The92ers

The Confederacy of Dunces

Peter C. Schmidt

1. William Apgar: (B.A. - Williams College; PhD. Economics – Harvard)

Apgar served as Assistant Secretary of Housing and Urban Development (HUD) from 1997-2001. In this position, Apgar served as Andrew Cuomo's (#16) chief lieutenant when Cuomo was HUD Secretary. Cuomo had no experience as a banker or in the mortgage industry when he was placed in charge of HUD. Apgar on the other hand, had a Harvard PhD. in economics and long tenure as a purported "expert" in housing and mortgage lending. Presumably, Apgar was to provide expert guidance to temper Cuomo's complete unfamiliarity with housing finance. As events would prove - and like most people with a Harvard PhD in economics - Apgar's expertise was shown to be completely mythical and non-existent.

More significant than even his nearly complete technical incompetence, Apgar proved himself to be a zealot to the cause of expanding homeownership at all costs. During his HUD tenure, the enormous government sponsored enterprises (GSEs) – Fannie Mae and Freddie Mac – were directed by HUD to greatly expand their lending to "low and moderate-income borrowers" via the affordable housing (AH) mandate. On October 31, 2000, Secretary Cuomo – with Apgar's blessing – directed the GSEs to dedicate 50% of their mortgage capital to low and moderate income borrowers. In doing so, Cuomo sealed the fate of the US economy.

The only way for the GSEs to issue mortgages to so many people that had previously been deemed credit risks was to drastically lower lending standards. This is exactly what happened. When many of these borrowers – who were essentially deemed credit worthy by legislative fiat - defaulted on their mortgages, the losses incurred by the GSEs were enormous. Some idea of the losses accruing from the lower lending standards can be gleaned by the fact that on September 05, 2008 the GSEs were placed in "conservatorship," and each received $100-billion in capital injections to stave off insolvency. Additional capital injections were later made on *December 24, 2009* – a date clearly designed to minimize media and public scrutiny concerning the enormous losses incurred by the GSEs.[1] Naturally, after playing such an enormous role in causing the housing crash, there was only one place for Apgar to end up; as a lecturer and resident "expert" in housing at Harvard's Kennedy School of Government. You can't make this stuff up.

Additional Information:

For background into the "affordable housing" mandate, see Kit Bond (#6). See Bill Clinton (#12) for the strategy – read "central plan" - to increase homeownership levels to all-time highs. See Henry Cisneros (#11) and Jamie Gorelick (#26) for additional discussion on the evisceration of lending standards necessary to advance President Clinton's housing agenda. See Andrew Cuomo (#16) for more details on the affordable housing mandate. For the significance of the 50% affordable housing mandate see Franklin Raines (#40). For the most zealous congressional supporters and defenders of the GSEs see Kit Bond (#6), Barney Frank (#21), Gregory Meeks (#35) and Maxine Waters (#47).

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2. Thomas Baxter (Bachelors - University of Rochester; Law Degree – Georgetown)
Baxter was the Federal Reserve Bank of New York's general counsel during the "Steve Friedman Affair." Steve Friedman, (#22) – then the chairman of the NY Fed's board of governors and a former chairman of Goldman Sachs - took advantage of what anyone but Thomas Baxter would consider inside information. With knowledge of the then, November 2008, secret decision of the NY Fed to pay Goldman Sachs full price, $14-billion, for the virtually worthless credit default swap (CDS) positions owed Goldman by an insolvent AIG – Friedman purchased over 50,000 shares of Goldman stock in December 2008 and January 2009.

In May 2009, Freidman's Goldman Sachs trades became public knowledge after the Wall Street Journal published a brief article questioning Friedman's ties to both Goldman and the New York Fed.[2] Friedman had been around Wall Street long enough to realize that discretion is the better part of valor and resigned from the NY Fed. Unbelievably, upon Friedman's resignation, Baxter, then the NY Fed's general counsel and presumably someone who would have the most basic understanding of insider trading statutes, stated,

> "*And with respect to Steve's purchases of Goldman shares in December of 2008 and January of 2009, which have been the object of some attention lately, it is my view that these purchases did not violate any Federal Reserve statute, rule or policy.*"[3]

A viewpoint considerably different from the morally vacuous precincts of the NY Fed was voiced by Jerry Jordan, the former president of the Federal Reserve Bank of Cleveland. Jordan spoke for many when he remarked, *"It's an outrage. He (Friedman) needed to either resign from the Fed board or from Goldman and proceed to sell his stock."*[4] To anyone outside Wall Street, Friedman clearly took advantage of inside information to profit from his trade in Goldman stock. (By May 2008, Friedman's Goldman shares had already yielded over $3-million in profit.) Nevertheless, charges were never brought against Friedman. In Friedman's defense, he almost certainly undertook what any securities lawyer must have recognized as trades of very dubious legality because he had no fear of ever being prosecuted by anyone at the NY Fed. Not only was the inept Thomas Baxter general counsel, but the even more grotesquely feckless and incompetent Tim Geithner (#24) was president of the NY Fed. In all likelihood, Friedman knew from the first that he had nothing to fear from weaklings like these two.

Additional Information:
See Steve Friedman (#22) for more information on how Friedman appeared to take advantage of inside information he was privy to. See Tim Geithner (#24) for his decision to pay, in full, AIG's creditors – a list that includes some of the largest, most sophisticated banks in the world – all of whom should have completely understood the risks they were taking by trading with AIG. See Gary Gorton (#27) for the Ivy League professor who provided the brains behind AIG's money squandering investments.

3. Ben Bernanke; (Bachelors - Harvard; PhD. Economics – MIT)

The personification of everything that is wrong with the contemporary understanding of economics and the manifestation of this ignorance in all the economic dislocations suffered by the American people – the enormous increase in wealth disparity in particular. A basic feature of capitalism based on the division of labor – provided it is given time to operate and produce its benefits – is it should tend to produce a greater dispersion of wealth and an increased standard of living. This was true even during the so-called "robber baron" days of the early 20th century. The fact that precisely the opposite result is occurring today is stark evidence that something is fundamentally wrong with the US economy. Without question, the fundamental flaw in today's economy is its domination by the central bankers and central planners at the Federal Reserve – of which Ben Bernanke is Exhibit A.

The housing bubble – fueled as it was by the radical monetary policies of Bernanke and his central planning predecessor, Alan Greenspan – was merely a spectacular example of the same forces that have been building in the US economy since the early 1970's. After the crisis, the mainstream media universally hailed Bernanke for his heroic role in "saving" the economy. This view betrays a complete ignorance of Bernanke's enormous role in causing the crisis in the first place. Not coincidently, Bernanke helped fuel this false belief by entitling his crisis memoir, <u>The Courage to Act</u>. Don't be confused, Ben Bernanke is not a heroic fireman who goes into a burning building to save an infant. Ben Bernanke is an arsonist who burns down the tenement homes of poor people so rich slumlords can collect the insurance claims. As far as any mistakes Bernanke made that could have caused the financial crisis, Ben Bernanke has never been wrong about anything – just ask him.

Bernanke's role in creating the financial crisis was fundamental, and it is very difficult to distill his enormous contribution into a brief summary. Instead of focusing on a series of actions on his part, the discussion here will show Ben Bernanke has a poor understanding of both inflation and the Great Depression – two things he is rumored to be an expert on. This ignorance of inflation and the Great Depression is of more than academic interest; it was this ignorance that animated Bernanke's – and the Fed's - enormous contribution to the 2008 financial crisis.

On November 08, 2002 and not long after beginning his service on the Fed's Open Market Committee (FOMC), Ben Bernanke gave a speech in honor of Milton Friedman's ninetieth birthday.[5] In this speech, Bernanke provides his – and Milton Friedman's - theory of the Great Depression. Friedman concluded that the Fed caused the Great Depression by *allowing* the money supply to collapse during the 1930s. In his analysis, Friedman first attempts to show those times – Bernanke calls them *"monetary policy episodes"* - during the Depression era when the money supply changed for reasons *"plausibly unrelated to the state of the economy."* With these episodes identified, Friedman reasoned it would then be possible to determine how changes in the money supply caused changes in the economy. The Friedman thesis purports to show that

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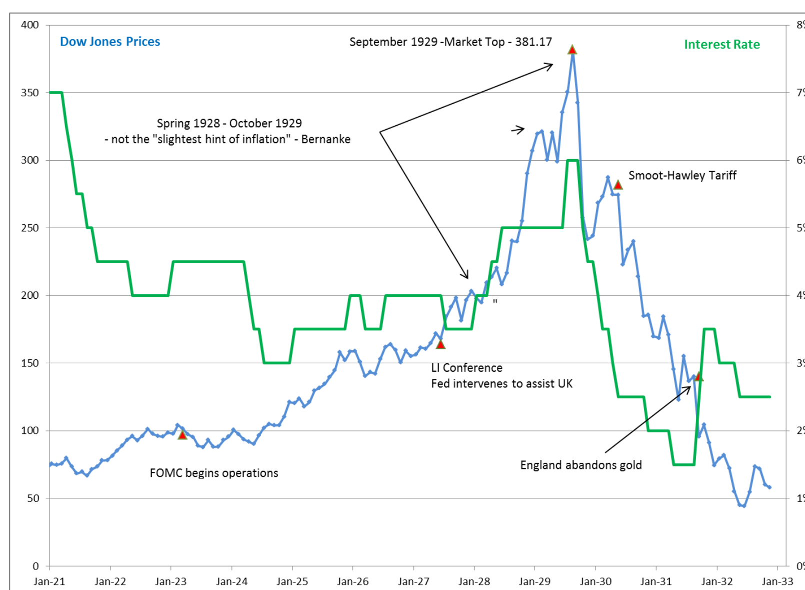
the Great Depression can "*reasonably be described as having been caused by monetary factors,"* or changes in the money supply drove changes in the economy. When the money supply fell the economy slumped. When the money supply increased, the economy recovered.[6]

What the Friedman analysis of the Great Depression – and Ben Bernanke's endorsement of it in November 2002 – really shows has nothing to do with the Depression. Instead, the analysis and Bernanke's endorsement of it exposes what is the Fed's overarching blunder of the Greenspan/Bernanke era – the failure to understand one word, inflation. The first "monetary policy episode" Bernanke cites as proof that the Fed caused the Great Depression was the policy tightening that began in the spring of 1928. Bernanke criticizes the Fed for raising interest rates during this period because – in his opinion – there wasn't "*the slightest hint of inflation."*

The Federal Reserve during much of the 1920s acted in a criminally irresponsible manner. The historical record makes it clear that the Fed acted the way it did – by slashing rates and pursuing an easy money policy – to advance the economic interests of Great Britain and its central bank chief, Montagu Norman. In spite of the Fed's reckless policies, the price of consumer goods changed very little during the 1920s. Because of this, Bernanke – and Friedman – conclude there was no inflation in the 1920s. Unfortunately for their analysis there were a variety of secular trends – primarily the Industrial *Revolution* – that produced enormous increases in productivity and these helped to keep consumer good prices down in the 1920s. Where the Fed's unwarranted increase in the money supply, the definition of inflation, in the 1920s manifested itself was in the price of assets – stocks and real estate in particular.



See the chart above and the period from spring 1928 to October 1929. Note stock prices rising to the stratosphere. (Stock prices are in blue and interest rates are in green.) This is what Ben Bernanke means - foolishly it hardly needs to be added - when he says not *the slightest hint of*

inflation. As the chart makes clear, even with the benefit of hindsight Ben Bernanke completely misdiagnosed the 1920s stock bubble. Ben Bernanke relies on an artificially narrow definition of inflation that is confined to consumer prices, and this makes him blind to inflation as measured by even huge increases in asset prices. Stable consumer prices are no proof that credit is not being expanded too liberally or the risk of a financial bubble is low. Indeed, financial bubbles are most likely to occur when goods prices are relatively stable – the Great Depression and the Financial Crisis of 2008 provide ample evidence of this. In his misdiagnosis of the 1920s stock bubble Ben Bernanke exposes exactly the same mindset that made him and the Federal Reserve blind to the enormous risks associated with the ballooning costs of homes in the early 2000s.

Here is Ben Bernanke in June 2004 – which was just two months after the housing bubble in terms of homeownership peaked – at a meeting of the FOMC imploring the Fed to take credit for the enormous benefits he believed accrued from the Fed's policy of slashing rates;

> *"The economy has come a long way in the past year, and…we should pause to take some satisfaction in the Federal Reserve's contribution to the turnaround. Our policy actions, reinforced by innovations in our communications strategy, helped provide crucial support to the economy during a dangerous period."*[7]

In June 2004 interest rates had been at 1% for one year and under 2% for approximately 30-months. Over the previous several years, the Fed had embarked on a policy of unprecedented interest rate cuts in response to the tech stock bubble collapsing. The interest rate cuts – along with the economic lunacy latent in Bill Clinton's central plan for housing – fueled enormous increases in home prices. Bernanke's artificially narrow definition of inflation – which doesn't account for asset prices – and his faith in the infallibility of central bankers made him blind to the enormous danger associated with what where clearly unsustainable increases in home prices. The fact that Ben Bernanke wanted to take credit for the Fed slashing interest rates when the low rates ultimately caused enormous damage to the US and world economies proves – incontrovertibly – the enormous role the ignorance of Ben Bernanke and the Fed had in causing the 2008 financial crisis. All the considerable damage done to the United States by the housing bubble is the direct result of the Fed, staffed by the supposedly smartest economists in the world, failing to understand the definition of a single word – inflation.

Additional Information:
See Charles Evans (#20) for more information on the enormous increases in wealth disparity fueled by the Fed's inflation. For more information on the Fed's efforts to support Great Britain during the 1920s, the 1927 Long Island conference of central bankers in particular, and thus fuel the 1920s stock bubble and help cause the Great Depression, see Alan Greenspan (#29).

4. Lloyd Blankfein; (Bachelor's – Harvard; Law Degree – Harvard)

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Blankfein was the CEO of Goldman Sachs during the financial crisis. In the years leading up to the crisis, groups in Goldman apparently worked with some of their biggest customers, John Paulson for example,[8] to create mortgage bonds that were basically designed to fail. A mortgage bond is a collection of a large number of individual mortgages. The "owner" of a mortgage bond receives the payment of the mortgages that make up the bond. Goldman, along with a few of their most select customers, structured bonds to include enough bad mortgages to virtually guarantee the entire bond would fail. Mortgage bonds were highly leveraged, and if as little as 3-4% of the individual mortgages in a mortgage bond defaulted, the entire bond would often fail.

After a mortgage bond of this type – which had essentially been designed to fail – had been created, these select customers would then purchase "insurance" on the bonds. This "insurance" was purchased through complicated derivative investments. The largest seller of mortgage bond insurance was AIG and they lost more than $60-billion on the mortgage bond insurance they sold. The analogy of these derivative investments as "insurance" only goes so far. When the typical homeowner purchases fire insurance, they are not upset at the end of the year when their house doesn't burn down. However, the investors who purchased insurance on mortgage bonds were *hoping* that the mortgage bond would collapse. For perhaps $30-million a year in premium payments, a potential windfall of $1-billion could be produced if the bond went into default. It was this enormous potential return that drove Goldman and some of its largest clients to create mortgage securities designed to fail.

Among the most notorious trades Goldman found itself in during the housing bubble era was one involving a security named ABACUS 2007-AC1. In the "ABACUS" trade, Goldman – working with Paulson – created a mortgage bond designed to fail. The patsies – who took the other side of the trade or "side bet" on whether this mortgage bond would collapse or not – were two European banks straight out of central casting, IKB of Germany and ABN AMRO of the Netherlands. Some hayseed - falling off a turnip truck and spending his first day in New York City - would have better luck buying Rolex watches in a Port Authority bus terminal bathroom than these two European banks would ever have buying mortgage bonds from Goldman on Wall Street. Exactly as planned, when the trade was over Paulson found himself up $1-billion and the banks were out $1-billion. Eventually, the nature of the trade – and the many others like it – began to become known outside Wall Street. As more and more people realized what business as usual amounted to on Wall Street, the outrage was palpable.

In such an environment, the government was forced to do something. However, "something" did not constitute going after any of the senior executives at Goldman. Instead, the only individual to face any type of censure over the ABACUS deal was another European patsy – a mid-level Goldman employee and fall guy, Fabrice "Fabulous Fab" Tourre.[9] Eventually, Goldman did pay a $5-billion fine to the Justice Department in 2016 for all its mortgage related shenanigans.

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While that sounds like a lot of money, it is dwarfed by the $14-billion Goldman received from the Fed in 2008 when the feckless Tim Geithner (#24) decided to pay AIG's creditors at par.

Placing the interest of some clients below the interests of other, "more select," clients is only one part of the problem with the Goldman "culture" under Blankfein. Perhaps the most damning aspect of Goldman's mortgage trading under Blankfein was its "zero sum gain" nature. If not the most damning aspect, the zero-sum aspect is certainly the most incongruous aspect of Goldman's culture under Blankfein with the traditional role of finance.

Historically, Wall Street finance was where the accumulated savings of society were allocated to investors needing capital. The allocation of capital from savers to investors is of fundamental importance to capitalism. After all, they don't call it capitalism for nothing! Finance of this type was a means to an end, not an end in itself. By performing its historic role, Wall Street finance allowed savers, investors and society as a whole to benefit. Banking was an honorable profession, full of honorable people. As Goldman's trade in mortgage bonds clearly shows, this traditional, mutually beneficial and honorable role of finance is long gone. It has been replaced by a type of finance which has nothing to do with a socially desirable end. In finance today, for every winner there must be a loser. As a direct consequence of this, banking is no longer filled with honorable people. Banking is now filled with hucksters like Lloyd Blankfein.

Since 1990 the following "men" have held the position of Goldman Sachs CEO – Robert Rubin (#41), Steve Friedman (#22), Jon Corzine (#13), Henry Paulson (#38) and Lloyd Blankfein. Rubin (Yale), Friedman (Columbia) and Blankfein (Harvard) are all lawyers and all worked at law firms immediately after graduating Ivy League law schools. As their mortgage bond trades and the legal background of the majority of their CEOs clearly demonstrates, Goldman Sachs isn't even remotely involved with banking in any sort of traditional, mutually beneficial sense. Like the rest of what passes for finance on Wall Street today, Goldman seems to place a very high premium on parsing the letters of the law to develop new and inventive ways to bilk people. By that standard, Goldman is – far and away – the most successful firm on Wall Street.

Additional Information:
For the inexcusable decision to pay AIG's creditors, like Goldman, full price for their mortgage bond insurance policies, see Tim Geithner (#24). For more information on the trade in mortgage bond insurance, see Gary Gorton (#27). See Mark Rubinstein (#42) for the genesis of how finance lost its way.

5. Alan Blinder; (Bachelors – Princeton; PhD Economics – MIT)

Alan Blinder is a virtually inexhaustible and long-standing source of muddled economic thinking. As such, he is the personification of the intellectual sophisms that put the wind in the central planning sails of both the Federal Reserve and the Clinton administration. As someone

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who has basically spent a lifetime drawing the wrong conclusions from economic events, it is completely unsurprising that Blinder has been affiliated with an Ivy League economics department, Princeton's, for decades. The subsequent economic damage done by all the minds polluted by Blinder's economic non-sequiturs is virtually incalculable. (Economics is routinely the most popular major at Ivy League colleges and Wall Street remains the most popular destination for Ivy League graduates.)

Blinder's work at Princeton, as well as his role as a member of Bill Clinton's council of economic advisors, (1993-1994), merely set the proverbial table for all the damage to come. Alan Blinder really started to cut his central planning teeth with the greatest group of central planners in the world – the Federal Reserve. Blinder served as Fed Vice-Chair from 1994-1996. Interestingly, he succeeded another MIT PhD. in economics named David Mullins. Mullins left the Fed and soon began to work with a heretofore little known hedge fund – Long Term Capital Management (LTCM). In just a few years LTCM would suffer an enormous collapse – a collapse that Mullins as a MIT PhD in economics was of course completely blind to. The collapse of LTCM would directly lead to the worst excesses of the Greenspan Fed, excesses that would then lead directly to the terminal phase of an enormous stock market bubble.

While Blinder was a member of the Fed, the Fed assented to the Clinton Administration's bailout of Mexican bondholders in February 1995. This bailout was organized by President Clinton's Treasury Secretary – who also just happened to be the former CEO of Goldman Sachs – Robert Rubin (#41). Not coincidentally, the bailout helped Goldman Sachs to avoid incurring losses on the $5 billion in Mexican bonds it held at the time of the crisis.[10] (Goldman was also an underwriter of the bonds.) More important than providing yet another example of the toxic nexus between the government and financial elites, the bailout led to an underappreciation of the enormous risks in lending to the so-called "developing world."

In these lending programs, enormous amounts of money, denominated in dollars, were loaned to developing nations. However, these developing nations did not use the dollar as their currency. As a result, any income that resulted from the investments made with the borrowed dollars was almost always earned in the local currency. Because these local currencies often plunged in value and the loans still had to be paid back in dollars, the proverbial blind man on a galloping horse could see the risks associated with lending programs of this type. (If the local currency fell in value against the dollar, then much larger amounts of the local currency would be needed to pay the loan back.) As a result of the bailout of Mexican bondholders, an underappreciation of the risks involved with foreign lending was perpetuated. Consequently, when the next foreign lending crisis came – which it did in July 1997 as the Asian financial crisis – the crisis was guaranteed to be much bigger and far more damaging than the crisis that was supposedly avoided by Mexico in 1995. Arguably, the *disastrous* 1995 bailout of Mexican bondholders – and Goldman Sachs - was the first application of what came to be known as the "Greenspan put."

