

"I TOLD YOU SO"

More of this please.

First, we must confront head-on the pervasive misunderstanding of what constitutes a "free market." For long stretches of the past 30 years, too many Americans fell prey to the ideology that a free market requires nearly complete deregulation of banks and other financial institutions and a government with a hands-off approach to enforcement. "We can regulate ourselves," the mantra went.

Those of us who raised red flags about this were scoffed at for failing to understand or even believe in "the market." During my tenure as New York state attorney general, my colleagues and I sought to require investment banking analysts to provide their clients with unbiased recommendations, devoid of undisclosed and structural conflicts. But powerful voices with heavily vested interests accused us of meddling in the market.

When my office, along with the Department of Justice, warned that some of American International Group's reinsurance transactions were little more than efforts to create the false impression of extra capital on the company's balance sheet, we were jeered at for attacking one of the nation's great insurance companies, which surely knew how to balance risk and reward.

And when the attorneys general of all 50 states sought to investigate subprime lending, believing that some lending practices might be toxic, we were blocked by a coalition of the major banks and the Bush administration, which invoked a rarely used statute to preempt

the states' ability to probe. The administration claimed that it had the situation under control and that our inquiry was unnecessary.

Eliot Spitzer is one of the people best suited to help clean up the mess on Wall Street. After all, he was screaming about where all the bodies were buried back when everyone was in denial, up until the time Michael Garcia took him out for a high-priced hooker.

Here's what he recommends:

One of the great advantages U.S. capital markets have enjoyed over the decades has been the view – held worldwide – that there was an underlying integrity to the representations market participants made, because the regulatory framework in which they were made was believed to provide genuine oversight. But as we all know, the laws requiring such integrity are meaningless without a government dedicated to enforcing them.

Second, our corporate governance system has failed. We need to reexamine each of the links in its chain. Boards of directors, compensation and audit committees, the trio of facilitators (lawyers, investment bankers and auditors) whose job it is to create the impression of legal compliance, and shareholders themselves – all abdicated their responsibilities.

[snip]

Finally, we need to completely overhaul the federal financial regulatory framework.

Spitzer ends this piece by saying, "mistakes I made in my private life now prevent me from participating in these issues as I have in the

past." Perhaps. But let's hope that he continues to serve as a public scold, calling out all the half-assed "solutions" and insisting on real reform.