reading him for years, I think he's a really fascinating guy. There are few people who are angrier, who are more incensed, and have an ability to express it in prose, better than him. It's poetry to read. The prose is flowery and full of profanities, and by the time you're done with each chapter, you're pretty angry. It very much appeals to your sense of "I can't believe these sons-of-bitches got away with this."

He doesn't seem to hold back, does he? I see he's got "Alan Greenspan – Biggest A-Hole in the Universe".

Yes, that's actually a chapter. The funny thing is I don't fully agree with him. Some of his conclusions I think are fair but I come down on a different spot. I'm always looking at the data side of things, not just the human side. But it is a rollicking, raucous read. Some of it is hilarious. I'm on the train back and forth to the city reading *Griftopia* and every now and then I just start laughing out loud. But more than anything else I've seen it just sums up the fury and frustration of the American public, who just don't believe justice has been served. This has been the greatest transfer of wealth in the history of mankind – trillions of dollars – and nothing has been fixed. The overall situation is just as precarious, if not more so, than before the crisis.

I'm not sure about the outrage, though. Until a few weeks ago I lived in upstate New York and just did normal stuff, taking the kids to school, chatting with other mothers. I didn't really detect much outrage. In fact I was wondering why there wasn't more outrage.

People were initially very angry, but then Michael Jackson died. Then it was an unusually close *American Idol* final. Then it was the Super Bowl. My answer to why there isn't enough anger goes back to Ancient Rome, and it's just bread and circuses. As long as people have enough food to eat and they're entertained you can rob, rape, pillage and murder, and they'll shrug their shoulders and say, "I've got to take the kids to soccer."

It's also a little complex – it's a difficult subject to wrap your head around. I remember, maybe in 2008 or early 2009, saying, "The best trade you can make right now is to go out and buy torches and pitchforks, because there's going to be massive demand for those." It turns out that was a bad call. The outrage was this unfocused frustration that people didn't understand where to direct, or what to emphasise. When the Tea Party rose to prominence, it looked like, "Wow! Finally a group of people who are really angry at the government giving away all this money to the banks." And it got jiu-jitsued, completely flipped over. My favourite Tea Party sign was the guy standing there saying, "Keep your government hands off my Medicaid."

There's a great chapter in Taibbi's book where he infiltrates the Tea Party. He's really sympathetic with these people. He sees they're really frustrated by what is going on, but they've been completely bamboozled. On the one hand, they're really upset, "Why do we have these mortgage giveaways, why do we modify mortgages for people who made really bad decisions and borrowed money?" But when you look at the amount of money involved, it's 100th of how much money we gave away to the banks. These people have just been wildly misled. You ended up with this really weird group of ideas, focused on the mortgage modification plan, which is a few billion dollars. Whereas the bailouts – between what the Fed did, and what the government did – is in the trillions of dollars. Taibbi explains that. He's empathetic to the individuals in the Tea Party – they're frustrated and angry, but they're led by people who are disingenuous and dishonest. They're cattle being led to the slaughter by these corporatists, for whom banks can do no wrong, and government can do no right.

It's also about the politics. You have guys like Grover Norquist, who with his tax pledge has made intelligent policy negotiations, comprises and debate impossible. Europe is such a different world. People can discuss politics even though they have different views and it's an intelligent, almost philosophical debate. In the US, the politics is so poisonous that you end up with a screaming match every time people discuss stuff. I don't know who to blame. I certainly look at Fox News as raising the decibel levels. Reagan and Tip O'Neill would argue all day and they'd go out at night, have a beer, work out a compromise. They'd get stuff accomplished and things would move through Congress. Today, that sort of stuff is impossible. I don't think Reagan would have survived the current GOP nominating process!

When you look at how far apart the parties have gotten… the Democrats have moved to the right, and the Republicans have moved wildly to the right. I grew up as a northeastern Republican. Jacob Javits was my senator. He was a socially progressive guy, he didn't think the government should be involved in issues like birth control or abortion, and thought that we shouldn't be involved in wars like Vietnam. If he had been around during Iraq, he certainly wouldn't have supported that. He was very much a low tax, moderate regulation, balanced-budget kind of guy. That used to be a centrist Republican. That now makes me a wild-eyed leftist, being what 20 years ago was a pretty moderate guy in the middle! I find that amazing.