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In exactly the same way he failed to draw the correct lessons from the Mexican bailout, Blinder failed to draw the correct lessons from the tech bubble era of the late 1990s. Along with a future chairwoman of the Fed, Janet Yellen, Blinder authored a book that extolled the completely non-existent economic virtues of the late 1990s, The Fabulous Decade. This book makes it clear that Blinder was – and remains, as he has never disavowed this book – almost completely ignorant of how an economy really works and how real wealth is created. The silly conclusions in this book rest on two enormous mistakes on the parts of Blinder and Yellen;

- They were completely confused by the hedonic adjustments to economic statistics that made the economy appear far stronger than it actually was.[11]
- They misinterpreted an enormous stock-market mania as genuine wealth production.

In spite of these two massive errors, the book still serves an enormously important purpose; it demonstrates, incontrovertibly, the enormous ignorance that has animated the Federal Reserve for *decades* on end.

Regrettably, Blinder's blunders didn't end with his complete misunderstanding of the tech bubble era. After the financial crisis, he endorsed one of the most economically irrational programs of the Obama administration. The program was "Cash for Clunkers." In this program, automobiles – which were fully functional, licensed to be on the road and had economic value – were destroyed. The program *required* the cars to be destroyed, not simply turned in. For volunteering your car for destruction, a person would receive a nominal amount of "cash" which could only be used to purchase a new car. (The cash was only a small fraction of the purchase price of a new car.)

Apparently, Blinder and other proponents of the plan believed the economic interests of the country were advanced by destroying things with economic value. Of course, the program did lead to the purchase of some new automobiles, but along with the new automobile came new car payments. To anyone who pauses for an instant to think about the ramification of this program, it becomes immediately clear that every dollar spent on car payments is one less dollar the purchaser could spend on other goods. There is no way a program like this could ever lead to real economic growth. In fact, by believing economic growth could be achieved by a destructive catalyst – destroying used cars - cash for clunkers is nothing more than one of the oldest economic fallacies - Frederic Bastiat's broken window fallacy – camouflaged in an MIT PhD.

Additional Information:
See Austan Goolsbee (#25) for another example of the economic geniuses who typically occupy the council of economic advisors. See Alan Greenspan (#29) for his disastrous, world-altering reaction to the LTCM crisis. See Frederick Mishkin (#36) for another example of the doltish thinking that dominates the highest reaches of the Federal Reserve.

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6. Sen. Christopher "Kit" Bond: (BA – Princeton; Law Degree – University of Virginia)
Kit Bond was the Republican senator from Missouri when the housing bubble was at its worst. Bond's considerable contribution to the formation of the housing bubble was centered on the enormous lengths he was willing to go to protect the GSE mortgage lending giants, Fannie Mae and Freddie Mac from scrutiny. Bond was able to achieve this by thwarting the efforts of the Office of Federal Housing Enterprise Oversight (OFHEO). The creation of OFHEO – which was charged to essentially act as a banking regulator for the GSEs – was part of the Orwellian named Federal Housing Enterprises Financial Safety and Soundness Act of October 1992. Because this act would also require HUD to direct a fixed percentage of GSE mortgages to low and moderate income borrowers, this act – its name notwithstanding – would be both financially unsafe and unsound. The so-called *affordable mandate* provision would see the GSEs increase their lending to low and moderate income borrowers from about 30% of their total lending in 1993 to over 50% by the early 2000s.

On September 29, 1999 Armando Falcon was appointed director of OFHEO. For much of its existence – and as a result of the enormous political connections enjoyed by the GSE leadership – OFHEO had done little that could be interpreted as regulating the GSEs. Under Falcon's leadership it became immediately clear that OFHEO would no longer be the pushover it had been. Squarely in Falcon's cross-hairs was the spectacularly inept duo of Fannie Mae's Franklin Raines (#40) and Jamie Gorelick (#26) – both former Clinton administration officials.[12] As OFHEO attempted to complete the work assigned to it, Senator Bond launched numerous investigations into OFHEO. In fact, in 2004 he threatened to withhold $10-million in funding – OFHEO's total budget was only a relatively paltry $59-million – unless OFHEO replaced Falcon. Not surprisingly, Bond received thousands of dollars in campaign contributions from Fannie Mae employees, chief among them CEO Franklin Raines.[13]

Bond's active role in suppressing OFHEO was merely a preamble to what would occur after Falcon released a report in September 2004 that was highly critical of Fannie Mae and its management. Senator Bond – along with Barney Frank (#21), Gregory Meeks (#35) and Maxine Waters (#47) in the House of Representatives – mounted an enormous and very public campaign against OFHEO generally and Falcon personally. More significantly for the development of the financial crisis, rather than looking into the veracity of Falcon's report, Bond raised the bogus claim that Falcon's investigation of Fannie was politicially inspired. (Falcon originally came to Washington to work for Henry Gonzalez, the populist firebrand Democratic former chairman of the House Banking Committee. Falcon was then kept in charge of OFHEO by the Republican administration of George W. Bush.)

In November 2004 Bond released a report which - viewed through the smoking rubble caused by the hundreds of billions in GSE mortgages that went up in smoke – should immediately be recognized for what it is – little more than a desperate attempt to curry favor with a politically

connected constituency and special interest, Fannie Mae. Bond's report read in part, *"evidence and testimony raises questions about the substance and credibility of certain OFHEO enforcement actions, and the motivation behind such actions."* In a public statement Bond later claimed, *"...top OFHEO officials have misused their agency and abused the public trust."*[14]

So what happened when the dust settled? Falcon's report was proven to be correct in every important way. Fannie Mae was forced to acknowledge that at least $6-billion in previously reported profits were little more than accounting artifice and legal legerdemain. If the verdicts which resulted in Enron's Andrew Fastow and Ken Skilling being sentenced to prison were fair, then Franklin Raines certainly deserved to go to jail. (The accounting shenanigans at Fannie dwarfed that at Enron.) Of course, with friends as powerful as the ones Raines enjoyed, jail was never a serious option. Raines was forced to resign however. Gorelick – every bit as criminally and comically inept as Raines – at least had the good sense to resign from Fannie the previous year and avoided the public spectacle of resigning in disgrace.

Additional Information:
See Bill Clinton (#12) for the "strategy" – read "central plan" - to increase homeownership levels to all-time highs. See Henry Cisneros (#11) and Andrew Cuomo (#16) for more details on the affordable housing mandate. See Jamie Gorelick (#26) and Franklin Raines (#40) for the ineptitude at the highest levels of Fannie Mae. For the other zealous congressional supporters and defenders of the GSEs see Barney Frank (#21), Gregory Meeks (#35) and Maxine Waters (#47).

7. Kathleen Brown; (Bachelor Degree – Stanford; Law Degree – Fordham)
Like Franklin Raines (#40) and Jamie Gorelick (#26), Kathleen Brown is another example of politically connected cronyism run amok. Kathleen Brown worked for Goldman Sachs in California and held a senior position in "municipal finance." Prior to working for Goldman, she had also served as treasurer for the state of California. Amazingly, the fact that both her father and brother had been governor of California, and she had served as the state's treasurer must not have been considered a conflict of interest to either Goldman Sachs or her despite working in Goldman's *municipal finance* department!

The dearth of ethics in investment banking and government aside, as far as the financial crisis is concerned, Kathleen Brown's primary importance is her service on the board of mortgage lender Countrywide Financial. Countrywide was no mere mortgage lender; it was the largest mortgage lender in the United States. In March 2007 – just as the housing market started to *visibly* come apart at the seams, Brown resigned her position from Countrywide's board. In announcing her decision to step down from the board Countrywide CEO Angelo Mozilo stated, "Since joining the Board in 2005, Kathleen has also made significant contributions to the company's governance, risk management and strategic growth initiatives."[15] That was one person's opinion.

Another opinion was provided by Corporate Library, an independent research firm that grades corporate governance. They gave Countrywide's board – and by extension Kathleen Brown - an "F" for governance. In fact, Nell Minow, the editor at Corporate Library, said that Countrywide would have received a lower grade if there was one.[16]

Fortunately for Kathleen Brown's reputation, her brother Jerry, then California attorney general, had the good sense to wait a little after her March 2007 resignation from Countrywide's board before filing suit against Countrywide in June 2008. Further greasing the skids of her low-profile resignation from Countrywide – billions in bad mortgage losses notwithstanding – might be the fact that Brown's second husband is Van Gordon Sauter, the former head of CBS News. Kathleen Brown is hardly the only politically connected insider to serve on the board of a company at the center of the financial crisis. Richard Holbrooke – who effortlessly bounced between Wall Street, he worked for Lehman Brothers, and the State Department – was a member of AIG's board when AIG crashed and burned.[17] Unsurprisingly, in the same way Kathleen Brown never faced any criticism for her role at Countrywide, criticism of AIG and its management never extended to the politically connected Holbrooke either.

Additional Information:
See Jamie Gorelick (#26) and Franklin Raines (#40) for more cronyism.

8. James Bullard; (Bachelors – St. Cloud State; PhD Economics – Indiana University)
Bullard's official position is President of the Federal Reserve Bank of St. Louis. However, his main contribution to the financial crisis is being in the Federal Reserve's legion of useful idiots. As a useful idiot, Bullard is rarely involved in the establishment of policy like Fed heavyweights Ben Bernanke (#3), Alan Blinder (#5), Alan Greenspan (#29), or Frederick Mishkin (#36). Instead, Bullard's task is typically more pedestrian. He is routinely featured on talk shows to explain what the Fed is doing now and what it might be doing in the future. In this regard, Bullard is assisted mightily by the equally large legion of Fed shills and media lackeys – see Steve Liesman (#33) and Martin Wolf (#50). Bullard is so sufficiently unfamiliar with the real corridors of power that he occasionally goes off-script and commits the mortal Washington D.C. sin of telling the truth. In September 2013 Bullard stated, *"The bubbles we had in the past were gigantic and obvious."*[18] Less than 2-months later, Bullard stated *the "tech bubble was blindingly obvious. And the housing bubble also (was) blindingly obvious."*[19]

While these statements are hardly earthshattering and completely consistent with easily verifiable statistics of the respective tech stock and housing bubble eras,[20] the statements were in complete contradiction to Alan Greenspan's policy on financial bubbles – a policy that Ben Bernanke subsequently endorsed.[21] Here is Alan Greenspan in August 2002 at the Federal Reserve's annual boondoggle in Jackson Hole, Wyoming;

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> *"We at the Federal Reserve considered a number of issues related to asset bubbles - that is, surges in prices of assets to unsustainable levels. As events evolved, we recognized that, despite our suspicions, it was very difficult to definitively identify a bubble until after the fact - that is, when it's bursting confirmed its existence."*[22]

Greenspan and Bernanke are using the same excuse for not taking action against the tech stock bubble; bubbles can't be seen until they burst. However, Bullard – a president of a Federal Reserve Bank no less, is saying the tech stock and housing bubbles were *"gigantic and obvious"* and *"blindingly obvious."* The contradiction between Greenspan/Bernanke and Bullard regarding bubbles is itself blindingly obvious and proves the Federal Reserve is either staffed by;

a) dolts, who are unable to observe the formation of two of the largest bubbles in history
b) liars, who will say anything to avoid accepting responsibility for the inevitable errors that will occur whenever power as awesome as the Fed holds is wielded by a mere handful of people

Whether the Fed is comprised of dolts or liars, the contradiction exposed by Bullard and the Fed's obvious bubble befuddlement *"isn't a great advertisement for monetary dictatorship*."[23]

Additional Information:
For more examples of the idiocy that runs rampant at both the Federal Reserve and the highest levels of the economic profession see Ben Bernanke (#3), Alan Blinder (#5), Alan Greenspan (#29), and Frederick Mishkin (#36). Bernanke, Blinder and Mishkin all have PhDs in economics from MIT. Greenspan's PhD in economics is from NYU.

9. Joseph Cassano; (BA Brooklyn College)

Joseph Cassano spent his entire career on Wall Street and worked with Drexel Burnham in the 1980s. In the same way that Drexel would collapse in spectacular fashion, so would another firm Cassano worked for, AIG. Unlike the collapse of Drexel – which Cassano had no role in – Cassano would labor long and hard to bring down AIG.

Cassano was the head of AIG's Financial Products (FP) division headquartered in London. It was AIG FP that ran all of AIG's trades in mortgage credit default swaps (CDS) or "insurance" on mortgage bonds. See Gary Gorton (#27) for more information on how AIG provided "insurance" to mortgage bonds investors through highly leveraged financial derivatives. Some idea of the enormous leverage in the trades made by AIG FP can be gleaned by this sobering fact; AIG FP never employed more than a few hundred people in London and this mere handful of educated fools was able to run up at least $60-billion in losses!

Cassano and AIG FP had several opportunities to get themselves out of the trade in mortgage bond insurance. In late 2005, Greg Lippmann of Deutsche Bank flew to London to meet with AIG FP and tried to convince AIG to stop selling insurance via credit default swaps.[24] (This was

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not altruism on Lippmann's part; if AIG FP stopped selling the insurance, then Lippmann had a trade that would increase in value.) A few months later, in early 2006, an AIG employee named Gene Park actually convinced Cassano to stop issuing new mortgage bond insurance policies. However, Cassano did not make any attempt to reduce AIGs exposure to the bonds they were already insuring.[25] The most likely reason Cassano didn't reduce AIG's enormous exposure to mortgage bond risk was the enormous confidence Cassano had in models developed by Gorton, a Wharton finance professor. The misplaced confidence in Gorton's models would cause tens of billions of dollars in losses and AIG's bankruptcy.

Additional Information:
See Tim Geithner (#24) for more information on the losses incurred by AIG FP in its mortgage trades. See Gary Gorton (#27) for the tremendous amount of confidence AIG management had in Gorton's models. See Martin Sullivan (#44) for more information on AIG's leadership.

10. James "Jimmy" Cayne; (did not graduate college)
Jimmy Cayne's route to the pinnacle of Wall Street power is in stark contrast to the one taken by so many today along the cookie-cutter pipeline of Ivy League graduates. Cayne never graduated college and got his start on Wall Street because he was such an outstanding bridge player. Regardless of how it started, Cayne found great success on Wall Street. He was named CEO of Bear Stearns in 1993 and Chairman of the Board in 2001. Prior to the financial crisis, Cayne was most known for his obstinate refusal to take part in the September 1998 bailout of the LTCM hedge fund. Just prior to a meeting of all the assembled power brokers of Wall Street, Cayne cautioned a member of the NY Fed, *"Don't go alphabetically if you want this thing to work."*[26]

Not unlike Martin Sullivan (#44) at AIG, Cayne appeared to become increasingly disengaged with Bear Stearns throughout the early 2000s. Sullivan's disengagement at AIG appeared to be a result of his personality as well as his inexperience with the increasingly complex trades AIG was taking part in. According to Ben Bernanke, Cayne's absence from the office is more in line with what most people have come to expect from Wall Street financiers; Cayne was often away from the office playing golf or bridge.[27] Cayne's truancy notwithstanding, at the time of the financial crisis, Cayne's stake in Bear Stearns was worth close to $1-billion.

The same iconoclastic spirt that Bear had exhibited when refusing to participate in the Wall Street bailout of LTCM fueled its trade in mortgages. Bear was among the biggest and most aggressive investors in mortgages and mortgage bond insurance. Bear was convinced there was little chance of the housing market suffering any sort of decline. As a result, Bear was equally convinced that any premium payment they received from a mortgage bond "insurance" policy was essentially "free money." Some evidence of Bear's zeal for mortgages is provided by the fact that as late as April 2007 – when the mortgage market was showing clear signs of distress - Bear Stearns attempted to purchase mortgage bond insurance positions of Morgan Stanley. A

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Morgan Stanley executive, Zoe Cruz (#15) refused to sell and this decision cost Morgan several billion dollars. Bear's saving grace on this trade notwithstanding, Bear's mortgage trades doomed the firm. In May 1998 Bear was absorbed into JP Morgan for a mere pittance.

Additional Information:
See Jon Corzine (#13) for more information on the LTCM crisis and bailout. See Zoe Cruz (#15) for more information on the proposed April 2007 trade between Bear Stearns and Morgan Stanley. See Gary Gorton (#27) for more information on the trade in mortgage bond "insurance." See Alan Greenspan (#29) for information on the disastrous actions of the Federal Reserve in the aftermath of LTCM's collapse.

11. Henry Cisneros: (B.A. Texas A&M; Masters of Public Administration- Harvard)
Cisneros was President Clinton's (#12) first secretary of Housing and Urban Development (HUD). Cisneros would lay the fraudulent economic foundation that Andrew Cuomo (#16) would continue to build the Clinton administration's economic house of cards upon. Cisneros left no stone unturned to increase homeownership levels – lending standards be damned. Of Cisneros, President Clinton said of him and his role in advancing the strategy – read "central plan" - of increasing homeownership, "*And I cannot say enough in terms of my appreciation to Secretary Cisneros, who is a genuine visionary… Since the day I asked Secretary Cisneros to build this strategy, he has done about everything a human being could do.* [28]

In January 1994, Cisneros chaired President Clinton's Fair Housing Council in the hopes of developing strategies to *"affirmatively further fair housing."* [29] In September 1994, Cisneros negotiated "best practices" agreements with members of the Mortgage Bankers Association of America. These "agreements" required mortgage banks to adopt many of the same liberal lending practices HUD required of the GSEs – Fannie Mae and Freddie Mac. The first private mortgage bank to sign up to abide by these best practices was the bank that would come to symbolize the considerable excesses of the mortgage market – Countrywide.[30] (Cisneros would later sit on Countrywide's board of directors along with Kathleen Brown (#7) and a former governor of the Federal Reserve, Lyle Gramley.)

Cisneros' work enumerated above notwithstanding, the most critical role played by Cisneros in advancing President Clinton's plan to increase homeownership – and thus lead to an enormous financial crisis - was his fatal meddling with the lending practices of the GSEs, Fannie Mae and Freddie Mac. In 1993 – and before President Clinton's central plan for housing got off the ground – only 34% of Fannie's mortgages went to low and moderate income borrowers, while the percentage for Freddie was approximately 30%.[31] As HUD secretary, Cisneros would direct the GSEs to increase the percentage of mortgages going to low and moderate income borrowers to 42% by 1999.[32] In October 2000, Andrew Cuomo would pick up the central planning baton

from Cisneros and direct the GSEs to have fully 50% of their mortgages go to low and moderate income borrowers. In doing so, Cuomo would seal the fate of the U.S. economy.

Cisneros' career after he left HUD provides some of the best evidence of the economic foolishness of the Clinton administration's plan to increase homeownership levels to all-time highs. In fact, a review of Henry Cisneros' career as a private citizen will eliminate any doubts any person could possibly have concerning the Clinton administration's enormous role in causing the financial crisis. As mentioned above, Cisneros served on Countrywide's board, and in January 2005 was asked to spearhead Countrywide's goal of lending $1-trillion to low-income borrowers.[33] Of course this entire effort of Cisneros and Countrywide's was an unmitigated disaster encompassing tens of billions of dollars in mortgages going bad. Even more telling of the insanity latent in President Clinton's central plan for housing is Cisneros' role as a housing developer. Cisneros' signature housing development, "Lago Vista," in his hometown of San Antonio, TX was such a debacle that even the *New York Times* was forced to judge it as a collection of *"flawed American dreams."*[34] One house in the development had seen so many defaults and divorces that it earned the moniker the "house of broken love." The foreclosures in Lago Vista were merely the millions of foreclosures in the United States in microcosm.

Additional Information:
See Kit Bond (#6) for background into the affordable housing mandate. See Bill Clinton (#12) for the "strategy" – read "central plan" - to increase homeownership levels to all-time highs. See Andrew Cuomo (#16) for his disastrous decision to increase the GSE's affordable housing mandate to 50%. See Jamie Gorelick (#26) and Franklin Raines (#40) for the role of the GSEs in causing the financial crisis. For the most zealous congressional supporters and defenders of the GSEs see Barney Frank (#21) Gregory Meeks (#35) and Maxine Waters (#47).

12. Bill Clinton; (Bachelors – Georgetown; Law Degree – Yale)
The economy and high finance are not nearly as complicated as MIT PhD economists routinely make them out to be. To be sure, neither can be captured in the ridiculous equations these educated fools have come up with. The first British economist to win the Nobel Prize, Sir John Hicks famously defined *"really catastrophic depressions,"* not with complicated equations but with common sense insight. Hicks defined depressions as those occasions where *"the rot in the financial system goes very deep."*[35] Rot in a financial sense simply means bad loans. There was nothing fiendishly complex about the financial crisis. The financial crisis was the inevitable consequence of so many housing related loans – and Wall Street "side bets" on these loans – going bad.

