

What the Public Knows (February 21, 2008)

Longtime correspondent Jon H. opened an intriguing line of inquiry with this no-holds-barred commentary:

Could the public be smarter than we realize? As a nation, we are broke. Our government is broke, the banks are broke, the consumers are broke.

Perhaps deep down people realize that their future is bleak. They have been spending like there is no tomorrow because they know that there is no tomorrow. Shoot the wad, blow the savings, cash in the equity, for tomorrow we will be out on the street. Incomes are falling, jobs are disappearing, prices are rising, so what hope is there that we will ever recover from this mess?

Live for today. Spend it if you have it. Eat, drink, and be merry because the lights will go out on the party at any moment. Greed and denial have gripped the nation and we are eating our seed corn. After 9/11 we were told to go shopping! We were not told that we should make any sacrifices, that we should tighten our belts and get out of debt. Nor were we told that we should mend our ways and stop aggravating the rest of the world with our arrogant attitude that we are the richest nation in the world when, in fact, we are the biggest debtors. Our national credit card is maxed out and the rest of the world humors us by allowing us to pretend that we are still number one. We are the crazy aunt in the attic who is living on generosity of strangers.

And below the surface we know this is true. We have had a sneaky suspicion that we were deluding ourselves. The great American dream of having it all and having it now is not based in reality. Hard work, perseverance, thrift, and a sense of unity under our laws and Constitution is what made us a great nation in the past. All that has been squandered in the past seven years. So as with Joseph's interpretation of the dream in the Bible, are we now destined to suffer seven years of poetic justice? Maybe that realization is beginning to sink into the collective psyche. And that is where we are at as many fellow citizens lose their homes and we watch the banks' posteriors pucker up. That depressing mood is descending upon us and we know the game is over.

It's only a possible explanation of what is happening, but it makes some sense.

Thank you, Jon, for putting into words what many would view as taboo: that is, the American public knew darn good and well the last seven years of "prosperity" was bogus and they blew their equity anyway living larger than they, and the nation, could afford.

Is there any evidence reality is sinking in? Frequent contributor Harun I. sent in this story on people charging stuff against their 401K retirement funds: [A new debit card that lets consumers use ATMs to withdraw money from their 401\(k\) plans is drawing a sharp reaction from financial planners.](#)

"What the public knows" is important because whatever solutions are proposed must win the political backing of the populace. So far we've seen the public reject various bailouts of speculators and homeowners who bought houses with no money down and either inadequate or fraudulent income.

But has the public accepted that belt-tightening and reduced spending is the only way to balance the private and national imbalances? There is little to no evidence that the public is ready to accept higher taxes or huge spending cuts to the entitlements they and their families receive.

Blaming Wall Street is like shooting fish in a barrel. Does Wall Street shoulder much of the blame for the fiscal fiasco engulfing the nation and indeed, the planet? Of course. [Time for Wall Street to Pay.](#)

But let's not forget nobody forced town leaders in Norway or anyone else into buying the risk-larded debt instruments peddled by Wall Street. Come on--was everyone born yesterday? Do you just ignore that 100-page disclaimer in the back? Was there no other more understandable debt you could invest in, such as straight-up (i.e. not a derivative) government or corporate bonds? Did money managers in Berlin, Beijing, New York, etc. have to buy Wall Street's garbage? No, they did not.

The book Fiasco: The Inside Story of a Wall Street Trader laid out the whole Wall Street methodology of gaming and hiding risk inside complex derivatives--and the book has been freely available since the mid-90s.

By all means, we must allow insolvent investment banks to fail--along with mortgage lenders and everyone else who is now facing catastrophic losses on risky investments/debt.

There is a peculiar blindness to the entire blame-game as it is now playing out.

1. The government regulators who should have limited the most obvious excesses of the past seven years did virtually nothing. Why? Because they are controlled by politicians or their top-level appointees. The FDIC, the Fed, the Treasury Department--they're all run by appointees who serve at the pleasure of the Executive Branch.

Why is there no political outrage that the governmental agencies tasked with protecting the banking system and the public utterly failed to perform their duties?

One possible answer is the public has completely absorbed the Reagan-era ideology that all government is bad/wasteful/needless. Reagan famously mocked all government agencies equally with his standup line, "Hi, I'm from the government, and I'm here to help you." Heh-heh.

Yes, many agencies are pork-riddled complete wastes of time and money. (Let's start with Homeland Security, TSA, the Pentagon's private armies in Iraq, Medicare fraud and waste, and . . . well, fill in the blanks. The list is endless.) But the financial regulatory agencies spend a nearly infinitesimal percentage of the Federal budget and perform a staggeringly important function. Yes, it's easy--and important--to blame Wall Street, but to wag our fingers at Wall Street greed and duplicity while ignoring government's role in enabling the excesses to occur--that is blindness:

You Get the Government You Deserve:

Have you heard any presidential candidate from either party explain why the appropriate response to the mortgage debacle is to let the culpable parties pay the price for their mistakes? Nothing teaches you about debt like losing your home to foreclosure. I'm still waiting for that speech. (OK, Ron Paul has probably given it -- which is one reason he'll never get more than 10 percent of the vote.)