There's this great chasm between the two parties and the public has just turned their back on them, and said, "We're not interested." So instead of being outraged, and throwing the bums out, the public has been, "I'm going to go home and watch TV." And that is a terrible, terrible tragedy.

Is there anything people can do? Small acts of resistance against the big banks ordinary citizens can engage in?

There's a website called Move Your Money. What's crazy is that following the crisis, the big bailed-out banks are bigger than ever – 75% of the assets in this country are held by the top 12 banks. It used to be

50% by the top 30. There are lots of small regional banks, but there are always mergers in the banking world. I can't tell you how many different chequebooks I have. First I had an account with Manufacturers Hanover, then it became Chemical, then it became Chase, now JP Morgan. So I thought, to hell with it, I'll set up a Washington Mutual account. And then that gets bought by Chase…

What we ended up doing was setting up an account at TD Bank. They're a Canadian bank, they don't dabble in derivatives, they don't do any subprime stuff. They're just a relatively strong bank without these issues and they have lots of branches everywhere. Because, also, if you set up an account at Joe's Local Community Bank, you're not giving money to Chase, but wherever you travel, you're paying a $2 fee every time you use your ATM card.

One of the ways we can avoid all these problems in the future is to put a rule that you can't own more than 5% of the assets in the US, and you can't have more than this much leverage. There are a number of rules you can put into effect. Canada seems to have done a much better job than the US has. They have a lot of banks with big market share, but they didn't get into trouble, because the rules didn't allow them to.

Have you got any other specific remedies?

To go back to our original conversation about causation and David Hume: What we've seen over the past 30 years is an increasingly bad relationship between Congress and Wall Street, and this revolving door. Congress exists to do the bidding of the big banks. The way to fix it is to change the campaign finance laws, so you have public financing, and congressmen aren't spending 75% of their time raising money for their next election. As soon as they get elected, they're immediately raising money for their re-election campaign! So first and foremost, we have to reform the lobbying laws. It's one thing for a bank to say, "We have a concern about this regulation and here's what our issues are." It's something completely different to say, "We're writing this regulation, we're giving it to you to submit, and by the way here's a $100,000 cheque for your re-election campaign." The Romans would call that graft. The Romans had a great punishment for that. Anyone caught corrupting a public official would have their nose cut off, be tied in a burlap sack – naked with a wildcat – and thrown into the Tiber. And let me tell you, you go to one or two of those, and there's not much corruption going forward.

Is that the solution then, the Potomac River?

I doubt it would be allowed in the US. I have a suspicion it wouldn't pass Supreme Court muster. But hey! the Supreme Court is as much a problem as everybody else. No, corporations are not people, corporations should not have the right to give unlimited amounts of money to campaigns. This is supposed to be a democracy! Leaving aside the historical anachronisms – like women not being allowed to vote, or black people only counting as three-fifths of a person – it's supposed to be "one person, one vote"! It's not "one corporation and as much money as you can give". I work on Wall Street, I make a nice living. I'm in the 1% in terms of income. And I know lots of people who are similarly situated who are really, really unhappy with the corporate takeover of America. As Matt Taibbi would say, it's Goldman Sachs's world – we just live in it.

It is quite astonishing, and I just don't know what the endgame is. You have a very ineffective, uninvolved, corn-syrup medicated, endlessly entertained public. What was the book a few years ago, *Amusing Ourselves to Death*? Some of them are disgusted, but some of them are very distracted. What's been taking place on Wall Street and in Washington DC has been nothing short of a coup d'état. Democracy has been replaced with a de facto corporatocracy.

Is there any hope?

For me the great hope for America and the world is technology. I hope that with Twitter and the blogosphere there will be a general moving away from big corporate entities to individuals and small companies. There’s an enormous potential to wrest control away. We need to get people angry enough to say, “this is ridiculous”. What the United States needs is its own Arab Spring.