The Clinton administration is *singularly responsible* for creating the environment where enormous volumes of bad loans were essentially *required* to be made. Despite the enormous damage it caused, the genesis of the financial crisis is completely straightforward to understand;

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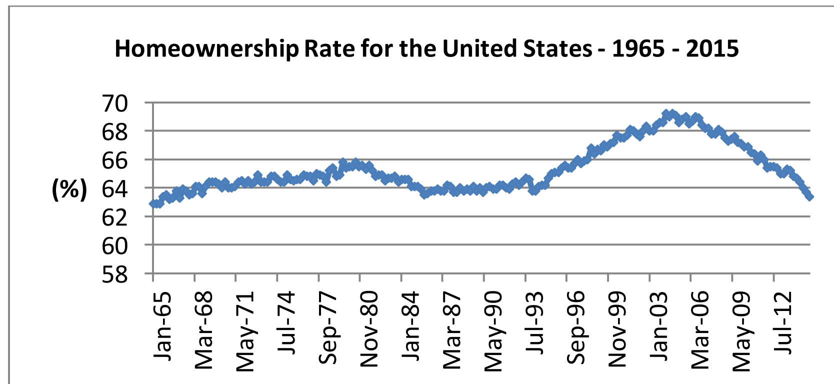
- The Clinton Administration created a gigantic engine of economic destruction through its establishment of a 67.5% homeownership goal for the country.
- The Federal Reserve - through its unprecedentedly radical interest rate policies and years of backstopping Wall Street - poured nitromethane into this engine.
- Wall Street banks - largely by ignoring both their fiduciary responsibilities and simple human decency – pawned off all sorts of complicated, toxic mortgage debt instruments on an unsuspecting public and each other, and turned the ignition key to this engine.

As with both Ben Bernanke (#3) and Alan Greenspan (#29), the contributions of the Clinton Administration to the housing bubble are enormous and difficult to distill into any sort of summary. Fortunately, the always garrulous Bill Clinton provided plenty of speeches throughout the 1990s where he bragged about the accomplishments of his housing program and all the great things it would bring in the future. Here is Bill Clinton in June 1995 describing what his housing strategy was and what little it would take from taxpayers to achieve the objectives of this strategy.

> *"The goal of this strategy, to boost homeownership to 67.5% by the year 2000, would take us to an all-time high, helping as many as 8-million American families cross that threshold…I want to say this one more time, and I want to thank again all the people here from the private sector who have worked with Secretary Cisneros on this: Our home ownership strategy will not cost the taxpayers one extra cent. It will not require legislation. It will not add more Federal programs or grow Federal bureaucracy. It's one-hundred specific actions that address the practical needs of people…."*[36]

The "one-hundred specific actions" Clinton came up with to increase homeownership levels to 67.5% now read like step-by-step instructions on how to destroy the US economy. I recognize that President Clinton has a Yale law degree, but how he was so smart to come up with a national housing goal – *to three significant digits no less* – when this goal greatly exceeded any homeownership level in the past is anyone's guess. For some idea of just how unprecedented a 67.5% homeownership rate was, see the chart below, data from the St. Louis Fed;



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The simple – if unpleasant - fact to President Clinton's legion of admirers is he created a central plan for housing. A national goal for homeownership, particularly one that would take it well beyond the levels seen at any time in the country's history, is no different than some communist party official from the 1980s deciding fertilizer production targets for Cherkassy and pig iron production goals for Kharkov. A variety of circumstances will affect an individual family's desire to purchase a home. These circumstances can ebb and flow, and *in isolation* one homeownership level shouldn't be considered better than another. More significantly for the development of the housing crisis, no individual is capable of ever discerning what the ideal homeownership level of the country should be.

However, Bill Clinton wanted to be president since he was a teenager. With this psychological background, once elected president, whatever Bill Clinton ever had in terms of modesty and humility were long since gone from his mindset. In the Greek tragedies of antiquity, it was always pride that was the tragic hero's ultimate undoing. Many theologians, including St. Augustine, contend that the sin of pride is the cardinal sin because it is the sin from which all other sins flow. More recently, another theologian, Søren Kierkegaard, expanded on the devastating consequences of pride, *"The proud person always wants to do the right thing, the great thing. But because he wants to do it in his own strength, he is fighting not with man, but with God."*

It is this completely false sense of hubris and pride that plays an enormous role in the constantly recurring and disastrous attempts of Western elites everywhere to centrally plan, manage and control things completely incapable of their central control. (Under communism, the desire to centrally plan was rooted in the more primal instinct of the naked quest for power, not pride.) Nowhere is the Western political elites' cardinal sin of pride more evident than in the central plan Bill Clinton pursued for housing. Bill Clinton thought he could bend the housing market to his will. He was wrong and tens of millions of people suffered the economic consequences.

From time to time, apologists for the Clinton administration are forced to defend Bill Clinton and advance the argument that Bill Clinton's central plan for *housing* didn't have anything to do with the crash of the *housing* market. Of course, any such argument is patent nonsense. That said – and in spite of the epic economic ignorance of President Clinton along with his two HUD secretaries, Henry Cisneros (#11) and Andrew Cuomo (#16) – it is only fair to point out the Clinton administration was not solely responsible for the housing crash and financial crisis. Wall Street, the Federal Reserve, Ivy League economic departments and elite universities generally all played enormous roles in allowing the economic cancer latent in Bill Clinton's central plan for housing to metastasize and spread to the country's economic heart and lungs.

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See Henry Cisneros (#11) and Andrew Cuomo (#16) for the rubber of President Clinton's central plan for housing hitting the proverbial road. See Shaun Donovan (#18) for more information on the pathetic and weak arguments advanced to defend Bill Clinton from well-deserved blame for the financial crisis. For all the congressional support provided to President Clinton's housing central plan see Kit Bond (#6), Barney Frank (#21), Gregory Meeks (#35) and Maxine Waters (#47). See Lawrence Summers (#45) for the critical role "side bets" - in the form of financial derivatives – on the mortgage market played in the financial crisis.

13. Jon Corzine; (Bachelors – University of Illinois; MBA University of Chicago)
Perhaps like no other person on this list, save another Goldman Sachs CEO, Robert Rubin (#41), Jon Corzine exemplifies the incestuous coven that exists between the country's political and financial elites. Before briefly discussing the larger issue of Corzine's personification of the corrupt bargain that governs today's elites, Corzine's actions as Goldman CEO also provide a template for Goldman's business practices for the next twenty years and counting.

In September 1998, the high-flying hedge fund, Long Term Capital Management (LTCM), was in dire straits. After a few years of huge success, the fund was now hemorrhaging money. Because of its previous successes, Goldman – along with another Wall Street insider and one of the country's leading crony capitalists, Warren Buffet – were considering buying LTCM. At the same time, the Federal Reserve Bank of New York was attempting to organize a bailout of LTCM. As part of the bailout it was trying to organize, the NY Fed convinced LTCM to open its trading book for review. In this way, prospective buyers would know what was under the proverbial trading hood. Evidence seems to indicate that of all the Wall Street firms that were given access to this most proprietary information, only Goldman took advantage of it to trade against LTCM!

By mid-September, Goldman had an entire team in LTCM's Greenwich, CT office that was tasked with finding everything it could about LTCM's trades. This team was led by a Goldman employee named Jacob Goldfield, who would later work for George Soros. Within a week of Goldfield's team setting up shop in LTCM's office, it seems likely that Goldman used its newly acquired knowledge of LTCM's trading positions to begin trading against these positions. A Salomon Smith Barney executive heard from his traders in Japan that Goldman was *"banging the sh*t"* out of LTCM trades and causing LTCM enormous trading losses (and trading profits for Goldman). What is known and is a verified fact is that on September 21, 1998 LTCM lost $533-million. This was more than it had lost the previous month and was one-third of what remained of the company's investment capital.[37] Goldman Sachs apologists would have us believe that it was a mere coincidence that just a few days after Goldman had access to LTCM's trading positions, LTCM would lose more in one day of trading than it had in the previous month. Regardless of whether Goldman's dirty deeds can ever be proven or not, September 21, 1998 sealed the fate of LTCM.

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LTCM was overleveraged and bleeding money. More importantly, in an industry where personal grudges fester for years on end,[38] during its go-go years the firm had done little to win friends. The MIT PhDs running LTCM were not bashful about letting the rest of Wall Street know how much smarter they were than everyone else. As a result, if Goldman hadn't been the first jackal to attempt to steal off with a piece of LTCM's financial carcass, some other Wall Street firm most likely would have. However, none of this explains Goldman's double dealings with the rest of the large Wall Street banks.

As previously mentioned, the NY Fed was trying to organize an industry bailout of LTCM. The NY Fed was asking for contributions of approximately $300-million per Wall Street bank. With so many competitors now being asked to work together, the negotiations – which were conducted over just a few days - were fraught with enormous risk and mutual distrust. Of course, there was a considerable amount of distrust because of the widespread belief that Goldman was continuing to profit from its detailed knowledge of LTCM's trades by trading against LTCM. Sandy Weil (#48) was reported to be "seething" with anger because he believed Goldman continued to do this even as the negotiations were on-going.[39] However, what produced the greatest amount of distrust was Goldman's eleventh hour revelation that not only was it negotiating with the rest of Wall Street on an industry bailout, but Goldman and Warren Buffet were also considering purchasing LTCM outright! The assembled Wall Street CEOs were dumbstruck. David Solo of UBS spoke for many of those assembled when he angrily asked, *"I thought we were all in this together."*[40]

Goldman's attempt to purchase LTCM didn't go anywhere and eventually Goldman did participate in the September 23, 1998 bailout. (Bear Stearns, led by its CEO Jimmy Cayne (#10), was the only Wall Street firm not to participate in the bailout.) In 1999, Corzine lost a power struggle with Henry Paulson (#38) over the control of the firm. Because of the individuals, involved, the power struggle could not have featured soaring intellects or profound ideas. Paulson was likely upset that Corzine agreed to participate in the LTCM bailout. In 2000 – and after spending tens of millions of his own money – Corzine was elected to the US senate from New Jersey. Before even finishing his term, Corzine decided to run for governor in 2005 and was successful. However, he only served one term and lost his bid for re-election in 2009.

Away from Goldman Sachs and the constant succor and support provided to Wall Street by the Fed, Corzine's true colors could come out at another financial services firm, MF Global. Corzine was named CEO of MF Global, in March 2010 and by October 2011 the firm was in the process of collapsing into one of the ten largest bankruptcies in US history. There were allegations that Corzine ordered customer funds to be used to meet the margin calls resulting from the firm's enormous trading losses. The Commodities Futures Trading Commission (CFTC) recommended to President Obama's Department of Justice (DOJ) that Corzine be

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prosecuted. Of course, after being a power broker in the Democrat party - in addition to being a governor and US senator, Corzine chaired the Democratic Senatorial Campaign Committee – Corzine was never prosecuted. In the same way that Franklin Raines (#40) was spared prosecution for his activities as Fannie Mae CEO because of his friends in high political places, Corzine was also spared prosecution. Eric Holder's DOJ rejected the CFTC's recommendation to prosecute Corzine. However, Corzine was given a lifetime ban by the CFTC. Corzine still appears on CNBC.

Additional Information:
Every Goldman Sachs CEO since 1990 merits a place on this list. For the others see Lloyd Blankfein (#4), Steve Friedman (#22), Henry Paulson (#38) and Robert Rubin (#41). See Alan Greenspan (#29) for his disastrous reaction to LTCM's collapse.

14. Jim Cramer; (B.A. – Harvard; Law Degree – Harvard)
As part of their book, The Communist Manifesto, Karl Marx and Freidrich Engels implored the "workers of the word to unite." Of communism, the great Wilhelm Röpke presciently predicted in the 1950s – when communism was still in its ascendency - *"…so we have gained this supreme certainty: whatever disasters Communism may still inflict on the word, not least because of our own weakness, it will go the way of all godless effrontery. It will tremble before the rebellion of those who fight for freedom and human dignity…"*[41]

Communism's inherent conflict with human dignity made Röpke confident of its ultimate demise. However, it is not as easy to be as optimistic about the collapse of another economic system that shares communisms deep conflict with human dignity – the central bank subsidized corporate cronyism that dominates the world today. For anyone who seriously doubts the stranglehold this type of cronyism has on the United States and its economy, let Jim Cramer disabuse you of this naiveté. Here is Cramer's "crony capitalists of the world unite" speech from August 2007. In this speech Cramer castigates Ben Bernanke for not providing the overleveraged gamblers at Bear Stearns and elsewhere a financial pacifier to suck on;

> *"This is about Bernanke. This is about Bernanke. He has to be on that* (Bear Stearns) *call. Forget the investors. The investors are going to…Bernanke needs to open the discount window. That is how bad things are out there. Bernanke needs to focus on this. Alan Greenspan told everyone to take a teaser rate and then raised the rate seventeen times. And Bernanke is being an academic. It is not time to be an academic. It is time to get on the Bear Stearns call. Listen. Open the darn Fed window! He has no idea how bad it is out there! He has no idea! He has no idea (screaming)!"*

Cramer was then out of breath – and the United States was able to enjoy a precious few seconds of peace and quiet free of his rants and ravings. However, after CNBC's Erin Burnett,

resplendent in some sort of leopard skin top, futilely tried to interject Cramer regained his bearings and his steam.

> *"I have talked to the heads of almost every single one of these firms in the last 72-hours and he has no idea what it is like out there. None (screaming)! And Bill Poole has no idea what it is like out there. My people have been in the game for 25-years and they are losing their jobs and these firms are gonna' go out of business, and he is nuts! They are nuts (slapping table)! Nuts! They know nothing (red-faced screaming)! I have not seen it like this since I went 5-bid for a half-a-million shares of Citigroup but I got hit in 1990. This is a different kind of market! And the Fed is asleep (spitting on the 'p')! Bill Poole is a shame! He is shameful!"*[42]

Over the years all sorts of industrial companies went bankrupt or suffered massive losses – including former blue chips like Bethlehem Steel – and industrial behemoths like International Harvester respectively. Some idea of the scale of the operations of just these two companies can be obtained by recognizing that at one time – 1960 – both companies employed over 100,000 workers. In 1960 Bethlehem Steel was the ninth largest employer in the US and International Harvester was the fifteenth largest.[43] The failure of Bethlehem Steel and the massive job losses suffered by International Harvester were attributed to their inability to compete and adapt to the competitive landscape. When these companies failed, there were no calls for the Fed to make whole the many mistakes these companies, their management and workers had made over the years – nor should there have been.

Jim Cramer has two degrees from Harvard – neither of which would appear to have anything to do with even the most basic aspects of real economics. According to Cramer's crony capitalist version of economics, banks like Bear Stearns should enjoy the unique privilege of constant and ready access to cheap money from a central bank – regardless of how grotesquely stupid and overleveraged their positions are. Some evidence of the abject stupidity of Bear Stearns circa August 2007 can be gleaned by recognizing that in April 2007 – when the housing crisis was already increasing in intensity - Bear Stearns tried to purchase mortgage credit default swaps from Morgan Stanley. These credit default swaps would ultimately cost Morgan Stanley *billions* in losses. In other words, Bear Stearns wanted to pay Morgan Stanley tens of millions of dollars for "assets" that would give Bear Stearns the unique privilege of losing billions. (Fortunately for Bear Stearns, Zoe Cruz (#15), an executive with Morgan Stanley – who, like Jim Cramer, has two Harvard degrees of her own - refused to sell.) In a mortgage market full of morons, Bear Stearns was basically the dumbest – and Jim Cramer wanted the Fed to come to their rescue.

According to the crony capitalism of Jim Cramer – which amounts to little more than the Fed subsidizing the largest Wall Street banks - when times are good, profits should be handed out to the courageous lion hunters on Wall Street in the form of tens of billions of dollars in annual bonus payments Wall Street is famous for. However, when times get tough, and as soon as

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banks are threatened with losses or bankers with the unemployment line, *"the darn Fed window"* should be hurled open. The US economy can withstand – and has withstood - huge companies employing tens of thousands of people in real wealth producing activities going bankrupt. However, the prospect of some 27-year old Wall Street investment banker who contributes *nothing* to the production of real wealth in the United States having to sell his or her Ferrari, yacht or - worst of all – give up their year-end bonus is too much stress for the American economy to take. It is a version of economics that is every bit as inimical to simple human decency as communism ever was.

Additional Information:
See Zoe Cruz (#15) for more information on Bear Stearns' unsuccessfully attempt to take on even more mortgage risk. See Steve Liesman (#33) for more information on the critical role CNBC played in the emergence of both the tech and housing bubbles as propagandist and stooge for the Federal Reserve.

15. Zoe Cruz; (Bachelor's Harvard; MBA Harvard)
Zoe Cruz started with Morgan Stanley in 1982 and was often profiled as one of the few female leaders on Wall Street. (She is one of only four women on this list. The other three – Kathleen Brown (#7), Jamie Gorelick (#26) and Maxine Waters (#47) – are all no-talent political hacks with no real, purely business connection to Wall Street or even private industry.) Zoe Cruz eventually became president of Morgan Stanley and was even listed as one of the most powerful women in the world by Forbes magazine; pretty heady stuff for a literature major.[44]

In April 2007, Morgan Stanley was insuring several billion dollars of mortgage bonds against losses. At this time, the ticking time bomb nature of many mortgage bond related securities was becoming increasingly clear on Wall Street. Most tellingly, on April 2, 2007, New Century Financial, the second biggest sub-prime lender went bankrupt. However, among the last firms to understand the enormous increase in the risks of mortgage bond investments was Bear Stearns. Bear Stearns actually approached Morgan Stanley and offered to purchase several billion dollars of mortgage bond insurance policies issued by Morgan Stanley. (If Bear purchased these policies, the premium payments would go to Bear, but Bear would be responsible for the losses on the mortgage bonds.) In essence, Bear Stearns was attempting to double down on a bet that was already starting to show signs that it was a losing bet.

Because of the billions of dollars at stake, Zoe Cruz, then president of Morgan Stanley, was consulted. She decided not to sell to Bear Stearns and to keep billions of exposure to sub-prime mortgages with Morgan Stanley. The decision to not to sell the "insurance policies" to Bear Stearns will cost Morgan Stanley about $6-billion.[45]

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See Lloyd Blankfein (#4) for Goldman using mortgage credit default swaps to bilk some clients out of money while advancing the interests of another client. See Jimmy Cayne (#10) for more information on Bear Stearns. See Gary Gorton (#27) for more information on the trade in mortgage credit default swaps or mortgage bond "insurance."

16. Andrew Cuomo (B.A. Fordham; Law Degree - Albany Law School)
In the typical "James Bond" movie, the villain's attempt to start some doomsday machine is always thwarted – just in the nick of time – by James Bond. Unfortunately life doesn't always imitate art. In the example provided by the housing bubble and ensuing financial crisis, no one was able to prevent Andrew Cuomo – aka Dr. No(-Talent Ass-Clown) - from pressing the US economy's self-destruct button. The self-destruct button at issue here was Cuomo's decision to increase the GSE's affordable housing mandate from the already risky 42% established by Secretary Cisneros to the completely irresponsible level of 50%. Here is Secretary Cuomo at his central planning best boating about increasing the affordable housing mandate to 50%;

> *"Even with a record high homeownership rate of 67.7 percent, there is still much more to be done. These new regulations will greatly enhance access to affordable housing for minorities, urban residents, new immigrants and others left behind, giving millions of families the opportunity to buy homes or to move into apartments with rents that they can afford. We acknowledge and appreciate that Fannie Mae and Freddie Mac have accepted this challenge."* [46]

As far as having the GSE's issue 50% of their mortgages to low and moderate income borrowers, "challenge" was an optimistic choice of words. Perhaps "recklessly foolish undertaking" might have been more realistic. According to Franklin Raines (#40), the 50% affordable housing mandate goal would require the GSEs to greatly increase their presence in the sub-prime market. As indicated above, when Cuomo increased the GSE's affordable housing mandate to 50%, President Clinton's "goal" of 67.5% homeownership had already been achieved! This isn't to say that President Clinton's homeownership goal wasn't fraught with enormous economic risk – it was. However, if Cuomo had simply been willing to rest on the Clinton administration's temporary and completely illusory housing laurels, the resulting housing bubble would have certainly been much smaller than it actually was. However, as a professional politician and megalomaniac – Andrew Cuomo is completely incapable of either restraint or humility. As further evidence of his total lack of restraint and humility, as attorney general for New York, Cuomo would sue many of the banks he had worked hand-in-hand with as housing secretary.

Additional Information:
See Kit Bond (#6) for background into the affordable housing mandate. See Henry Cisneros (#11) for more details on the affordable housing mandate. See Bill Clinton (#12) for the "strategy" – read "central plan" - to increase homeownership levels to all-time highs. See Jamie Gorelick (#26) and Franklin Raines (#40) for the role of the GSEs in causing the financial crisis.

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For the most zealous congressional supporters and defenders of the GSEs and the affordable housing mandate, see Barney Frank (#21), Gregory Meeks (#35) and Maxine Waters (#47).