Everyone loves small government in theory. We're tired of being told that the coffee we're about to enjoy is hot. But then we burn ourselves and expect someone to show up with ice. **You can't have it both ways.**

In other words, when government could have stepped in and limited the damage for mere pennies, nobody cared. Now that the damage is in the hundreds of billions, then suddenly everyone wants a government-funded "fix."

Talk about having a monkey on your back (slang for a heroin addiction). The monkey here is risk: risk which is private when the real estate and stock markets are hot and every player is making big money suddenly becomes public when the markets tank and losses mount, and calls rise for the "gummit" (i.e. the taxpayers) to shoulder the losses and risks.

Nice--but isn't that rather obviously wrong? Why should the taxpayers pay even one cent to accept private risk and debt? And wrong not just for two-bit speculators who bought three houses with nothing down, but also wrong for the bigtime speculators who "earned" billions in Wall Street bonuses every year.

2. There is a strange dichotomy playing out as various groups alternately demonize and sentimentalize both the rich and the poor speculators. As we all know, the "high ground" in America today is victimhood: whoever claws their way to the top of the "victim" scrum is declared the moral victor.

So we have voices sentimentalizing the poor fools who bought an overpriced house with nothing down and insufficient income as "victims" of lenders. It's getting crowded up on that scrum, because it's already jammed with other "victims" of banks and Wall Street.

Then we have the heads of JPMorgan Chase et. al. going on about how the "innovations in the industry" are so grand for America. I want to gag every time I hear about those wonderful glorious "financial innovations" which have essentially bankrupted the nation. This too is an attempt at sentimentalizing industrial-strength greed as "good for America." Sorry, we aren't buying.

We also have to endure the insipid sentimentalization of home ownership, as if that financial decision possessed some sort of alchemical magic which instantly transmogrifies the mortgage holder into a wealthy, happy citizen.

Demonizing Wall Street or the housing bubble speculators is a dead-end, too. People are greedy and want something for nothing. The madness of crowds took over and a bunch of folks got burned, just as they did in the Tulip Mania of 1600-Holland. Wagging our fingers in indignation is a waste of motion; just let them take their losses and get on with their lives and businesses. (That's what bankruptcy is all about.)

3. Have Americans essentially surrendered to adolescent fantasies? In pondering Jon H.'s commentary, I have to wonder: why would Americans knowingly blow their capital on an essentially worthless consumer binge?

One possibility (raised here most recently in an exchange with contributor Michael Goodfellow) is that Americans feel entitled to the same lifestyle a previous generation enjoyed in the 1950s, when one wage provided enough purchasing power for a nice big suburban home and most of the luxuries we have come to take for granted.

With inflation and global wage arbitrage a reality since the 1970s (and the emergence of Japan as a global economic powerhouse), now it takes two wages to buy a reduced version of that 1950s-early 1960s "golden age" when the U.S. wage earner's purchasing power was much higher than it is today.

In other words, like spoiled children, Americans have pouted, "But I deserve more!" and as a result they spent their "seed corn"/capital on a futile attempt to match the lifestyle of a previous (strong dollar, low inflation, cheap housing and cheap energy) era.

Knowing full well we were already tipsy on debt, we refused to sober up but instead staggered over to the bar to get completely plastered. Now we have a hangover and are whining: but the liquor was so cheap, and tasted so good! I felt so euphoric!

Are we really that callow as a nation that we didn't know overindulging on debt and spending borrowed money was not a wise idea? Or are we fundamentally gripped by the adolescent fantasy that we should be able to indulge without consequences, and now we are resentful that there are consequences?

I don't claim to have an answer, but Jon H.'s commentary opens many doors of inquiry, all troubling.

If we as a nation can't own up to adult life, i.e. consequences were earned and must be paid/accepted, then what sort of political "fix" will the public demand? And who exactly is supposed to pay for it? Those who didn't get drunk on debt and spending? Those who lived in cheap apartments and saved their money? Those who didn't join the mad crowd?

Or even worse: will today's hungover Americans demand that non-U.S. central banks lend us the money, and then demand that their own children and grandchildren spend their lives paying the stupendous bill for their own poor judgment? That is essentially what the Federal Deficit does, pitilessly, stupidly, cruelly.

NOTE: I will be away from my desk until March 3, but will try to post regardless. Email response time will be degraded, I am afraid; my apologies in advance.

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