Interview by
Sophie Roell
Published on Mar 30, 2012

Comments

Good choices? What's missing? Write your thoughts below

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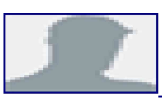
- 
  Abhisek Bhowmik 1 comment collapsed Collapse Expand

  Read the full Interview..he is amazing!

  My 2 cents - we still have not identified the big problem..Why should someone make a law which will go against them.. I am referring to his recommendation of changing campaign funding laws...We don't have an answer!

  Some thoughts here:

  http://rayofgoodhope.blogspot....

- A Like
- Reply
- Yesterday 04:54 PM
- 1 Like
- F

- WillTruth 1 comment collapsed Collapse Expand

  I've followed Ritholtz for a while. It must be me. BR must be a sociopath or something. On one hand, he clearly and concisely illustrates the problem with the system and it's corruptness but, then has a problem with anybody who actually informs the public or disents, has a countrary opinion to his, about the exact problems with the corruptness he illustrates.

  The exact same groupthink he has a problem with that manages our country: big government = big corporations to the detriment of Americans should be maintained and not questioned.

  Which is it BR?

  - A Like
  - Reply
  - Yesterday 04:55 PM
  - 1 Like
  - F

- Nashtrailer 2 comments collapsed Collapse Expand

  Although I am not a member of the Tea party, I suppose this comment captures the moment:
  When the Tea Party rose to prominence, it looked like, “Wow! Finally a
  group of people who are really angry at the government giving away all
  this money to the banks.” And it got jiu-jitsued, completely flipped
  over. My favourite Tea Party sign was the guy standing there saying,
  “Keep your government hands off my Medicaid.”

  - A Like
  - Reply
  - Yesterday 06:12 PM
  - 1 Like
  - F

  -

Rick Caird 1 comment collapsed Collapse Expand

I suspect Barry was wrong about the sign:

"Keep your government hands off my Medicaid."

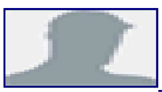
was probably

"Keep your government hands off my Medicare."

The latter is somewhat defensible, since we have been prepaying out Medicare health insurance for 45 years.

I do believe, however, the country would be better off if he had never invented either of those programs.

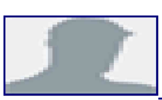
- A Like
- Reply
- Yesterday 07:49 PM
- in reply to Nashtrailer
- 0 Like
- F

- 

Fredpote 1 comment collapsed Collapse Expand

Barry, through this interview, has stimulated our interest and given thought provoking incite into the most significant event of my lifetime. I have my own conclusions and ideas that I put together over the last 16 months. In brief they are: (1) Term limits of 4 or 6 years, for the elected officials, no reelections. (2) The Presidency is made a non-political office, and given a Line Item Veto. (3) Establish a certified National Public Pollster (NPP) for public opinion on all major issues. (4) Congress is expected to vote on legislation as reflected by the citizens they represent.
This just covers the political problem. Politics is power. Elected officials have power. They need money to remain in office. They do what the money interests ask them to do. "Professional Politicians" are our major problem.
I can not believe that our Forefathers could anticipate that today's Corporations should be given the unlimited money influence that the Supreme Court granted.

- A Like
- Reply
- Yesterday 07:07 PM
- 0 Like
- F

- 

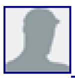
Cog Dis BR fan 1 comment collapsed Collapse Expand

WillTruth you should change your name to WillMisunderstands.

He is calling out the evil doers. His problems with others relate to their inability to substantiate their arguements with facts, data and truth. louder is not more correct.

He should be working at the Fed.

- A Like
- Reply
- Yesterday 08:48 PM
- 0 Like
- F

- 

R.D. Stacy 1 comment collapsed Collapse Expand

I am a retired Ph.D. chemist, and, like so many Americans, grew up very economically-naive. Apparently, we are not proud enough of our economic system to make its study mandatory in our education system.

Question: Do you think that if all American high school students were mandated to take a course, or courses, in comparative economics, the country would benefit, over time, from this enlightened, educational base ?

It's way too late to benefit me (I'm 84) but it should help future generations to navigate the economic morasses.