17. William Donaldson; (Bachelor Degree – Yale; MBA – Harvard)
Donaldson is little known to most people but he played an enormous role in the financial crisis. That said, like most of the other, better known, prime movers of the financial crisis, Donaldson was never taken to task over his role in the crisis. As chair of the Securities and Exchange Commission, he authorized enormous changes to the "net capital rule." The net capital rule was created in 1975. It forced firms to value their "net assets" on the basis of current market prices and the potential of having to sell assets in an emergency. The net capital rule also made distinctions between different types of assets to account for risk. For example Treasury bonds – which are subject to interest rate risk – might have their "net asset" value reduced by only 5%. On the other hand, stocks - which are generally considered riskier than government bonds - might have their net asset value reduced by 15%. Finally the net capital rule limited a firm's debt to net capital ratio to 12:1. The goal of the net capital rule was to ensure that securities firms always had enough liquid assets – i.e. assets that could be sold quickly if need be without having to be sold at fire sale prices - to remain solvent.

The net capital rule had been a bone of contention between the SEC and the Wall Street banks from the beginning. Wall Street disliked the rule because it limited the leverage banks could use and this cut into their potential for profits. As a result of the myopia fueled by decades of subsidy and succor provided by the Fed to Wall Street – which would eventually be given a name, "the Greenspan put" - Wall Street had long stopped associating increased leverage with increased risk. Henry Paulson, the then CEO of Goldman Sachs spoke for many on Wall Street when he testified to the SEC in 2000,

> *"In addition, we (Goldman Sachs) and other global firms have, for many years, urged the SEC to reform its net capital rule to allow for more efficient use of capital. This is the single most important factor in driving significant parts of our business offshore."*[47]

In 2004 and as a result of industry "urgings" from the likes of Henry Paulson and others, the net capital rule was changed. In its place, the SEC decided to allow the largest Wall Street firms, the broker-dealers, to use *"an alternative risk-based approach to satisfy the Commission's regulatory capital requirements, instead of using the current net capital rule."*[48] On a purely practical basis, the changes allowed much higher amounts of leverage. In fact, Merrill Lynch, Bear Stearns and Lehman Brothers were likely leveraged at least 30:1 just before they each went down in flames. The SEC's tolerance for much higher levels of leverage seemed to be based in large part on supposedly more accurate and more sophisticated computer models. The idea was these models would allow the broker-dealers to better measure and assess the risks they were running, and greater amounts of leverage could thus be used. As it turned out – and like the computer models Gary Gorton (#27) used to manage AIG's trade in mortgage bond insurance -

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the models the broker-dealers relied on to measure their risk were no more accurate than using a monkey to throw darts at a newspaper's business section to figure out what stocks to purchase.

Whatever the rationale behind them, the changes to the net capital rule and the attendant reliance on a "risk-based" approach was an unmitigated disaster. Of the five broker-dealers who qualified for the relaxed standards resulting from the changes to the net capital rule – Bear Stearns, Lehman Brothers, Goldman Sachs, Merrill Lynch and Morgan Stanley – only Goldman and Morgan Stanley would survive the financial crisis intact. In the immediate aftermath of Lehman's collapse a former SEC official, Lee Pickard, called the 2004 changes to the net capital rule, *"the primary reason for all of the losses (among broker-dealers) that have occurred."*[49]

Additional Information:
See Gary Gorton (#27) for his equally disastrous attempt at modeling the risks AIG incurred with its trade in mortgage bond insurance. See Alan Greenspan (#29) for the Greenspan put. See Henry Paulson (#38) for additional examples of what "leadership" means on Wall Street.

18. Shaun Donovan; (Bachelors – Harvard; Masters – Harvard; Masters – Harvard)
Shaun Donovan was Barack Obama's first secretary of Housing and Urban Development, (HUD). Of course, two of his predecessors as HUD secretary under President Clinton - Henry Cisneros (#11) and Andrew Cuomo (#16) - played enormous roles in causing the financial crisis. Ironically – and symbolic of the revolving door nature of our political elites - Donovan was succeeded as HUD secretary by Julian Castro, the mayor of San Antonio, Texas; a position once held by the spectacularly inept Henry Cisneros.

As Barack Obama's first housing secretary and the first housing secretary of the post-Lehman Brothers financial crisis, Donovan was forced to answer questions concerning the crisis' origin. It is not unnatural to think that the media would be able to connect the dots - all one of them - between President Clinton's central plan for *housing* with the subsequent collapse of the *housing* market. While this never happened, Donovan was forced to occasionally weigh in on the role of the affordable housing mandates in the crisis. The affordable housing mandate gave HUD the power to require Fannie and Freddie to issue 42% of their mortgages to low and moderate income borrowers. Later, under Andrew Cuomo, HUD increased this requirement to 50% and thus sealed the fate of the US economy. Prior to the affordable mandate, only about 30-35% of Fannie/Freddie mortgages went to low and moderate income borrowers. When all the additional mortgages to low and moderate income borrowers went bad, the loan losses incurred by Fannie and Freddie were in the *hundreds of billions!*

The obvious relationship between the huge increases in loan volume to low and moderate income borrowers driven by the affordable housing mandate and the subsequent financial crisis was not

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obvious to Shaun Donovan. Here is Donovan on the role the affordable housing mandate *didn't* play in the financial crisis;

> *"The vast majority of mistakes that were made – poor underwriting standards, underpriced risk and insufficient capital with inadequate regulatory or investor oversight – closely mirror those made in the private-label securities market where affordability goals were simply not a factor."*[50]

The "affordability goals" referred to here is simply HUD's affordable housing mandate. Unsurprisingly, an argument this economically inane was echoed by Paul Krugman of the New York Times and Princeton.[51] Essentially the defenders of the GSEs and the affordable housing mandate are claiming that the actions of the most dominant companies in a market, Fannie and Freddie in the mortgage market, can't affect the profitability or business practices of other companies in that same market. A review of the airline industry will show how baseless this argument is.

There is a saying in the airline industry attributed to Gordon Bethune, former chairman of Continental Airlines, now part of United. It states, *"You are only as smart as your dumbest competitor."* For discussion purposes assume you operate an airline and a competitor starts to offer flights between New York and Los Angeles for $75. The average airline passenger won't draw a major distinction between different carriers in terms of service. If one carrier is offering much lower fares between the same two destinations, then the average airline passenger will almost always fly on the airline offering the lower fares. With so much of your own costs tied up in crew salaries[52] and aircraft you will be forced to compete with these lower prices. Your cost structure may not allow you to meet your competitor's fares, but you will certainly have to significantly reduce your fares to compete. This dynamic explains the boom and bust profitability cycle that the airline industry is known for. The entrant of a single competitor dedicated to lowering prices to increase market share will change the business conditions for all the airlines it competes with. Consequently, for most airlines their most widely traveled route is the one in and out of bankruptcy court! There is a saying in the investment community that states, *"If the Wright brothers had any idea of how much money would be lost by airline companies, they never would have invented the airplane."*

The dynamics in the mortgage industry during the bubble years were no different than the theoretical discussion of the airline industry. The entire mortgage market was influenced by the affordable housing mandate. It is impossible to quarantine the disastrous influence of the affordable mandate between those institutions governed by the mandate, Fannie/Freddie, and those institutions that weren't. The argument made by the Paul Krugman's and Shaun Donovan's of the world that the incompetence of any one company in a market, much less the absolutely most dominant company in a market, can't ultimately impact the profitability of other companies in that market is absolutely ludicrous. Arguments like this – which are founded on the belief of a completely static business environment where companies act independently of one

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another - find particularly fertile ground in the minds of people with no real-world, practical business experience. It should be noted that in Paul Krugman's case the ignorance this lack of practical, real-world business experience – not counting his service to Enron as a consultant anyway – is exacerbated by the political prism through which he views everything.[53]

Additional Information:
See William Apgar (#1) for the scale of the losses incurred by Fannie/Freddie. See Kit Bond (#6) for more information on the affordable housing mandate. See Bill Clinton (#12) for more information on his central plan for housing. See Barney Frank (#21) for more information on how the nation's elites constantly leap to each other's defense regardless of the obvious nature of their myriad mistakes. See Paul Krugman (#31) for the enormous fallacy that lies at the root of his – and the economic establishment's – silly ideas.

19. William Dudley; (Bachelors - New College of Florida; PhD Economics – UC Berkeley)
Bill Dudley was chief economist for Goldman Sachs for the years 1997-2007. When his position as chief economist was winding down, other people within Goldman Sachs were creating mortgage bonds that were designed to fail. This would indicate that Dudley was either in on these scams or, in spite of being Goldman's chief economist, one of the last people at Goldman to realize how bad the housing market was. However, given all the other dirty dealing on Wall Street during the housing bubble era and all the ignorance exhibited by PhD economists since time began, the relative amounts of huckster and ignoramus that comprise Bill Dudley isn't critically important. In 2009 Dudley was selected to be president of the NY Fed, and this is where the story starts to get really interesting.

The Federal Reserve Bank of New York is, far and away, the most important of the twelve Federal Reserve banks in the Federal Reserve System. The NY Fed is responsible for monitoring and regulating what passes for "business" on Wall Street. The failure of Tim Geithner's (#24) NY Fed to meet this responsibility played a major role in the financial crisis. Because the NY Fed has such a key role in controlling the actions on Wall Street, it would make sense that the selection of the NY Fed president would be independent or somewhat removed from the influence of the Wall Street banks. While this would make sense, it is not what occurs. The selection committee that selected Goldman Sachs' Bill Dudley to be NY Fed President was chaired by – get this – Steve Friedman (#22) the former CEO of Goldman Sachs![54] What a joke! Does the Fed really expect people to believe this process is somehow above board?

The institutional cronyism between the Federal Reserve and the largest Wall Street banks that Dudley is an obvious product of is not even Dudley's largest contribution to the financial crisis. Instead – and exactly like Charles Evans (#20) – Dudley's largest role in bringing about the crisis is simple economic ignorance. It is this ignorance that perpetuates and provides the completely half-baked intellectual imprimatur for all the Federal Reserve's monetary madness.

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After the financial crisis and the Federal Reserve's policy of quantitative easing was correctly criticized for bailing out the people who caused the financial crisis, the Fed came up with the idea of what was essentially a goodwill tour. The idea was to have Fed officials explain what they were doing and why they were doing it. One of the first stops on this tour was a grocery store in Queens, NY. Bill Dudley was there to explain all the great things the Fed was doing. When shoppers angrily questioned Dudley about why they had to pay so much more money for food and gasoline Dudley answered, *"Today you can buy an I-Pad 2 that is twice as powerful as an I-Pad 1. You have to look at all prices."* To which one shopper, who has more economic knowledge than the former chief economist at Goldman Sachs, challenged Dudley and his economic ignorance with the retort, *"I can't eat an I-Pad!"*[55]

Needless to say, after confrontations such as this, the rest of the goodwill tour was cancelled. Because of all the fallacies that animate its actions, the Fed is institutionally incapable of providing answers that make sense to either the average person struggling to make economic ends meet, or to anyone who looks back with regret at what became of the country's industrial heartland. Rather than confronting the millions of working class people damaged by their policies and potentially obtaining a different –and better - vantage point from which to view the problems *they created*, the Fed cowardly retreated to its Wall Street and K-Street cocoons. Nowadays, if the Fed should need to get a particular viewpoint out, they won't send Bill Dudley to the grocery store. Instead, they will simply rely on one of their lackeys or stooges in the media.

Additional Information:
See Lloyd Blankfein (#4) for details on mortgage bonds that Goldman created to fail. See Steve Friedman (#22) for another example of the well-traveled path between the Goldman Sachs executive lounge and the Fed. See Tim Geithner (#24) for more details on the critical role the NY Fed is *supposed* to play in the nation's financial regulatory structure – but didn't play when Geithner was president of the NY Fed. See Steve Liesman (#33) and Martin Wolf (#50) for the Fed and central bank propaganda masquerading as independent journalism.

20. Charles Evans; (Bachelor's – Carnegie Mellon; PhD Economics – Virginia)
Evans was appointed president of the Federal Reserve Bank of Chicago in 2007 and has been dispensing bad advice ever since. Even among the Federal Reserve – which since 1971[56] has unleashed a devastating inflation on the United States - Evans is known as a monetary milquetoast or, more politely, an "inflation dove." His dovishness means he is willing to tolerate or at least run the risk of higher levels of inflation to ensure economic growth. Here is Evans in his own words discussing what he thinks the Fed should be willing to do to meet its "objective" for the economy; *"The surest and quickest way to get to the objective is to be willing to*

overshoot in manageable fashion. With regard to our inflation objective, we need to repeatedly state clearly that our 2 percent objective is not a ceiling for inflation."[57]

There are two enormous fallacies with this statement. The first – and the root of all the other enormous blunders perpetuated by the Federal Reserve – is that the Federal Reserve is in any position to set plans or objectives for the economy. This is central planning and the collapse of communism the world over should have convinced even the PhDs at the Fed that central planning doesn't work. (It would have been beneficial if the Clinton Administration had become aware of the folly of central planning as well. If they had, there never would have been a housing bubble.)

The second fallacy – and the focus here - is the supposed relationship the Fed believes to exist between growth and inflation. The Fed is fond of viewing the economy as an engine, and this economic engine is prone to overheating if it runs to fast. More specifically, the Fed – in spite of all sorts of examples to the contrary – believes that inflation is a natural consequence of economic growth, and as an economy grows faster it will generate more inflation. Of course, viewed as an inevitable consequence of growth, inflation wouldn't be all bad. Unfortunately for the hundreds of millions of people with no connection to the financial services industry, the Fed is completely mistaken about there being any sort of consistent relationship between growth and inflation. History proves this conclusively.

For example, during the Industrial Revolution the economy grew by leaps and bounds as prices fell. According to Jim Grant in the last three decades of the 19th century the U.S. economy "endured" falling prices of about 1% per year while the economy grew at almost 4% per year.[58] The second most important price in any modern economy, the price of electricity, fell for decades on end even as the use of electricity soared.[59] The census bureau reports that the price for a kilowatt-hour of electricity fell from 6.03-cents in 1930, to 3.01-cents in 1948 and just 2.12-cents in 1968.[60] Of course, today we have the example of all sorts of electronics and computer products, the prices of which plummet even as more and more people use them.

In sharp contrast to Evans' and the Fed's completely mistaken belief in inflation as some sort of inevitable consequence of economic growth, inflation is the worst type of economic cancer that can infect an economy and a society. Charles Holt-Carroll called inflation, *"the most effectual of inventions to fertilize the rich man's field with the sweat of the poor man's brow."* Evidence of Holt-Carroll's insight is provided by the enormous concentration of wealth that has become the focus of so much discussion lately. In typical mainstream media fashion, the concentration of wealth has been discussed in the context of political policies, when evidence clearly shows it has nothing to do with politics. The concentration of wealth has been going on since the early 1970s and continues through Republican and Democratic presidents and congresses.

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Instead of having anything to do with politics - the enormous concentration in wealth which Holt-Carroll cautioned against is a side-effect of all the inflation the Fed has created since 1971. Since 1971 and the closing of the gold window, there has been nothing to prevent the Fed from creating more and more money. After the gold window was closed, the Fed was free to embark on an unprecedented campaign of increasing the money supply – the very definition of inflation – and this is exactly what the Fed did. Proof of this is easily provided by the price of gold. Since 1971, the price of one-ounce of gold has risen from $35 to well over $1200 today. This enormous increase in the price of gold is not the result of gold undergoing some sort of magical transformation. Instead, the enormous increase in the dollar price of gold is merely the echo of a dollar today only being worth roughly 3% of what it was in 1971.

Not coincidentally and exactly as Holt-Carroll predicted, less than two years after the gold window was closed and the Fed embarked on its policy of inflation, income disparity began its inexorable march higher. In 1973 the share of national income earned by the richest 1% bottomed at 7.7%. The richest 1% now "earns" 19% of the nation's income and the percentage continues to increase.[61] Unsurprisingly and according to a study from the University of California at Berkley, the richest 1% of Americans now own 35% of the nation's wealth.[62] Charles Evans is an inflation apologist and without him and all the others like him, the Federal Reserve never would have been able to pour rocket fuel in the great engine of economic destruction created by the Clinton Administration. Without him and all the others like him, the Fed never would have been able to be the driving force behind the enormous concentration of wealth that has occurred in the United States since the early 1970s.

Additional Information:
See Ben Bernanke (#3) for another Federal Reserve official who doesn't have even the most basic understanding of inflation. See Bill Clinton (#12) for his central plan to increase homeownership. See William Dudley (#19) for more inflation propaganda.

21. Barney Frank; (Bachelor Degree – Harvard; Law Degree – Harvard)
Barney Frank is among the most critical figures in the genesis of the housing bubble and resulting financial crisis. Frank was a powerful member of congress and was chairman of the financial services committee for many years. Among the many responsibilities of this committee is oversight of the GSEs, Fannie and Freddie. Of course, Barney Frank was not alone in his dogged defense of Fannie and Freddie, the affordable housing mandate or President Clinton's (#12) central plan for housing. Indeed, several other political heavyweights – Kit Bond (#6), Gregory Meeks (#35) and Maxine Waters (#47) – all warrant places on this list for their roles in allowing the housing bubble to inflate long after alarm bells had started to sound.

However, none of these other political hacks was as adamant about the benefits of a housing market dominated by government, so late to realize there was a housing bubble and, finally, as

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reluctant to admit any culpability for the resulting crisis as Barney Frank was. Like these other rabid, power mad politicians posing as dedicated public servants soberly advancing some mutually beneficial societal objective, Frank focused much of his ire on the Office of Federal Housing Enterprise Oversite (OFHEO) and its director, Armando Falcon. On September 22, 2004 Falcon issued a damning report documenting enormous accounting shortcomings at Fannie Mae under the "leadership" of CEO Franklin Raines (#40). The report was several hundred pages long and full of accounting details. The report would take at least two full weeks of dedicated effort to fully digest and comprehend its many conclusions. Nevertheless, barely two weeks after the report was issued, Frank challenged Falcon during congressional hearings on the report's accuracy with the conclusion, "*I don't see anything in your report that raises safety or soundness concerns.*"

Later, in November 2004, realizing the hopelessness of attempting to defend Fannie by examining the accounting minutiae at the core of Falcon's report, Frank fell back on the standard Washington power broker's ultimate ace in the hole – character assassination. Frank – along with Kit Bond – argued that Falcon was completely unqualified and should be removed as director of OFHEO. Here is Frank in his own words,

> *"The senior management of OFHEO appears to have run roughshod over the judgment of professional staff and seriously compromised OFHEO's credibility as a financial regulator. . . . It is clear that a leadership change at OFHEO is overdue."* [63]

Just one month later, December 2004, Franklin Raines was forced to resign in disgrace from Fannie because of billions of bogus profits booked by Fannie. In just a few years both GSEs – Fannie and Freddie – would completely collapse and require hundreds of billions of dollars in capital injections and a complete government takeover. Frank's objection to both Falcon's report and Falcon himself notwithstanding, Falcon's report was confirmed in every important detail!

Frank wasn't just self-righteously sanctimonious when it came to the GSEs or defending its politically connected CEO. He was even more so when defending the rapidly inflating housing bubble. Here is Barney Frank in Congress on June 27, 2005 cavalierly dismissing any concern of a housing bubble.

> *"This is a very important resolution – particularly at this time – because we have, I think, an excessive degree of concern right now about home ownership and its role in the economy. Obviously speculation is never a good thing but those who argue that housing prices are now at the point of a bubble seem to be missing a very important point. Unlike previous examples we have had – when substantial excessive inflation of prices later caused some problems – we are talking here about an entity, home ownership, homes where there is not the degree of leverage we have seen elsewhere. This is the not dot-com situation. We had problems with people having invested in business plans for which there was no reality. People building fiber optic cable for which there was no need. Homes that are occupied may see an ebb and flow in prices,*

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> *the price at a certain percentage level, but you are not going to see the collapse that you see when people talk about a bubble. So those of us on our committee in particular will continue to push for home ownership."*

In terms of the homeownership that Barney Frank wanted to continue to push, the housing bubble peaked in April 2004. By June 2005 the housing bubble that Barney Frank had helped to create and the one he said *couldn't* exist, was already well on its way to bursting!

Enormous insight into Barney Frank's character is provided by reconciling his June 2005 speech with an appearance he made on CNBC on September 16, 2013 – the five-year anniversary of Lehman Brothers' failure. Rather than admitting to any mistakes or any culpability in the financial crisis which was still raging at the time, Frank stated on air,

> *"My prediction, even with Fannie, that we should be doing low income people, rent them housing and I have been a strong pusher for rental housing. In terms of home ownership, I have been skeptical…"*

As stated in the preface to this list of "elites in name only," the root cause of the financial crisis was a purely human factor; a completely unfounded belief among the academic, business and political elites of this country that they are, well, better than everyone else and immune from mistakes. No individual on this list exemplifies this completely defective mindset better than Barney Frank. The obvious conflict between his September 2013 statement to CNBC and his June 2005 speech in Congress proves it.

Furthermore, it is important to realize that this defective mindset – no matter how strong it may be in an individual – requires constant nurturing. In Frank's case this nurturing was doubtless greatly advanced by the seven years he spent at Harvard and the more than thirty years he spent in Congress. Of course, the mainstream media generally can be counted on to support almost any politician, like Barney Frank, dedicated to greatly advancing the size and scope of government. Similarly, the financial media – dominated by the likes of Steve Liesman (#33) and Martin Wolf (#50) – will always be equally determined to support politicians in favor of even more central planning of the economy. However, what elites like Barney Frank really feed off of is not the praises from their sycophants in the media, but the endorsements of other elites.

