

# SOMETIMES YOU EAT THE BEAR, SOMETIMES THE BEAR EATS YOU - STEARNS THOUGHTS

That whole financial disaster, black hole rivaling the Great Depression, collapse of the American economy thing is oh so last week eh? Because from what I can tell this week, Britney has been on a sitcom, Barrack (gasp!) has listened to a fiery preacher man, Bush and McCain say stupid things (okay, that is not news, but it is being reported on), and Hillary (gasp!) won't quit a race that is essentially neck and neck (and this reference does **not** make this a thread for discussion of the horserace, so give that a rest). What happened to the biggest financial crisis in our nation's history?

What was the the Bear Stearns takeover/bailout about anyway? Who really benefitted in the present? What does it portend for the future? I don't have these answers; but I have a lot of questions and the ground seems to be morphing so fast on this that not only are we not getting answers, the real questions are getting left behind in the wake. To paraphrase Wilson Pickett, we need to "slow this mustang down" and think about what has occurred and where it will lead us for the future. Really, the implications are pretty incredible. The federal government, under the cover of a spring weekend, stepped in to force one private financial company to sell itself to another private financial company at a price more than fifteen times less than the market valuation at the time. And then the government pledged the public's money to guarantee the worst parts of the deal. Wow. And here I thought the free market was the golden holy rule for those currently running our country ~~into the ground~~.

How did something so huge, and with so many far

ranging implications, happen literally overnight? One thing is sure, if the economy was as great as they say, and Bush and his band of merry pillagers were on top of everything as much as they claim, this never would have happened. There has been plenty of discussion about the sub-prime shitpile and the exponential rise in derivatives in the financial industry, but my question here is what really happened with the Bear Stearns deal itself? Thankfully, people that know a whole lot more about this than I do are starting to ask the right questions. Today's example is an outstanding article, "Liberalisation's Limit", by Mark Thoma at The Economist's View.

Quoting Martin Wolf once more, he says "times of crisis are when new functions emerge." This article is something I came across in a search – it's an "interview" of Carter Glass by the Minneapolis Fed – that discusses how crises cause change (you'll see why interview is in quotes).

Two additional topics are discussed in the "interview" that have come up here recently, the erosion of the "walls between commercial and investment banks" that occurred in the late 1990s (that's when this interview was conducted), and the erosion of regulatory authority as banks found ways to evade regulations, i.e. "national banks had created affiliates as a way of doing precisely those things that the National Bank Act prohibited them from doing." Thus, in that respect, the motivation for the regulatory change that produced the Glass-Steagall act is the same as the motivation for more regulatory control today – the existence of a shadow banking system outside of regulatory authority that has the ability undermine faith in the financial system, or to produce feedback effects that can cause banks under the Fed's authority to fail

Please, read the entire article (and, really, the links and sources cited therein too), it is very good.

Okay, so if I understand this correctly, the government took an unprecedented (at least under the modern Fed structure) action to insure, with the people's money, a privately sector non-traditional bank entity; and the general conclusion is that this will have to now be the new norm, but there may be a little bit of regulation in the offing in return. This seems to be exactly where Treasury Secretary Hank Paulson and Senators Baucus and Grassley of the Senate Finance Committee are headed.

Maybe this was all the right and necessary thing to do. Maybe not. Here is what I have seen in the week plus since the Bear deal hit the public conscience. JP Morgan Chase bought Bear for less than the office building was worth, the people at Bear that got themselves into this mess are getting bonuses to stay on and create more mess, even Morgan/Chase realized the deal was too absurd and raised the purchase price, average citizens and homeowners still cannot get an ounce of relief from their government, there is no talk of banning the financial instruments that got us here and instead the government is moving to adopt, incorporate and insure them, and the financial institutions that created this nightmare have all had big gains in their stock prices because "investors" now see them as being protected by the government.

Did we just save the economy or just make a bunch of the wealthiest Bush/Republican base a whole lot better off at the expense of the taxpayers?

**UPDATE:** Hey, here's a good one. Turns out that JPMorgan Chase & Co head Jamie Dimon held a Federal Reserve board seat while Chase was in negotiations with the Federal Reserve over a deal to acquire Bear Stearns at an insanely low price. How convenient.

**UPDATE TWO:** A post on this subject has come up

on FDL by Robert Johnson, one of the presenters at the big TBA conference that Marcy recently attended. "Crisis on Wall Street – Shock Doctrine Opportunity – Notes from Take Back America Panel" Take a look at it.