Henry Paulson (#38) and Ben Bernanke (#3) both go out of their way to praise Barney Frank in their crisis memoirs. Paulson's book is over 400-pages and Bernanke's is pushing 600-pages. In these collective 1000-pages they never criticize Barney Frank, even when he had an obvious role in the problems they do cite. For example, one of the few conclusions that Paulson gets right in his almost otherwise completely useless book, is emphasizing the enormous role Fannie and Freddie had in the crisis. "*Fannie and Freddie were the most egregious example of flawed policies that inflated the housing bubble and set off the financial crisis."*[64] However, Paulson claimed Barney Frank was *"scary smart."*[65] Barney Frank was a huge defender of Fannie and

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Freddie. If Fannie's and Freddie's problems were egregious, how could someone who is "scary smart" be completely ignorant of them?

Ben Bernanke displayed a similarly disgusting level of obsequiousness towards Barney Frank in his memoir – a memoir almost every bit as unenlightening as Paulson's by the way. In January 2008, the Fed had cut rates between regularly scheduled meetings.[66] Shortly after, a French financier, Jĕrŏme Kerviel, lost about $6-billion dollars while trading derivatives for Société Générale. (Not bad for a 32-hour work week!) The financial crisis that had been festering for years was now beginning to hatch from its housing bubble cocoon. During this crisis environment Frank had said something *that might* be interpreted as a slight rebuke of Bernanke's chairmanship of the Fed. Frank quickly dispatched a senior aide to the Fed to offer his apology and issued a public statement soon afterwards. Ben Bernanke warmly recalled in his memoir, *"His prompt apology was an extraordinary and rare act in Washington. I admired him for it."*[67] That is all very touching – perhaps Frank and Bernanke even exchanged Harvard ties or secret Harvard handshakes. However, perhaps if Barney Frank would be equally forthcoming with an apology to the hundreds of millions of Americans who suffered as a result of his enormous role in the financial crisis, then other people might also be able to share Ben Bernanke's fond feelings for Barney Frank.

Additional Information:
See Kit Bond (#6), Gregory Meeks (#35) and Maxine Waters (#47) for the enormous support the government sponsored enterprises (GSEs), Fannie and Freddie, enjoyed in congress. See Henry Cisneros (#11), Bill Clinton (#12) and Andrew Cuomo (#16) for more information on the affordable housing mandate and the Clinton administration's "central plan" for housing. See Jamie Gorelick (#26) and Franklin Raines (#40) for the politically connected incompetent hacks placed in charge of the world's largest mortgage bank, Fannie Mae. For another Harvard educated person who never learned to admit he was wrong, see Lawrence Summers (#45).

22. Steve Friedman; (Bachelor Degree – Cornell; Law Degree – Columbia)
After working for a few years as a lawyer, Friedman had a long career with Goldman Sachs - including several years as chairman. The incongruity of a lawyer like Friedman running an investment bank like Goldman Sachs is not the issue here. Instead, the issue is how someone with a law degree and experience as a securities lawyer could engage in the obvious conflict of interest that Friedman did. In November 2007, Friedman - while still chairman of the NY Fed's board of directors - apparently became aware of Tim Geithner's (#24) then secret decision to bailout all of AIG's derivative trading partners. This decision resulted in a $14-billion windfall for Goldman Sachs – exactly the sort of thing that would move Goldman's stock price when it became public information. In December, Steve Friedman purchased 37,300 shares of Goldman stock at a price of $80.78. In January 2009 he purchased another 15,300 shares at a cost of $66.61. In just a few months, these 50,000 shares of stock would yield approximately $3-million

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dollars in trading profits. By almost anyone's standard, these stock purchases and the enormous profits they produced were exclusively the result of inside information.

As a former CEO of Goldman Sachs and someone with decades of experience as a Wall Street lawyer, Steve Friedman had all the angles figured out. It was a foregone conclusion that, regardless of whatever he did Friedman, would always stay several steps ahead of the slow pace that justice travels up and down Wall Street. The lack of criminal proceedings against him notwithstanding, the example of Steve Friedman in late 2007 and early 2008 tells us much about how ethics in the traditional sense have no place whatsoever in what passes for "business as usual" on Wall Street. The fact that an experienced securities lawyer like Friedman would engage in these trades, and the failure of the Federal Reserve Bank of NY to do anything about them, is strong evidence that what transpires on Wall Street has almost nothing to do with free market capitalism or even simple, common decency. Instead, Friedman's actions, and their tacit approval by the Federal Reserve Bank of New York, have everything to with the system of crony capitalism or "crapitalism" that the unholy alliance of the financial services industry, politically connected insiders and the Federal Reserve have created in capitalism's place.

Some evidence of how pervasive and widespread this system of cronyism has become in the United States is provided by the positions Friedman held *outside of Wall Street*. Friedman was chair of the Columbia University board of trustees and currently sits on the Council of Foreign Relations. It is said that a country, just like a fish, rots from the head down. The example provided here by Steve Friedman as well as that of Robert Rubin (#41), another politically connected insider and former Goldman Sachs chairman, provides strong evidence of this maxim.

Additional Information:
See Thomas Baxter (#2) for fecklessness from the NY Fed and Tim Geithner (#24) for more information on the AIG bailout. Robert Rubin (#41) provides another example of a financier with a checkered ethical and business past who is still feted as a conquering hero.

23. Richard Fuld; (B.A. and B.S – University of Colorado; MBA – New York University)
Fuld was the CEO of Lehman Brothers when the firm collapsed in September 2008. In fact, Fuld had been CEO since 1994 and was the longest tenured Wall Street CEO at the time of the financial crisis. Because Lehman failed, Fuld has been excoriated for all sorts of inadequacies as a business manager. Of course, the simple – if unpleasant - truth of the matter is that Lehman Brothers wasn't managed much differently than any of the other large Wall Street firms. As some evidence of this, in September 2008 Tim Geithner was briefing Treasury department officials on Lehman Brothers. Bear Stearns had failed earlier in 2008 and by September Lehman was considered extremely vulnerable. During this briefing Geithner nonchalantly claimed that Lehman needs to secure *$230-billion* in "overnight" financing via repurchase agreements or "repos" to keep its business going.[68]

Granted, by 2008 Wall Street had been conditioned to believe in its version of the toothy fairy, namely the "Greenspan put." The Greenspan put fueled the Wall Street notion that no matter what happened, the Fed would always be there to pick up the pieces. That said, the madness associated with a bank – even an investment bank – needing hundreds of billions of dollars in "short term" overnight financing simply to keep its financial head above should be self-evidently idiotic. More importantly, it is a business model that is completely incongruent with anything remotely resembling banking or finance in a traditional sense. The fact that Wall Street regulators like Tim Geithner were completely unconcerned about the enormous amount of short-term borrowing by Wall Street firms shows that the idiocy that sunk Lehman Brothers was running rampant up and down Wall Street and the Federal Reserve. The mistakes made by Lehman Brothers and Richard Fuld were not unique.

Additional Information:
See Tim Geithner (#24) for more details on his enormous fecklessness and the role this played in the crisis. See Alan Greenspan (#29) for more information on the Greenspan put and the speculative madness this concept engendered up and down Wall Street.

24. Tim Geithner; (Bachelors – Dartmouth; Masters – Johns Hopkins)
Based on how he acted before, during and after the crisis Tim Geithner would appear to have a split personality. While President of the New York Fed – his term lasted from November 2003 through January 2009 - Tim Geithner basically served as the Caspar Milquetoast of the financial crisis. In particular, he completely shirked his considerable responsibilities as President of the Federal Reserve Bank of New York and all sorts of speculative excess took place on Wall Street as a result.

However, after the crisis, Geithner regained his resolve and acted with the same level of petulance as the proverbial spoiled child who gets caught with their hands in the cookie jar. Instead of owning up to his obvious mistakes and enormous failings at the NY Fed, Geithner in 2009 - now as President Obama's nominee to be Treasury Secretary – simply ignored the present circumstances to advance a completely nonsensical argument. In particular, Geithner – in testimony to Congress no less – stated he was completely blameless for what happened on Wall Street in the years leading up to the crisis! The reason being - Geithner claimed that as President of the NY Fed he didn't have any regulatory or supervisory responsibilities regarding Wall Street.

Geithner's testimony to Congress on the NY Fed's non-existent responsibilities for what transpires on Wall Street is completely contradicted by real world experience. The president of the NY Fed has always had a very important role in the Federal Reserve System. In fact, in the years leading up to the Great Depression, Ben Strong basically ran the entire Federal Reserve

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System with an iron fist while perched high atop the NY Fed. It was in his capacity as governor of the NY Fed that Strong played such an enormous role in causing the stock market crash and subsequent Great Depression. Today, the head of the NY Fed, now given the title president, also serves as vice-chair of the Fed's Open Market Committee (FOMC). In this capacity, the president of the NY Fed is a key voice in setting interest rate policy.

In addition, and according to no less an authority on the Fed than Ben Bernanke (#3), the NY Fed president also has an important role in *"banking supervision"* because many of the nation's largest banks are headquartered in New York.[69] The NY Fed itself elaborates on this supervisory role and its attendant regulatory responsibilities,

> *"…the Supervision Group of the Federal Reserve Bank of New York supervises the financial institutions that are subject to the Board's supervision and are located in the Second Federal Reserve District….the objectives of supervision are to evaluate, and to promote, the overall safety and soundness of the supervised institutions, the stability of the financial system of the United States and compliance with relevant laws and regulations."*[70] (Emphasis on regulations added)

However, the best understanding of the enormous practical importance the NY Fed has to what transpires on Wall Street is not found on the NY Fed's website or Ben Strong's enormous blunders from the 1920s. Instead, this enormous practical importance – and Tim Geithner's equally enormous failure to exercise his critical supervisory and regulatory role in the years before the crisis – is best reflected in the post-crisis memoirs of both Ben Bernanke and Henry Paulson (#38). On January 21, 2008 – the day the FOMC took the extremely rare action of cutting interest rates between regularly scheduled meetings - Bernanke recalled Tim Geithner *"checking in with his market contacts."* Later, Bernanke describes Geithner as the *"Fed's eyes and ears on Wall Street."*[71] As an example of how Geithner serves as the "eyes and ears of the Fed," in his memoir, On the Brink, Paulson recalls Geithner briefing him in September 2008 that Lehman Brothers needed to borrow $230-billion *overnight* in the "repo" market.[72]

Amazingly, in spite of both the fact that the NY Fed gives itself a clear supervisory role - the objective of which is *"the stability of the financial system in the United States"* - and the post-crisis recollections of Bernanke and Paulson, Geithner completely disavowed any supervisory or regulatory responsibilities while president of the NY Fed. On March 26, 2009 and during the hearings that were held after President Obama nominated Geithner to be Treasury secretary, Geithner claimed, *"First of all, I've never been a regulator…I'm not a regulator."*[73]

As Bill Clinton (#12) famously demonstrated when he conditioned an answer to a question with the preface of, *"it depends on what the meaning of the word 'is' is,"* attempting to parse words like "responsibility" with people like Tim Geithner is an exercise in total futility. Individuals like Tim Geithner - who have been conditioned by their educational and occupational

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experiences to never admit a mistake - will rarely, if ever, subject themselves to anything even remotely resembling humble introspection. Any attempt to make the Tim Geithner's of the world soberly and honestly reflect on their actions - or inactions – is doomed to ignominious failure. Instead, the much better course of action is to simply lay out the facts of a particular situation and let these facts speak for themselves. Fair-minded people will then be able to draw their own conclusions. From a purely practical standpoint, who really cares what Tim Geithner thinks anyway?

Tim Geithner's total and complete abdication of the supervisory responsibilities he had as president of the NY Fed can easily be seen by a cursory review of AIG and their disastrous trade in credit default swaps (CDS) related to mortgages. Additionally, a review of AIGs trade in CDS will prove why labelling Geithner the Caspar Milquetoast of the financial crisis is completely justified. In their CDS trade, AIG essentially issued "insurance" against mortgage bonds losing money. Mortgage bonds are a collection of perhaps thousands of individual mortgages, with the price of the mortgage bond determined by the present value of the combined mortgage payments each month. Unlike a motorist purchasing insurance for their automobile, the typical purchaser of a mortgage bond "insurance" policy was rarely the same entity that had purchased the mortgage bond. Instead, the entity – a hedge fund for example – would purchase mortgage bond insurance because they were convinced the mortgage bond would suffer losses. For perhaps $20-30-million in premium payments each year, a potential windfall of $1-billion could be earned from the "insurance" if the mortgage bond collapsed. For this reason, the purchasers of mortgage bond insurance can be accurately likened to people who were betting on the mortgage bond to collapse. AIG and other issuers of "insurance" simply took the opposite side of the bet.

The mortgage bond "insurance" that AIG issued did not resemble a conventional insurance policy, the likes of which any homeowner or auto owner would be familiar with. Instead, the insurance was issued in the form of a complicated financial derivative called a "credit default swap." All the complicated – albeit practically useless – mathematics latent in the creation of the derivatives that AIG essentially bet on notwithstanding, what AIG did is very simple to understand. In fact, AIG basically made the same mistake as the mafia bookmakers in the movie "Any Which Way You Can," the second of the two Clint Eastwood orangutan movies.

In the movie, the mafia backed a bare-knuckle fighter named Jack Wilson and Wilson justified the mafia's confidence by wreaking a path of destruction in fights the mafia organized. Over time, the mafia earned tremendous amounts of money by not only organizing Wilson's fights but betting on the outcome.[74] However, Wilson was so dominant that people stopped betting on his fights. In fact, there was only one other brawler who was even given a chance to beat Wilson in a fight – Clint Eastwood's character, Philo Beddoe. The fight between Wilson and Beddoe was arranged. However, because of Wilson's fearsome reputation, he was established as a heavy favorite.

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As a result of being such a heavy favorite, a large wager on Wilson to win – say $10,000 – might only pay $1,000 if Wilson did win. Nevertheless, the mafia saw very little downside to betting on Wilson, even though they were risking far more than they could ever hope to win. In fact, so confident was the mafia in Wilson winning the fight, they took on far more bets than they could hope to cover if Wilson lost. Of course, in the movie, Clint Eastwood won the fight and the mafia lost their bets (and thus incurred the enduring wrath of the Black Widows motorcycle gang). AIG's mistake in regard to its CDS or mortgage bond insurance business was *identical* to the mafia's mistake in *Any Which Way You Can*. AIG risked far more than it could ever earn, and took on far more bets on the housing market staying strong than it could ever hope to cover if the housing market weakened.

AIG dominated the market for mortgage bond insurance. AIG offered mortgage bond insurance to any and all takers, up and down Wall Street. AIG had almost $50-billion in exposure to mortgage losses by issuing credit default swaps to just a handful of the world's biggest banks including Société General, Goldman Sachs, Deutsche Bank, Merrill Lynch and UBS. By virtue of its interconnectedness with the largest Wall Street banks and the sheer size of this interconnectedness - $50-billion is a lot of money even on Wall Street – it is almost inconceivable that the NY Fed would be virtually completely ignorant of what AIG was up to as the housing bubble was inflating. Yet, completely ignorant is what the NY Fed of Tim Geithner was.

When the housing bubble collapsed, the mortgage bond losses that AIG was obligated to cover soared. (It is important to note, that the collapse of the housing bubble only required housing prices to stop rising. It was only after the collapse of the housing market metastasized into a wider financial crisis that home prices began to fall.) Because of AIG's interconnectedness and the tens of billions it owed to other banks, a failure of AIG was considered a much bigger crisis than the collapse of Lehman Brothers. Ben Bernanke recalled briefing President Bush on the implications of an AIG collapse and cited the fact that AIG had over $1-trillion in assets and was 50% bigger than Lehman.[75] In September 2008, Henry Paulson believed, *"If we don't shore up AIG, we will likely lose several more financial institutions; Morgan Stanley for one."*[76]

Quoting Bernanke and Paulson on the importance of AIG is not an endorsement of the subsequent bailout of AIG. Instead, the fact that Geithner, the president of the Federal Reserve Bank of New York, could be so colossally ignorant of AIG's condition before the financial crisis speaks volumes on the comprehensive incompetence Geithner brought to the NY Fed. Geithner's incompetence aside – and reflecting the beliefs of Bernanke and Paulson – the Federal Reserve provided an $85-billion bailout to AIG on September 16, 2008 – one day after the collapse of Lehman Brothers.

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As the weeks wore on after the AIG bailout and the financial crisis continued to mount, the bailout was still largely unsettled. Not unlike what occurs in even much smaller bailouts or bankruptcy proceedings, little progress had been made in negotiations between an overly indebted business, AIG in this case, and its many creditors. There is never enough money to satisfy all creditors, and each creditor insists they get paid back first. During the week of November 03, 2008 Tim Geithner took over negotiations on behalf of AIG in their effort to negotiate terms with their mortgage bond insurance counterparties.[77] These counterparties were the large banks that had purchased mortgage bond insurance from AIG. In cases such as the one facing AIG - where creditors are negotiating with a soon to be bankrupt company - creditors typically resign themselves to collecting only a fraction of the money owed to them. For example, when Washington Mutual collapsed in September 2008 – which remains the largest bank failure in US history - creditors were only paid 55-cents on the dollar.[78] After Lehman Brothers collapsed their creditors were only paid 11-cents on the dollar.[79]

On November 05, two days after Tim Geithner took over the AIG negotiations, Henry Paulson was already briefing President Bush on the revised terms of the AIG bailout.[80] Rather than negotiating some sort of haircut for these creditors – Geithner folded - like origami. Included in the final version of the AIG bailout was the condition negotiated by Geithner – "surrendered" is a much better term - that AIG's credit default swap counterparties would be *paid in full*, or at "par" for their wining bets against the housing market. According to the report looking into the entire sordid affair, the counterparties made whole by Geithner's complete cowardice and incompetence includes many of the world's largest banks. The volume of money Geithner funneled to these huge banks via AIG's rotting corpse breaks out as follows;

- Société General ($16.5-billion)
- Goldman Sachs ($14-billion),
- Deutsche Bank ($8.5-billion)
- Merrill Lynch ($6.2-billion)
- UBS ($3.8-billion).[81]

Geithner was at least smart enough to realize the political implications of rolling over the way he did. He insisted that the AIG bailout terms he negotiated with some of the world's biggest banks remain secret. The negotiations themselves were also made in total secrecy. (In March 2009, a Freedom of Information Act request finally forced the Fed to admit what it did.)

In order to place Geithner's fecklessness in its proper context it is critical to understand the AIG bailout had nothing to do with AIG. In fact, all the political hot air spent castigating AIG is little more than a transparent attempt to obscure the easily observable fact that a huge part of the AIG bailout was nothing more than an elaborate – and secret - scheme to put money in the pockets of the world's biggest banks.[82] The AIG bailout had everything to do with making sure these enormous banks got paid for their winning bets on the collapse of mortgage bonds and the housing market. The AIG bailout required a completely feckless, weak and incompetent person

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at the Fed to give these enormous banks exactly what they wanted. That person was the Fed's *"eyes and ears on Wall Street,"* Tim Geithner – the Caspar Milquetoast of the financial crisis.

Additional Information:
For another example of Wall Street's purported regulator, the Federal Reserve Bank of New York, folding in the face of Wall Street malfeasance see Thomas Baxter (#2). See Lloyd Blankfein (#4) for more information on how some of the largest Wall Street banks may have created mortgage bonds that were virtually guaranteed to fail. For more information on AIG see Joseph Cassano (#9) and Martin Sullivan (#44). See Steve Friedman (#22) for a former Goldman Sachs CEO and member of the NY Fed capitalizing on Geithner's cowardice. For more information on AIG's trade in credit default swaps see Gary Gorton (#27). See Alan Greenspan (#29) for more information on Ben Strong's disastrous policy initiatives of the 1920s.

25. Austan Goolsbee; (BA – Yale; MA – Yale; PhD Economics – MIT)
Exhibit B to Alan Blinder's (#5) Exhibit A of the elites in name only who provide economic counsel to presidents. Goolsbee was an economic advisor during Barack Obama's successful campaigns for Senator (2004) and President (2008). Goolsbee then served for several years, 2009 – 2011, on President Obama's Council of Economic Advisors (CEA). Goolsbee, like Blinder, was a proponent of the economically inane "cash for clunkers" program.

Goolsbee's contribution to the financial crisis – like the numerous other MIT PhDs on this list – results from providing academic and intellectual *bona fides* to the speculative madness that was spawned by President Clinton's housing central plan. Unlike most other MIT PhDs on this list, Goolsbee had the bad sense to continue to endorse the housing bubble long after it started to collapse. On March 29, *2007* Goolsbee authored an editorial in the New York Times that extolled the virtues of "irresponsible" mortgages because they opened the doors to homeownership. In the article he cited a report from two Federal Reserve economists and a Princeton economics professor who credit sub-prime mortgages *for "making the mortgage market more perfect, not more irresponsible."*[83]

To put some context to Goolsbee's educated idiocy, note the following events occurring before or just after his March 2007 editorial;

- Sep. 2006 – *Grant's Interest Rate Observer* predicts huge losses on trillions in mortgages securities and describes the features of mortgage bonds most likely to default.[84]
- Fall 2006 – a Deutsche Bank trader had made his case for shorting mortgage securities to hundreds of investors at Deutsche Bank sales conferences.[85]
- November 13, 2006 – Peter Schiff tells mortgage bankers mortgage bonds will go to '0'
- February 07, 2007 – HSBC announces huge set asides to cover mortgage losses
- March 30, 2007 – Kathleen Brown (#7) resigns from the board of Countrywide Financial.
- April 02, 2007 – New Century Financial, 2nd largest sub-prime lender, goes bankrupt

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- Early July 2007 – A Deutsche Bank mortgage trader informs his mortgage credit default swap counterparty at Morgan Stanley, *"Dude, you owe us $1.2-billion."*[86]

Goolsbee's praise of "irresponsible" mortgages in *March 2007* was not the sort of run of the mill ignorance that people have come to expect from MIT PhDs in economics. (This list of the fifty people most responsible for the financial crisis is littered with MIT PhDs in economics.) It was ignorance of the largest financial bubble in world history! Amazingly, Goolsbee is still feted as some sort of expert when his March 2007 praise of the mortgage market proves he can't possibly know anything of real value regarding economics. Completely unsurprisingly, Goolsbee is still regularly featured on the Federal Reserve's principal propaganda arm - CNBC.

Additional Information:
See Alan Blinder (#5) for more information on "cash for clunkers." See Bill Clinton (#12) for details on the housing central plan Goolsbee was endorsing in March 2007. See Steve Kaplan (#30) for another University of Chicago professor whose knowledge of economics appears seriously incomplete. See Steve Liesman (#33) and Martin Wolf (#50) for more information on how establishment figures like Goolsbee are able to maintain their reputations even after their ridiculous ideas have been exposed as completely bankrupt.

26. Jamie Gorelick: (B.A. - Harvard; Law Degree - Harvard)
Even more so than Franklin Raines (#40), her boss at Fannie Mae, Jamie Gorelick was a total neophyte in mortgage lending. However, and like Raines, what she lacked in housing market experience she made up for with political connections. Franklin Raines had experience as a budget director and was at least somewhat familiar with numbers and Microsoft Excel. Gorelick on the other hand was a lawyer and had served as deputy attorney general during the Clinton administration. She had virtually no experience in finance at all! In her capacity as deputy attorney general, Gorelick is best known as the author of the "wall memo" which prohibited the federal government's intelligence services from sharing information with local law enforcement officials. Many people believe this policy helped to allow the 9/11 attacks to occur.

As far as Gorelick's role in the housing bubble is concerned, she was an ardent supporter of President Clinton's central plan for housing, and actively tried to achieve Clinton's goals via Fannie Mae. Here is Gorelick in October 2000 explaining to the American Bankers Association that because of the 50% affordable housing mandate dictated by Andrew Cuomo (#16), Fannie was now willing to purchase risky or "tough" loans – i.e. loans that could very well default. The abbreviation 'CRA' refers to the Community Reinvestment Act. The CRA was modified by the Clinton administration to place additional legal pressure and public scrutiny on banks, and thus compel them to issue many more mortgages to low and moderate income borrowers. Of course the modifications to the CRA – like the 50% affordable housing mandate edict from Andrew Cuomo - were all being implemented to advance President Clinton's homeownership goal;

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> *"Under our community investment mandate, HUD will soon require us to dedicate 50% of our business to low- and moderate-income families…Your CRA business is important to us…Some people have assumed we don't buy tough loans. Let me correct that misimpression right now. We want your CRA loans because they help us meet our housing goals. Last spring Fannie Mae pledged to provide $2 trillion in housing finance to 18-million under-served families before the decade is over…Helping banks meet their CRA goals is crucial to meeting our goals...we can help you meet your lending goals in two ways. We will take CRA loans off your hands – we will buy them from your portfolios, or package then in securities – so you have fresh cash to make more CRA loans…We will also purchase the CRA mortgages you make right at the point of origination. You can originate CRA loans for our purchase with one of our CRA-friendly products like our 3% down Fannie 97"*[87]

Gorelick's speech highlights the enormous importance of the 50% affordable housing mandate promulgated by Andrew Cuomo to the development of the entire crisis. As Gorelick – and simple common sense - makes clear, the only way for the GSEs to tie up 50% of their capital – which was measured in the hundreds of billions of dollars – in loans to low and moderate income borrowers was to lower lending standards. Only by lowering lending standards and getting involved with "tough" loans would the GSEs be able to issue so many new loans to low and moderate income borrowers. Indeed, in March 2000 Franklin Raines, the then CEO of Fannie Mae, said that Cuomo's 50% affordable housing mandate would force Fannie to become a *"major presence"* in the market for sub-prime mortgages.[88]

Note also the tiny down payment - 3% - Fannie is now willing to accept. Historically down payments of 20% or so were the best way a borrower could demonstrate fiscal discipline and a steady income to a lender. In addition, a sizable down payment also assured a lender that the borrower had enough "skin in the game" to not simply walk away from a mortgage. It was no accident then that down payments of this size had long been one of the most important factors in keeping mortgage default rates low.

With the evisceration of lending standards – down payments in particular - to meet President Clinton's homeownership goals and Andrew Cuomo's 50% affordable housing mandate target, no one should be surprised that eventually hundreds of billions of dollars in mortgages issued by the GSEs went up in smoke. The best evidence of the enormous losses suffered by Fannie as a result of President Clinton's central plan for housing as well as the attendant ineptitude of Gorelick, Raines, Cuomo and others is provided by the events of September 05, 2008. On that day, the government placed Fannie Mae in "conservatorship" – essentially taking over the company – and injected *$100-billion* of capital into Fannie Mae – and another $100-billion into Freddie Mac for that matter - to stave off insolvency. More money –

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perhaps another $100-billion - was subsequently injected into Fannie on December 24, 2009 – a date obviously chosen to minimize media scrutiny and public outrage.

Additional Information:
See Bill Clinton (#12) for the "strategy" – read "central plan" - to increase homeownership levels to all-time highs. See Henry Cisneros (#11) and Andrew Cuomo (#16) for more details on the affordable housing mandate. See Cuomo for the completely reckless decision to expand the affordable housing mandate to 50%. See Shaun Donovan (#18) for his completely bogus explanation for why the GSEs had little to do with the housing crisis. See Franklin Raines (#40) for more Fannie Mae malfeasance and the enormous significance of Cuomo's 50% affordable housing mandate. For the most zealous congressional supporters and defenders of the GSEs, Franklin Raines and Jamie Gorelick - see Kit Bond (#6), Barney Frank (#21), Gregory Meeks (#35) and Maxine Waters (#47).

27. Gary Gorton: (BA – Oberlin; MA – Michigan; PhD. Economics – Univ. of Rochester)
Gorton was a finance professor at the University of Pennsylvania's Wharton School of Business and a consultant to AIG. Gorton provided the intellectual justification behind AIG's trade in mortgage credit default swaps (CDS). Due in no small part to Gorton's almost complete misunderstanding of economics as well as his failure to distinguish between correlation and causation; AIG lost at least $60-billion in its CDS trades. Completely unsurprisingly, Gorton is still considered a rising star in economics and is a professor at Yale.

AIG's CDS strategy - which stripped of its Ivy League pedigree – was little more than picking up pennies in front of a runaway freight train. In its CDS trade, AIG issued "insurance" on mortgage bonds. This insurance – which was issued not as a conventional insurance policy but provided though complicated trades in financial derivatives – protected the purchasers of the insurance against a specific mortgage bond losing value. However, and evidence of the otherworldly aspect of the "insurance" provided by AIG via credit default swaps, the people who purchased the insurance rarely owned the mortgage bond that was being insured! Basically, the CDS issued by AIG was a bet or wager on whether the mortgage bond would lose money or not. By issuing the insurance AIG was betting that the bond wouldn't lose money; the purchasers of the insurance were betting that the bond would lose money.

However, the "bet" that was being made with credit default swaps was not an even-money bet. The bonds that were being insured were considered of very high quality and the risk of the bonds ever suffering losses was considered very low. A useful analogy for the market for mortgage credit default swaps in the early 2000s is the heavyweight championship boxing match between "Iron" Mike Tyson and James "Buster" Douglas in February 1990. In the same way that mortgage bonds were judged very unlikely to ever lose value, Mike Tyson was considered very unlikely to lose to Buster Douglas. Tyson was an overwhelming favorite in the fight and the

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final betting line had Tyson as a 42:1 favorite to beat Douglas. To put these odds in perspective, a winning $50 bet on Tyson would only pay about $1.20! In much the same way, and because the bonds it was insuring were believed to be of such high quality, AIG had to provide enormous amounts of loss coverage for relatively small premium payments. It was not unusual that for as little as $35-million in annual premium payments, AIG was willing to expose itself to as much as $1-billion in potential losses on each CDS trade it entered.

To manage this enormous amount of risk, AIG heavily relied on computer models developed by Gary Gorton. The models likely used reams of historical data to model the mortgage market. Like nearly all statistical models of this type, the models – at their absolute best – could only be *descriptive* of things that had happened in the past. However, models of this type have no *predictive* value for what might happen in the financial future whatsoever. The failure of Long Term Capital Management in the late 1990s should have proven this simple concept conclusively. However, like some feeble-minded cow continually trying to chew grass on the other side of an electrified fence only to suffer an electric shock in the process, the economic establishment – particularly that part of the establishment with a connection to the Ivy League – continues with their futile and pain inducing attempts to program computers to infallibly peer into the economic future.

In December 2007 – after mortgage bond bombs had started to detonate all over Wall Street – both Gorton and senior AIG management expressed complete confidence in Gorton's models and the company's mortgage bond insurance trades. Of his models, Gorton claimed they *"... are guided by a few, very basic principles, which are designed to make them very robust and to introduce as little model risk as possible. We always build our own models. Nothing in our business is based on buying a model or using a publicly available model."*[89] AIG's CEO, Martin Sullivan (#44), claimed Gorton's models gave the company a *"high level of comfort,"* while the head of AIG's financial products division, Joseph Cassano (#9), believed Gorton's models were *"simple, they're specific and they're highly conservative.*[90]

As it turned out, Gorton's models had holes in them large enough to drive a panzer division through sideways. On February 28, 2008 - just two months after expressing complete confidence in its strategy and Gary Gorton's models – AIG disclosed in its end of the year regulatory filing that it was carrying a total of $11.5-billion in CDS losses on its books. In the same filing, AIG stated it had posted $5-billion in collateral against these losses. On February 29, 2008 Joseph Cassano was forced out of AIG. The investment community was shocked but these losses were a mere harbinger of all the losses to come. In a little over six-months, AIG would require an $85-billion bailout, and by the time the bailouts ended, AIG had received well over $100-billion.

As proof that nothing succeeds like abject failure among Ivy League universities, Gorton was poached – with great fanfare – from Wharton by Yale in May 2008, just before AIG collapsed in

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September. Despite his enormous role in AIG's September collapse, Gorton's reputation reached its zenith just one month earlier. In August, during the Federal Reserve's annual boondoggle to Jackson Hole, Wyoming, Gorton made a presentation on the crisis. In this presentation – which eventually became a book, Slapped by the Invisible Hand – Gorton reached the completely self-serving conclusion that the financial crisis was nothing more than a *"financial panic similar in structure to, though differing in many details from, the panics of the nineteenth and twentieth centuries."* Ben Bernanke's reaction to Gorton's presentation speaks volumes about Bernanke's own ignorance of the financial crisis. Rather than recognizing Gorton's presentation for what it clearly was – namely, the Ivy League equivalent of some high school stoner mumbling to his algebra teacher that "the dog ate my homework" - Bernanke was impressed with the presentation and agreed with it. [91]

As some evidence of the incestuous, Ivy League coven that was at the center of the financial crisis and the myriad ways this coven looks out for itself, it is beneficial to reconcile Bernanke's praise of Gorton's presentation to the Fed in August 2008 with Bernanke's criticism of AIG's management later. In his post-crisis memoir Bernanke "seethed" in anger at AIG's management;

> *At the time of our initial rescue of AIG, I kept my emotions in check and tried to view the situation analytically, as a problem to be solved. But once I understood how irresponsible (or clueless) AIG's executives had been, I seethed."* [92]

As shown here, it impossible to criticize AIGs management without also criticizing Gary Gorton. Ben Bernanke's crisis memoir is completely silent regarding any criticism of Gary Gorton, or the notion that computers can be programed by Ivy League professors to manage highly leveraged investments and to inerrantly predict the future.

Additional Information:
See Ben Bernanke (#3) for his critical role in the financial crisis which goes way beyond holding Gary Gorton and AIG's management to different standards. See Joseph Cassano (#9) and Martin Sullivan (#44) for more information on AIG. See William Donaldson (#17) for another financial services insider with too much faith in computers. See Steve Friedman (#22) for how Goldman Sachs benefitted from the bailout of AIG. See Alan Greenspan (#29) for more information on the computer models used by LTCM and their similarity to Gorton's models at AIG. See Mark Rubinstein (#42) for the person at the forefront of the fallacious belief that computers could be programmed to manage highly leveraged investments and predict the future. See Lawrence Summers (#45) for more information on the intellectual fallacies that formed the foundation of the nonsensical computer models developed by Gary Gorton and others.

28. Phil Gramm (Bachelors – Georgia; PhD Economics – Georgia)

Phil Gramm was a long-standing senator from Texas and had a reputation as a "free market conservative." The fact that Gramm's beliefs were interpreted by the political and media establishments as being consistent with the "free market" speaks volumes about the colossal

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ignorance that animates discussions, particularly the discussion of economics, at the highest levels of this country. As Phil Gramm's record makes clear, while he was in favor of "free markets" and deregulation in many economic aspects, he was even more adamant about the need for an all-powerful central bank to actively control the money supply and finely tune the economy.

However, there is an irreconcilable conflict between a free market and an all-powerful central bank, dominated by a monetary dictatorship, which exerts active and total control of the money supply. It is completely inconsistent for anyone to believe in any sort of "free market" while also supporting a central bank with even a fraction of the power the Federal Reserve currently wields. Indeed, because of his advocacy for an all-powerful central bank, the free market that Gramm, correctly, desires can never come into existence. The various bailouts of Wall Street organized by the Fed and the criminally irresponsible monetary policies of the Greenspan-Bernanke era fueling enormous bubbles in stocks and housing prove this conclusively.

As an example of Phil Gramm's fealty to an all-powerful central bank, here he is in February 2000 – one month before the peak of the tech stock bubble – praising Alan Greenspan and Greenspan's monetary dictatorship as it was exercised through the Federal Reserve;

> *"But as I look at the record of Alan Greenspan, I can stand on the floor of the Senate and say, without any fear of contradiction, that Alan Greenspan's record is the finest record that has ever been established by a Chairman of the Board of Governors of the Federal Reserve since we created the Federal Reserve and it began operating in 1913. I believe a strong case can be made that Alan Greenspan is the greatest central banker in the history of the world…"*[93]

The Fed was originally envisioned to fill the classic central bank role of "lender of last resort." As the lender of last resort, the Fed would only serve as an "emergency" source of credit and the Fed's role in the economy would largely be limited to *"lending freely against good collateral at a high rate of interest."*[94] What the Fed has clearly become has nothing to do with the classic role of a central bank and everything to do with the classic role of a central planner. In the same way that murderous communist tyrants all over the world were incapable of ever figuring out how many eggs chickens should lay, the idiotic monetary tyrants of the Federal Reserve remain completely incapable of ever figuring out how much interest a local bank should charge when it lends money to a plumbing contractor.

The incompatibility between a free market and a powerful, active central bank – which will always be subject to political whims and the influence of powerful people – was best expressed by the great Wilhelm Röpke;

> *"If in the production of goods the most important pedal is the accelerator, in the production of money it is the brake. To ensure that this brake works automatically and*

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> *independently of the whims of government and the pressure of parties and groups seeking "easy money" has been one of the main functions of the gold standard. That the liberal should prefer the automatic brake of gold to the whims of government in its role of trustee of a managed currency is understandable."*[95]

Röpke was the intellectual architect of the free market reforms behind the *"Wirtschaftswunder"* – the miraculous recoveries of the West German and Austrian economies after World War II. In the observation above, Röpke makes clear the value of gold in a monetary system, is not the value of gold itself. Instead, it is the requirement to hold gold which keeps a central bank from actively interfering in the economy. Röpke's belief in a passive central bank and the critical role this plays in a free economy is buttressed by the considerable real world successes of the policies based on this belief.

In exactly the same way a free market is in total conflict with an all-powerful central bank, Röpke's economic philosophies are completely incompatible with today idiotic economic theories pouring out of places like MIT. These idiotic theories – which are all based on the transparently bogus notion that enormous national economies can be accurately modeled with equations – provide the fully fraudulent justification for central banks to wield enormous power. With the hard sciences like physics or engineering, professionals in these fields are always comparing their theories to reality. Theories are only valid when they match the phenomena observed in the real world. In sharp contrast, the witch doctors at Ivy League economic departments and the Fed never bother to reconcile their theories with the real world.

Even after the enormous damage caused by an active, enormously powerful Fed has been made manifest, the economics departments at schools like Harvard and MIT show no signs of revisiting their theories and identifying the enormous fallacies and sophisms that are *obviously* at their core. As the example of Phil Gramm should make clear, powerful, world-destroying central banks have also become an entrenched part of the political firmament; no one questions their legitimacy. Because of the support they receive from Ivy League academics and the political leaders of both parties, the Fed's power – to this point anyway – has remained unassailable.

Additional Information:
See Art Laffer (#32) for another supposedly "free market" economist who believes in an all-powerful central bank.

29. Alan Greenspan; (Bachelors: NYU; PhD Economics – NYU)

Alan Greenspan stands with Ben Bernanke (#3), Bill Clinton (#12), Andrew Cuomo (#16), Barney Frank (#21) and Lawrence Summers (#45) as being among the mere handful of key catalysts whose actions and inactions caused the financial crisis. Like Ben Bernanke – another

chairman of the Federal Reserve – Greenspan's role in helping to cause the crisis is so extensive that it is difficult to capture all his many blunders in a cogent, concise summary. Instead, in the discussion here the focus will be on one blunder in particular – Greenspan cutting interest rates on October 15, 1998. The rate cut was between regularly scheduled meetings of the Fed's Open Market Committee (FOMC) and is considered by investment professional Bill Fleckenstein as *"one of the most irresponsible acts in the history of the Federal Reserve"*[96]

The precipitating cause of Greenspan cutting rates between scheduled FOMC meetings was the collapse of the hedge fund Long Term Capital Management (LTCM). LTCM seemed to have more MIT PhDs working for it than MIT. Basically, what the MIT educated geniuses of LTCM thought they could do is utilize computers to make a fortune by picking up pennies in front of runaway freight trains. LTCM gathered all sorts of statistics around prices and used this data to predict what prices should be. Anytime the market price differed from the computer predicted price, LTCM would make – by using highly complicated, highly leveraged financial derivatives – what were essentially bets or wagers that the market price would move to the price predicted by the computer. Because the spreads or difference between the prices predicted by the computer and the prices prevailing in the market were often very small, the only way to make serious money using this strategy was to use enormous leverage. Some idea of the leverage LTCM used can be gleaned by understanding that it was not unusual for LTCM to have $30 of borrowed money invested for each $1 of its own capital invested. With this amount of leverage, a trading loss of approximately 3% will result in insolvency.

LTCM was comprised of perhaps no more than a few dozen employees working in a relatively small office in Greenwich, CT. However, LTCM's financial footprint would become enormous and - if the Fed is to be believed – so large that LTCMs failure would threaten the functioning of financial markets all over the world. After a few years of enormous success, LTCM began to suffer enormous losses. Because of its early successes, LTCM had been able to borrow huge amounts of money. As it teetered on the brink of solvency in September 1998, it was estimated that LTCM may have had as much as $1-trillion in market exposure through its various derivative trades. As is the Fed's want to do, the Fed organized a bailout of LTCM. Regrettably – and exactly like the bailout of Mexican bondholders in 1995 or the Fed slashing rates after the tech bubble burst – the economic crisis the Fed supposedly avoided by intervening in the LTCM affair was dwarfed by the size of the economic crisis that resulted from the Fed's intervention.

The failure of LTCM – which was acknowledged to have some of the smartest people in finance working for it - (albeit that is not saying much) – offered the real prospect of finally instilling some much-needed and long overdue discipline on Wall Street. The failure of LTCM could have been similar to a person swearing off even having a single drink before driving as a result of a near-miss accident while drinking drunk. However, and not unlike some overly indulgent uncle

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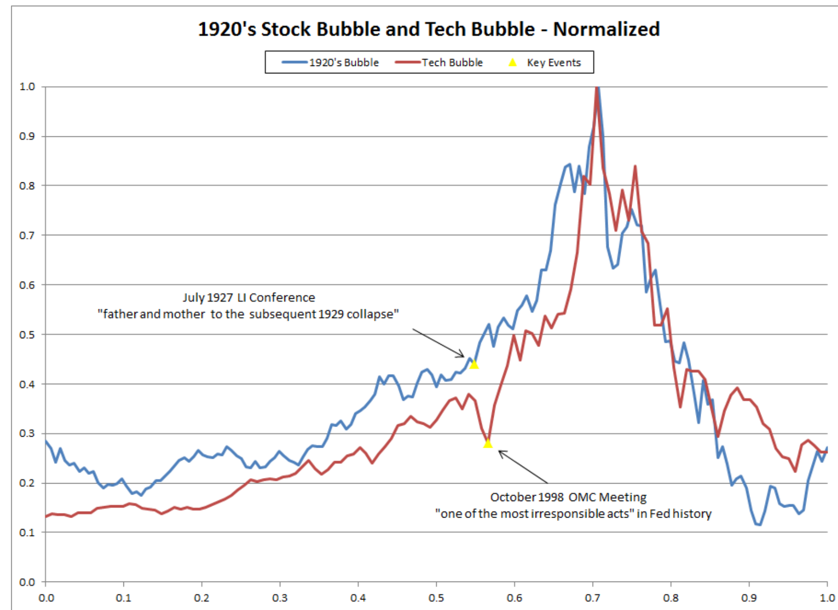
spoiling his favorite ne'er-do-well nephew even as the boy's parents try to instill some sense of discipline and responsibility, Uncle Al intervened to save all his favorite nephews on Wall Street.

After cutting interest rates on September 29, 1998 – the first scheduled meeting of the FOMC after the LTCM bailout – Greenspan called a special meeting of the FOMC on October 15. At this meeting, Greenspan wanted to cut interest rates again. Apparently, Uncle Al didn't think organizing the LTCM bailout and cutting rates once was enough support for Wall Street. Greenspan was trying to mobilize the FOMC to get behind him to provide still more succor and support for Wall Street. Greenspan did have some resistance on the FOMC, most notably from Don Poole. Poole trenchantly asked, *"Is there any chance the action today* (cutting rates) *could be viewed by some anyway as an effort to bail out the hedge funds?"*

As it turned out, it was a 100% certainty that the October rate cut would be viewed as an effort to bail out hedge funds. Speculators all over Wall Street became convinced that no matter how recklessly they acted, there was a limit to how bad things would get. If things started to even look like they might become bad, then Uncle Al and the Fed would bail them out. This mindset became known as the "Greenspan put."

In investing a put allows a security to be sold for a certain price and basically limits the loss from an investment. The "Greenspan put" was a financial backstop for all of Wall Street and, not surprisingly, Wall Street acted completely recklessly as a result. In the case of the October 1998 rate cut between scheduled FOMC meetings, a manic sense of "irrational exuberance" clearly engulfed Wall Street. At the time of the surprise rate cut the NASDAQ was at 1611. In a little over a year, November 1999, the NASDAQ soared to 2967, a gain of 84%. In a final speculative blow-of the NASDAQ reached 5000 in March of 2000, a 70% rise in just the four months since November, or over 210% since the surprise rate cut sixteen-months earlier in October 1998.

As seen in the chart below, the stock market climax following the October 1998 surprise rate cut was a case of history repeating itself, and eerily similar to the stock market blow-off that followed the July 1927 Long Island conference of central bankers. The chart plots the 1920's stock bubble for the period January 1920 – September 1933 and the tech bubble for the time period from January 1993 – March 2003. The data in the chart is "normalized." Normalization is a technique commonly used in statistics when evaluating data measured over different durations of time that is also measured using different scales of magnitude.



The July 1927 meeting of central bankers referenced in the chart was called by Ben Strong, governor of the Federal Reserve Bank of New York. (Tim Geithner (#24) would hold the same position in the early 2000s and his fecklessness would be a major contributor to the 2008 financial crisis.) The goal of the meeting was to coordinate a policy of loose money or interest rates cuts among the central banks of the US, France and Germany. The policy of loose money had one purpose – to advance the economic interests of England. While France and Germany balked at the policy, Strong pursued it with vigor. Adolph Miller of the Federal Reserve and a contemporary of Benjamin Strong's, called the credit expansion decided upon at this meeting and implemented by Strong after the *"father and mother to the subsequent 1929 collapse."*[97]

Later, in 1931 and testifying in front of the Senate Committee on Banking and Currency, Miller expanded on his critical views of Strong and the loose money policy Strong pursued in the aftermath of the July 1927 meeting;

> *"In the year 1927…you will note the pronounced increase in these holdings in the second half of the year. Coupled with the heavy purchase of acceptances it was the greatest and boldest operation every undertaken by the Federal Reserve System, and in my judgment, resulted in one of the most costly errors committed by it or any other banking system in the last 75-years."*[98]

In the 1920s, the criminal irresponsibility of the Federal Reserve and Ben Strong led to an enormous stock bubble, the collapse of which helped to cause the Great Depression. In the 1990s, the criminal irresponsibility of the Federal Reserve and Alan Greenspan led to an enormous stock bubble, the collapse of which led the Fed to slash interest rates. This dramatic drop in interest rates then fueled the terminal stages of the housing bubble. When the housing bubble burst, the United States then suffered its largest economic setback since the Great

Depression. Alan Greenspan has much to answer for – just don't expect his lackeys in the media to ask him any tough questions.

Additional Information:
See Alan Blinder (#5) for a brief discussion of the so-called "Tequila crisis" in Mexican bonds. See Jon Corzine (#13) for some of the negotiations that took place on Wall Street as LTCM entered its death throes. See Jim Cramer (#14) for his excoriation of Don Poole, one of the few members of the Fed unwilling to bend over backwards for Wall Street. For the media lackeys, who never subject the disastrous incompetence of Alan Greenspan and other Federal Reserve officials to anything remotely resembling scrutiny, see Steve Liesman (#33) and Martin Wolf (#50). See Lawrence Summers (#45) for a discussion of the great lengths the financial powers that be – and their minions in the Clinton Treasury Department – went to in order to keep derivatives from being regulated like other investments. Also, see Summers for more information on LTCM's trade in derivatives.

30. Steve Kaplan; (Bachelors – Harvard; PhD Economics – Harvard)
Kaplan is a professor at the University of Chicago's Booth School of Business. Like another Harvard PhD, Jay Light (#34), Kaplan thinks the average person should be thankful for the productive, world improving business insights business schools have recently produced. For example, here is Prof. Kaplan defending business schools after the financial crisis,

> *"You look at the business world and the global economy since 1980, and it's stunning. Productivity growth around the world has been terrific. You know, where did all this come from? There's a huge success story of the tools of the markets and economics that are taught at business schools."*[99]

As is the case with most PhDs in economics holding court, it isn't too difficult to find the enormous fallacies in Kaplan's apologia for business schools. A review of the global economy over the past two decades reveals the single biggest reason for improved living standards in the world was not Ivy League educated MBAs. Instead it was the collapse of communism, the most destructive economic dogma in world history.[100] Releasing hundreds of millions of people from the twin yokes of central planning and an omnipotent police state were bound to have a beneficial economic aspect. Apparently, we owe this welcome development to business schools and not the American military, our western allies and the heroic people in Eastern Europe who fought at great personal danger for their freedom. Who knew?

Closer to home, the last few decades have seen the United States stumble from one economic crisis to the next – the inflation of the 70's producing the deep recession of the early 80's and the tech bubble of the 1990s prompting a policy of low interest rates that led to the housing bubble in the 2000s. Additionally, while economic aggregates like "total" household wealth and "gross" profits reach all-time highs, the average household struggles to get by like never before. How

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meaningful is it to even discuss “average household wealth” when the average cost of a private college education is now approaching $250,000 and obviously well beyond the abilities of even very well-off American families to afford. The averages and aggregates that business school professors like Steve Kaplan celebrate as progress, are the result of an increased concentration of wealth among the super-rich. These averages assume a normal distribution of wealth among Americans and ignore the obvious fact that wealth distribution is “skewed” and concentrated among the super-rich like never before. When “median” figures are used, it becomes clear the vast majority of people in the U.S. are falling behind, much less keeping up.[101]

According to Credit Suisse in their global wealth research report, the *average* net worth of an American adult in 2010 was approximately $300,000; placing the United States fourth globally behind only Switzerland, Australia and Norway. However, when you measure median wealth – which is a much better description of how most people in the United States live - the figure for wealth per adult plummets to $44,900. This median figure places the United States nineteenth in the world, behind most western economies.[102] The implication of these numbers is clear for all to see. Wealth is being concentrated like never before and the average American’s standard of living is in what appears to be terminal decline. This concentration of wealth is the defining characteristic of the modern US economy which Professor Kaplan asks us to celebrate. According to Professor Kaplan, the enormous concentration of wealth, much of it in the financial class – *which is exactly the opposite result that capitalism based on the division of labor would achieve* - is worth celebrating as a triumph of business schools.

The economic accomplishments that Prof. Kaplan celebrates are illusory. These perceived accomplishments are the result of business professors failing to understand the difference between average and median values, as well as inflation obscuring the fact that increased paper value of assets like stocks and real estate does not produce an increased standard of living. The failure of “modern” economists like Prof. Kaplan to distinguish between higher asset prices and a truly wealthier society lies at the core of many of today’s economic maladies and provides an academic imprimatur for the plutocracy of today that has supplanted the republic of the past.

Additional Information:
See Austan Goolsbee (#25) for the insights of another PhD in economics and another University of Chicago faculty member. See Jay Light (#34) for the perspective of another elite graduate school of business faculty member.

31. Paul Krugman; (Bachelors – Yale; PhD Economics – MIT)
Paul Krugman is one of the high priests of modern economic “thinking.” He has a PhD from MIT, a column in the New York Times, a Nobel Prize and taught at Princeton. As such, a review of his ideas is a proxy for a review of modern economic thought writ large. The complete intellectual and moral bankruptcy of modern economic thought can be most easily seen in the

now widely accepted belief that war makes a society wealthy or is at least somehow beneficial for the economy. The argument is advanced under any number of shadowy guises including the contention that World War II ended the Depression. It is an argument that Paul Krugman, unsurprisingly, is a firm believer in. Here is Paul Krugman speaking to another Ivy League educated fool, CNN's Fareed Zakaria, and claiming eighteen-months of preparation for a fictitious alien invasion would cure the economy of all its considerable ills, circa 2011;

> *"If we discovered that space aliens were planning to attack, and we needed a massive build-up to counter the space alien threat, and inflation and budget deficits took secondary place to that, this slump would be over in eighteen months."*[103]

Only a few of the colossal mistakes in the "war makes a society richer" theory will be discussed here. Suffice it to say that the theory of war being a fantastic boom to the economy and Krugman's endorsement of it rests on two enormous economic misunderstandings;

1. Confusing money with wealth
2. Confusing activity with progress

The fact that someone with Krugman's reputation can pass off these easily observed sophisms as some sort of subtle economic truth is a damming indictment of today's society and intellectual environment. Indeed, if there really are aliens, our society does collapse after losing a war to these aliens and the aliens should stumble across a video of the interview referenced above, then the aliens will be forced to conclude that the ultimate undoing of mankind was its collective stupidity – the same malady that did in the mastodons in the tar pits.

During a war, people are forced to build weapons. While the weapons are needed to fight the war, they have no value to the average worker. The average worker has no legitimate need for a B53 ultra-high yield thermonuclear bomb,[104] a GAU-8 Avenger canon, a fin-stabilized discarding sabot depleted-uranium penetrator or any of the other weapons of war. Moreover, while workers are building these weapons, all sorts of goods that workers do desire are unavailable because of all the resources dedicated to war production. For years on end during World War II, GM – the largest industrial corporation in the world - didn't make a single vehicle for consumers! Of course, because of all the wages being paid to produce weapons and with no goods to purchase with the money wages, draconian rationing programs and price controls have to be instituted during any large-scale war effort. During World War II workers were constantly busy on the home front building weapons, but they couldn't spend their money on a steak dinner, gasoline for a relaxing drive through the countryside or even to put butter on their toast! This is progress?

The same lack of progress experienced with individual workers is seen with entire countries. One of the key contributing factors to the Great Depression was the enormous war debts incurred by the British, French and Russians to the United States. These countries borrowed enormous amounts of money to buy weapons from the US. Unlike a real capital investment, the weapons

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these countries purchased didn't generate a return on the invested capital. Because these weapons didn't generate income, from an economic standpoint the weapons were no different than any other money-squandering investment. In his analysis of the Great Depression, the British economist Lionel Robbins succinctly summarizes in his inimitable manner the ruinous economic consequences of the Allies' borrowings during World War I;

> *"For four years, the capital resources of the belligerent countries of the world were devoted to providing offerings to Mars, which either perished in the moment of production or remained as useless as the pyramids of the Pharaohs, once the occasion of their sacrifice had ceased."*[105] (Mars is the Roman god of war.)

President Eisenhower – who saw more war than he ever cared to – also recognized the lunacy in the concept that armament production and wars produced economic advancement. Unlike Paul Krugman and all other modern economists, President Eisenhower recognized that there was a trade-off between producing weapons and producing consumer goods. Are people really better off when so much productive capacity is dedicated to armaments that the production of consumer goods – the goods that people actually want – has to be reduced? President Eisenhower famously said,

> *"Every gun that is made, every warship launched, every rocket fired signifies, in the final sense, a theft from those who hunger and are not fed, those who are cold and not clothed. This world in arms is not spending money alone. It is spending the sweat of its laborer, the genius of its scientists, the hopes of its children. This is not a way of life at all in any true sense. Under the cloud of threatening war, it is humanity hanging from a cross of iron."*[106]

None of this should be interpreted to read defense spending should go to zero. The brief discussion here simply shows the common-sense notion – which escapes Paul Krugman and other modern economists – that defense spending reduces the wealth of a country; it does not increase it. The weapons of war have no value to the average person. All the land, labor and capital used to produce these weapons is land, labor and capital that can't be used to produce the goods people want. One of the reasons the grotesquely stupid notion that wars makes a society richer is so doggedly defended by elites everywhere, is its significance to the larger fallacy around the benefits of central control by any group of elites. As Randolph Bourne convincingly argued in the immediate aftermath of World War I – war is the health of the state. Consistent with this observation, an inevitable consequence of any war is increased central control, increased central planning and a much more powerful national government – exactly what elites the world over desire. When the fallacy of war-induced prosperity is exposed, the attendant fallacy around central control by the same cadre of "elites" during peacetime is exposed as well.

Additional Information:
For more idiocy from a high priest of modern economics, see Jeremy Siegel (#43).

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32. Art Laffer; (Bachelors – Yale; MBA – Stanford; PhD Economics – Stanford)
Just like Phil Gramm (#28), the example of Art Laffer shows the enormous support the central planners at the Federal Reserve enjoy from all side of the political spectrum. Like Gramm, Laffer is often described as a free market economist. Indeed, Laffer is the namesake of the "Laffer Curve," and the Laffer Curve figured prominently in the tax cutting proposals of President Reagan in the 1980s.[107]

However and in spite of being considered a "conservative" economist, Laffer's economic theories are based on the keystone fallacy of liberal Keynesian economics – the confusion of money with wealth. This is the fallacy that lies at the root of the erroneous beliefs in an all-powerful central bank, the salutary benefits from public works spending and, incredibly, the great economic boom that is always produced by mankind's supreme act of folly and destruction - war. Here is Laffer in August 2006 debating Peter Schiff on CNBC. In this debate Laffer has clearly been blinded by the illusion of "wealth" measured in home prices, and is completely clueless to the enormous housing bubble which had been deflating for over two years.[108]

> Art Laffer: "What he is saying is that savings is way down in this country but wealth has risen dramatically - the United States economy has never been in better shape…"
>
> Peter Schiff: "It is not wealth that has increased in the last few years. We haven't increased our productive capacity. All that has increased is the paper value of our stocks and real estate, but that is not real wealth."
>
> Art Laffer: (interrupting): "Of course it is!"

Laffer went on to bet Schiff *"a penny and your honor"* on whether the economy would go into a recession. Like everyone else with economic degrees from elite colleges, Laffer never learned enough to admit he was wrong. Laffer welched on this bet.

Comment:
See Phil Gramm (#28) for another "free market conservative" that is anything but. See Paul Krugman (#31) for the terminal stupidity of all modern economic theories and its confusion of money as wealth – the concept that war is a great economic boom for society.

33. Steve Liesman; (Bachelor's – University of Buffalo; Master's – Columbia University)
CNBC has a well-earned reputation for being, not an impartial observer of the financial markets, but a breathless cheerleader for everything that transpires on Wall Street. Over the past twenty years, two of the largest financial bubbles in *world* history have blown up in the United States. In spite of being exclusively dedicated to business reporting, CNBC never expressed any sort of skepticism towards the enormous financial dislocations that were building during either the tech or housing bubbles. Front Point Partners was one of the few hedge funds to see the housing

bubble develop and subsequently profit from its collapse. Here is Danny Moses, Front Point's head trader, on the typical insights provided by CNBC;

> *"We turned off CNBC. It became very frustrating that they weren't in touch with reality anymore. If something negative happened, they'd spin it positive. If something positive happened, they'd blow it out of proportion. It alters your mind. You can't be clouded with shit like that."*[109]

Steve Liesman is CNBC's chief economics correspondent. As such, he should be sufficiently far removed from the daily fluctuations of the markets to take a long view of economic events. History shows that all sorts of idiocy and rampant speculative excesses can look good in the short term, only to end in a spectacular collapse. Instead of adopting a long view, Liesman has become the biggest shill and lackey for the Federal Reserve of the Greenspan/Bernanke era. In this era – which started in 1987 and still animates the Fed to this day – the Fed adopted a policy of unprecedented active involvement in the economy. Simple logic dictates that the unprecedented formation of the two enormous speculative bubbles that define the Greenspan/Bernanke era, are a direct consequence of the Fed's unprecedented attempt to actively manage the economy. Instead of pursuing this obvious line of inquiry, Liesman, along with the other financial journalists charged with covering the Fed, have seemingly been reduced to sycophants currying favor from the Fed.

Here is Ben Bernanke on the "specialized" reporters – read lackeys - covering the Fed;

> *"…Generally, I spent the most time with the beat reporters who wrote regularly about the Fed, including Jon Hilsenrath of the Wall Street Journal, Greg Ip of The Economist, Krishna Guha of the Financial Times, Neil Irwin of the Washington Post, John Berry of Bloomberg, Steve Liesman of CNBC and Ed Andrews of the New York Times. I knew these more specialized reporters were best equipped to understand and then explain what we were doing and why. Other media would pick up their reporting…."*[110]

Ben Bernanke is not describing an independent media; he is describing a propaganda arm. As Bernanke makes clear, CNBC was fake news before fake news was cool.

Additional Information:
See CNBC's Jim Cramer (#14) for his efforts as chief propagandist for Wall Street and crony capitalists everywhere. See Austan Goolsbee (#25) and Art Laffer (#32) for the type of "experts" CNBC typically features.

34. Jay Light; (Bachelors – Cornell; PhD – Harvard Business School)

Light was the dean of the Harvard Business School from 2006 – 2010. He was appointed Dean by Lawrence Summers (#45) when Summers was Harvard's president. As dean of the Harvard Business School, Light could hardly remain silent in the aftermath of the financial crisis, fueled as it was by so many Ivy League graduates. Amazingly, and in spite of the huge numbers of Ivy

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League graduates at the core of the crisis, Light refused to even tacitly acknowledge any complicity in all the damage wrought by so many Harvard and Harvard Business School graduates. Here is Light at the peak of the crisis in October 2008 celebrating the 100th anniversary of Harvard Business School's founding;

> *"What we have witnessed is a stunning and sobering failure of financial safeguards, of financial markets, of financial institutions and mostly of leadership at many levels. We will leave the talk of fixing the blame to others. That is not very interesting. But we must be involved in fact in fixing the problem."*[111]

In spite of the fact that Light cites the leading role lousy leadership played in the crisis, nowhere in the quote above does he cite the role of the schools that so many of these lousy leaders graduated from. To the extent that "elite" graduate business schools like Harvard's or Ivy League undergraduate colleges generally merit a role in fixing a problem they *clearly* helped to cause – a proposition almost completely devoid of merit by the way – a necessary prerequisite would be for these business schools and undergraduate colleges to recognize their role in creating the problem they know propose to solve. In Luke's gospel is the advice, *"Physician, cure yourself."* (Luke 4:23) Harvard and all the other elite graduate schools of business would be well to take it.

Additional Information:
See Steve Kaplan (#30) for another shill for the education establishment at one of the country's supposedly "top" business schools.

35. Gregory Meeks; (Bachelor Degree – Adelphi; Law Degree - Howard University)
In a Congress full of them, Meeks was among the most useful of idiots. Like Senator Kit Bond (#6) and his House colleagues Barney Frank (#21) and Maxine Waters (#47), Meeks was a tireless defender of the GSEs, Fannie Mae and Freddie Mac, as well as Fannie's CEO – Franklin Raines (#40). Without the support of Congressman Meeks and his colleagues, the housing bubble never could have become as large as it did.

In his capacity as defender of the GSEs and Franklin Raines, Meeks routinely battled OFHEO, its director Armando Falcon and anyone who questioned the perceived wisdom latent in President Clinton's (#12) plan to increase homeownership rates. Representative of Meeks' defense of the GSEs and his complete cluelessness of the burgeoning housing bubble – in terms of homeownership the bubble peaked in April 2004 – is Meeks challenging Falcon with the following in September 2003;

> *"I'm just pissed off at OFHEO, because if it wasn't for you, I don't think we'd be here in the first place. And now the problem that we have and the problem that we are faced with is maybe some individuals who wanted to do away with GSEs in the first place, you've given them an excuse to try to have this forum so that we can talk about it and*

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> *maybe change the direction and the mission of what the GSE's had which they've done a tremendous job. There's been nothing that was indicated that's wrong with Fannie Mae. Freddie Mac has come up on its own…The question that presents itself is the competence that your agency has with reference to deciding and regulating these GSEs."*[112]

Not exactly the sort of statement that stands the test of time.

Additional Information:
For the other congressional supporters of the GSEs and their ultimately disastrous impact on the housing market see Kit Bond (#6), Barney Frank (#21), and Maxine Waters (#47). For the politically connected, no-talent hacks placed in charge of the largest mortgage finance company in the world, Fannie Mae, see Jamie Gorelick (#26) and Franklin Raines (#40).

36. Frederick Mishkin; (B.S. Economics – MIT; PhD Economics – MIT)
Mishkin's chief role in the financial crisis is that of a propagandist for the completely bogus economic theories that buttress the Fed's active role in the economy. When the Fed was first created, it was envisioned that the Fed would only intervene in the economy passively. While the Fed would be the proverbial "lender of last resort', the Fed would only lend against certain types of collateral and at a penalty rate of interest. The collateral would be highly-liquid, short-term assets like commercial paper or "bills." This passive role in the economy wasn't stumbled onto by chance. It was a central bank's passive role in the economy – which came to be enshrined as "real bills doctrine" - which the world's most successful central bank, the Bank of England, had used for centuries.

Nevertheless, within a few years of the Fed's founding in 1913, the Fed began to think that it knew better than history or tradition. The Fed created an "open market committee" in 1923 in an attempt to more actively manage and control the economy. At the same time, the head of the NY Fed, Benjamin Strong, took it upon himself to goose credit markets in the US to benefit Great Britain. Strong's easy – and active - monetary policy to benefit Britain culminated in a secret meeting of central bankers on Long Island in July 1927. The policy results from this meeting led directly to the climax run of the 1920s stock market bubble and the subsequent Great Depression.

None of this easily verifiable history or even simple common sense – there is no way for a group of people as small as the Fed's Open Market Committee to successfully manage an economy the size of United States' – means anything to Mishkin. Mishkin surveys the Fed's *active* role in causing the Great Depression, the runaway inflation of the 1970s and the tech bubble of the 1990s, and somehow reaches the remarkable conclusion that it is the passive real bills doctrine which has been *"thoroughly discredited."*[113] Amazingly, Mishkin appears to believe he can simply invoke the opinion of mainstream economists like himself to buttress his argument on the infallibility of central bankers/economists, and their superiority to what he believes are the old-fashioned superstitions of real bills doctrine. Mishkin is completely unaware that outside the

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academic and central banking circles that he runs – and skis - in, mainstream economists and their idiotic theories are held in utter contempt.

The best proof of Mishkin's nearly complete technical incompetence and the ludicrousness of his theories on central banking are provided by his analysis of credit markets in Iceland. In May 2006, and just a few months before starting his term with the Fed, Mishkin co-authored a report for the Iceland Chamber of Commerce titled "Financial Stability in Iceland." In this report – for which he was paid over $100,000 to prepare - he gave a clean bill of health to the Icelandic banks and economy.[114] Outside of it being an enduring testament to educated stupidity, little can be gained by reading this report today. However – and fortunately for the author - a sampling of the colossal stupidity latent in the report can be gleaned from the executive summary and conclusion alone;

> *"(Iceland's) financial regulation and supervision is considered to be of high quality… There are three traditional routes to financial instability that have manifested themselves in recent crises…None of these routes describe the current situation in Iceland. Our analysis indicates that the sources of financial instability that triggered financial crises in emerging market countries in recent years are just not present in Iceland, so that comparisons of Iceland with emerging market countries are misguided"* [115]
>
> *"This analysis suggests that although Iceland's economy does have imbalances that will eventually be reversed, financial fragility is not high and the <u>likelihood of financial meltdown is very low</u>* (emphasis added)*."* [116]

Whoops! Might have gotten that one wrong!

In the same way that the "tequila crisis" of 1995 was spawned by banks borrowing in one currency, the dollar, and earning income on those borrowings in another currency, the Mexican peso, Icelandic banks had borrowed huge amounts of money in foreign currencies. As clearly demonstrated in the tequila crisis, borrowings of this type are fraught with enormous risk. Icelandic banks borrowed euros and pounds but issued loans in the local Icelandic currency, the króna. If the króna fell in value against the euro or the pound, then it would take far more króna to pay back the loans. Mishkin's sanguine outlook on the health of the Icelandic banks and financial system was completely blind to the enormous currency risks these banks were wallowing in.

By January 2008 the Icelandic currency, the króna began a calamitous collapse against the Euro. Soon after the banks in Iceland collapsed and took the entire economy with it. At the time of the banking collapse, Icelandic banks had loan books many times larger than the entire Icelandic economy; a classic sign of a banking system thoroughly out of control. Corrected for the size of the Icelandic economy, the collapse of the banking industry in Iceland was *the largest banking collapse in history*. In his post-crisis memoir, Ben Bernanke – Mishkin's colleague at the Fed –

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described the problems among Icelandic banks in October 2008 as *"too severe"*[117] for the Fed to offer any succor or support. Bernanke drew this conclusion barely two years after Mishkin reviewed these banks and determined there were no problems at all!

Additional Information:
See Alan Blinder (#5), William Dudley (#19) and Charles Evans (#20) for more examples of the silly ideas that pass for economic insights among the economic PhDs who sit on the Fed's Open Market Committee. See Blinder for more details on the "tequila crisis." See Alan Greenspan (#29) for his efforts to goose credit markets in October 1998 and the eerie similarities between Greenspan's actions rate and Benjamin Strong's meeting of central bankers in July 1927.

37. Stanley O'Neal; (Bachelor Degree – General Motors Institute; MBA - Harvard
The son of a GM assembly line worker and the grandson of a slave, O'Neal – with the benefit of a GM scholarship – earned his college degree at the General Motors Institute, now Kettering University, in 1974. After a meteoric rise through the ranks of GM – which included another college scholarship, this one to Harvard – O'Neal made the fateful decision to leave GM. In 1986, O'Neal left the United States' preeminent industrial powerhouse – and, perhaps, at one time, the company people throughout the world most closely associated with the United States and her unprecedented wealth - for the seemingly greener pastures of Wall Street and Merrill Lynch. It was an enormous blunder. In fact, O'Neal leaving GM for Wall Street is the same mistake the US made as a country in microcosm. The mistake being, the belief that real wealth was no longer the inevitable by-product of physical production; instead, wealth could be created out of thin air by Ivy League history majors trading pieces of paper with numbers printed on them back and forth with each other.

By 2002 O'Neal had worked his way up to CEO of Merrill. As quickly as he rose, he fell even faster. O'Neal wanted Merrill to beat the likes of Goldman Sachs at their own game – trading. He plunged Merrill into the market for sub-prime mortgages. O'Neal ignored the counsel of mortgage industry veterans like Jeffrey Kronthal who were growing increasingly worried about the risks the company was assuming in its mortgage trades. (Kronthal worked at Salomon Brothers in the early 1980s when mortgages securities were basically invented by Lewis Ranieri.) More tellingly, O'Neal ignored the warnings of his own research department. By 2006 Merrill's research department noted that it would only take a 5% decrease in home prices for losses to be incurred in even the "triple-A" tranches of the mortgage bonds.[118]

Eventually – and far too late to save his company - O'Neal realized the enormous losses being produced by his mortgage trading strategy. More fatally for his future with Merrill, O'Neal approached Wachovia about a possible merger, and did so without his board's approval. This proved to be a fatal mistake. On October 30, 2007 O'Neal was forced to resign from Merrill. "Forced" is a relative term here because as part of this forced resignation O'Neal took home

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$161.5-million in retirement benefits.[119] When it was all over, Merrill's total losses in the financial crisis were estimated to be at least $56-billion.[120]

Additional Information:
See Robert Rubin (#41) for another Harvard educated senior executive of a Wall Street firm who took home tens of millions of dollars in salary while his firm lost tens of billions of dollars. O'Neal was replaced as Merrill CEO by John Thain (#46).

38. Henry Paulson; (B.A. English – Dartmouth; MBA – Harvard)
Henry Paulson played a major role in having the "net capital rule" changed. The net capital rule limited the amount of leverage Wall Street firms could employ. However, it was believed by Paulson and others that computers made the leverage limits defined by the net capital rule passé and too conservative. Because of the testimony of Paulson and others, William Donaldson (#17) – the chair of the Securities and Exchange Commission (SEC) – authorized changes to the net capital rule in 2004 that allowed investment banks to use more leverage. Within a little over four years, two of the banks that qualified for the new, more liberal, leverage limits – Bear Stearns and Lehman Brothers – had vanished from the face of the earth. Amazingly, in his post-crisis memoir, On the Brink, Paulson bemoaned the enormous increase in leverage and the considerable contribution this leverage had in causing the crisis,[121] but never mentioned his considerable role in providing the banks the regulatory permission to take on more leverage!

As disastrous as the changes to the net capital rule were, Paulson's role in having these changes enacted is not Paulson's largest contribution to the financial crisis. Instead, Paulson's largest contribution to the financial crisis was the influence he exerted over Wall Street pay practices. After a brief stint in the Nixon White House, Paulson began working on Wall Street with Goldman Sachs. Henry Paulson recalls being impressed with both Steve Friedman (#12) and Robert Rubin (#41) when he first started working for Goldman in 1974. Of Friedman and Rubin, Paulson stated, *"My time in government taught me that whom you work with is as important as what you do."*[122] Suffice it to say, Paulson's judgement was lousy when he starting working on Wall Street and it only got worse. Paulson rose to become Goldman CEO and the highlight of his Wall Street career must be May 4, 1999. On that day, Paulson took Goldman Sachs public.[123]

Outside of the Federal Reserve's disastrous monetary policies, a major reason Wall Street pay has risen so much in the past twenty years is the large investment banks are now public corporations instead of private firms. When the big Wall Street banks were private firms, the partners were risking their own money. As a result, they were relatively cautious in using leverage. For example, as late as 1979, Salomon Brothers – the largest bond trader on Wall Street – assiduously kept track of its working capital with a hand-written ledger that was

maintained outside a partner's office![124] When the firms became publicly traded corporations it was the stockholders money that was at risk, and it is a lot easier to risk other people's money.

By simply having the good fortune of being CEO when Goldman went public, Paulson was able to "monetize" – a classic Wall Street term – hundreds of millions of dollars of Goldman Sachs equity that had been built up over decades. In other words, Paulson along with other senior Goldman executives in the late 1990s who were simply running Goldman when it went public – and who had relatively small roles in building the enterprise value of Goldman and the Goldman name – essentially paid themselves billions of dollars for the hard work of other people. (The huge increase in value of investment banks generally was a direct consequence of the Federal Reserve's disastrous monetary policies since 1971 and Paulson had no role in this either.)

After paying himself hundreds of millions of dollars to run a business that other people had founded and built, during the financial crisis Paulson would then have the supreme gall to criticize the pay practices of other Wall Street banks. A little discussed reason for the wild, speculative business practices on Wall Street was the desire of young investment bankers to make as much money as their bank's management had when the various investment banks went public. Not without some justification, many of these young investment bankers believed they had been cheated out of their share of the bank's value as a public company when the bank's senior management took the lion's share for themselves.

Paulson's influence on Wall Street pay practices goes well beyond the huge amounts of money he paid himself after Goldman went public. After paying himself so much money, Paulson apparently realized he needed to come up with a reason to explain why he deserved so much money. The reason that Paulson seized on - which on Wall Street is not so much a reasoned belief as it is a reflexive, Pavlovian response – was Wall Street banks must pay high salaries to attract the rare talent required in investment banking.

During the negotiations over his Troubled Asset Relief Program (TARP), where Paulson originally hoped to have the Treasury department purchase toxic assets from banks to shore up their capital, legislators were reluctant to go along without some limits on Wall Street pay. Paulson fought these pay limits with the following rationale,

> *"I would continue to resist pressure on compensation restrictions for several days. I was appalled as anyone at Wall Street's pay practices, particularly the flawed incentive structures, which we had tried to avoid at Goldman Sachs. When I was CEO, I did my best to align incentives with long-term performance. I knew compensation was too high industry –wide, but I couldn't change that. We needed to be competitive if we were going to have the best people."*[125]

The enormous stupidity in Paulson's statement that the "best people" work on Wall Street – coming as it did in the aftermath of an enormous crisis that these "best people" labored hard to bring about – should be self-evident. For the discussion here, the primary issue is Paulson admits high salaries are among the chief – if not the only - motivating factor needed to entice people to work on Wall Street. The Bible warns, *"For where your treasure is, there will your heart be also."*[126] Given this admonition and the obvious avarice that exists throughout Wall Street, should anyone then be surprised that Wall Street is distinguished by so much unprofessional, borderline criminal conduct, or that the focal point of so much of this unprofessional, borderline criminal conduct during the housing crisis was Paulson's former firm – Goldman Sachs?

However, the most damaging part of the Wall Street salary structure and Paulson's active endorsement of it as a mere reflection of the singular talents working on Wall Street are the society eroding forces that accompany the Wall Street salary structure. There is a German saying which states, *"Wenn jeder vor seiner Türe fegt, ist die ganze Stadt sauber."* (When everyone cleans in front of his own door, the whole town is clean.) This saying succinctly captures what should be the obvious notion that a society requires contributions from all its members to move forward. Charles Dickens said much the same thing while providing insight into one of the founding principles of capitalism – the division of labor. Dickens – through his Doctor Marigold - stated, *"No one is useless in this world who lightens the burden of it for anyone else."*

In part, because of the enormous salaries on Wall Street – and elsewhere - many people have lost their connection to any sort of larger sense of community or how they fit into the nation's economic life. After all, if someone like Henry Paulson can earn hundreds of millions of dollars on Wall Street and claim that this prodigious salary is a mere reflection of his equally prodigious talent, then why would the average person making perhaps $50,000 per year think they have any responsibility or influence on the larger society?

Writing decades ago, the great Wilhelm Röpke presciently predicted what the Henry Paulson's of the world – along with the political establishment, Hollywood, the mainstream media elite and Ivy League faculties - would unleash on society with their outrageous salaries and insatiable quests for power and influence;

> *"This feeling for the meaning and dignity of one's profession and for the place of work in society, whatever work it may be* (emphasis added)*, is today lost to a shockingly large number of people. To revive this feeling is one of the pressing tasks of our times."*[127]

More recently, in 2011 a committee comprised of the Vatican and the chief rabbinate of Israel concluded similarly, *"our modern world is substantially bereft of a sense of belonging, meaning and purpose."*

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Obviously, Henry Paulson is not solely responsible for the society eroding forces unleashed by the enormous concentration of wealth among the super-rich or the corrosive nature of today's popular, political and media cultures. Nevertheless, Paulson's defense of Wall Street's salary structure- and the enormous enrichment that he helped himself to when Goldman went public – exposes Paulson to enormous and justified criticism. As such, and like every other Goldman Sachs CEO since 1990, Henry Paulson has a well-earned place on the list of 50-people most responsible for the financial crisis of 2008.

Additional Information:
See William Donaldson (#17) for more information on the net capital rule. See Lloyd Blankfein (#4), Jon Corzine (#13), Steve Friedman (#22) and Robert Rubin (#41) for the other Goldman Sachs CEOs on this list.

39. Charles Prince (Bachelors, Masters & Law Degree – University of Southern California)
Chuck Prince succeeded Sandy Weil (#48) as CEO of Citigroup in 2003 and was forced to resign this position in November 2007 in the wake of Citi announcing enormous losses in its mortgage portfolio. Prince's first job out of law school was with U.S Steel, and Prince never really seemed to be comfortable with the wheeler-dealer culture on Wall Street. Perhaps the best example of how out of touch Prince was with the way Wall Street worked is provided by Treasury Secretary and former Goldman Sachs CEO, Henry Paulson (#38).

In his post-crisis memoir, On the Brink, Paulson recalls a dinner he attended at the Federal Reserve Bank of New York on June 26, 2007. Among the attendees were Jamie Dimon (CEO, J.P. Morgan), Lloyd Blankfein (#4), Jimmy Cayne (#10), Steve Schwartzman (CEO, Blackstone) and Chuck Prince, (CEO, Citigroup). At this dinner, Prince went up to Paulson and essentially asked him whether there was anything Paulson could do as Treasury Secretary to keep banks like Citigroup from taking such large risks.[128] It would appear that because he had not spent his entire career on Wall Street, Prince had an inkling that what passed for business as usual on Wall Street was actually fraught with enormous risks.

More famously, and after apparently taking several belts of the Wall Street Kool-Aid - in July of 2007 Prince stated in an interview with the *Financial Times* that Citigroup's approach to risk management was, "*As long as the music is playing, you've got to get up and dance. We're still dancing."* In testimony in front of the congressional panel investigating the cause of the financial crisis Prince stated that the *Financial Times* quote had nothing to do with mortgages or the US housing market. Rather the quote was concerned with "leveraged loans" or loans to private equity firms and bridge loans to finance leverage buyouts. Prince testified that he essentially felt compelled to make these risky loans because if he didn't another bank would,

> *"It was not credible for one institution to back away from this leveraged lending business…The regulators had an interest in tightening up lending standards."*[129]

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It was these "leveraged loans," not mortgages, Prince was discussing with Paulson when he asked if there was something the Treasury could do to keep banks like his from taking too much risk.

Nevertheless, the example of Chuck Prince, and his ultimate decision to take on enormous amounts of risk even when he had doubts, shows how the credit bubble mania swept through Wall Street. Up and down Wall Street the same thing was heard time and time again - if you don't take these risks, someone else will. This wasn't investing or anything that required a probing intellect. Instead, it was little more than an enormous game of "monkey see, monkey do." Of all the arguments against the enormous salaries on Wall Street, the enormous losses emerging from the housing crisis is not even the strongest. Instead, the strongest argument against the huge Wall Street salaries is the group think that prevails on Wall Street and group think only takes mediocrities to perpetuate.

Additional Information:
See Robert Rubin (#40) for more on Prince's dilemma and how Rubin could earn over $100-million from Citigroup and claim he only had a "side role" with the company. See Sanford Weil (#48) for the Federal Reserve's and the Clinton Administration's fully fraudulent role that allowed Citigroup to be created in the first place.

40. Franklin Raines; (B.A - Harvard; Law Degree - Harvard)
Franklin Raines is Exhibit A for the morally bankrupt political culture that exists in this country. Raines was President Clinton's (#12) budget director. In spite of little experience as a banker or in the mortgage industry, after leaving the Clinton White House Raines was named CEO of Fannie Mae, the largest mortgage bank in the world. As CEO of Fannie, Raines would earn tens of millions of dollars even as he – along with his vice-chair and co-equal in incompetency and politically connected cronyism, Jamie Gorelick (#26) – would drive Fannie to tens of billions of dollars in losses.

Ostensibly, Fannie Mae was a private enterprise. However, Raines always reckoned the interests of his shareholders to be a distant second to advancing President Clinton's homeownership goals. Raines eagerly – and disastrously - committed Fannie's capital to advance President Clinton's housing agenda. Raines committed Fannie to Clinton's housing goals even though he recognized this strategy would expose Fannie to the risks in the market for sub-prime mortgages. For example, when HUD Secretary Andrew Cuomo's (#16) mandate to have the GSE's direct fully 50% of their mortgage capital to low and moderate income borrowers was only being discussed, Raines noted, *"We have not been a major presence in the subprime market, but you can bet that under these goals we will be."*[130]

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Arguably the culmination of the economic idiocy of the Raines and Gorelick era at Fannie was March 18, 2003. Here Raines celebrated along with Fannie's "partners" the more than $1.3-*trillion* in mortgages that had already been loaned to "targeted families." Among the numerous banking names such as Countrywide, Bank of America, Fleet Boston and JPMorgan Chase – all of whom the government would later sue – being recognized as "partners," was a then obscure community activist group – ACORN.[131] Raines celebrating the issuance of these mortgages – so many of which would go bad in just a few years – is little different than the captain of the Titanic celebrating hitting the iceberg. Ultimately, on December 21, 2004 Raines was forced to resign under a dark cloud of suspicion after at least $6-billion in Fannie profits were proven to be non-existent. This was merely a harbinger of things to come and the losses accumulated by Fannie would be enormous. Franklin Raines had sowed the wind and the United States would reap the financial whirlwind. In less than four years, Fannie would be taken over by the government and require tens of billions in capital injections to stave off insolvency.

Additional Information:
See Henry Cisneros (#11) and Andrew Cuomo (#16) for more details on the affordable housing mandate. See Bill Clinton (#12) for the "strategy" – read "central plan" - to increase homeownership levels to all-time highs. See Jamie Gorelick (#26) for more information on the disastrous lending standards pursued by Fannie to further the Clinton administration's housing goals. For the most zealous congressional supporters and defenders of the GSEs and Franklin Raines see Kit Bond (#6), Barney Frank (#21), Gregory Meeks (#35) and Maxine Waters (#47).

41. Robert Rubin; (BA – Harvard; Law Degree – Yale)
Robert Rubin earned an economics degree from Harvard and a law degree from Yale. After working as a lawyer for a few years he started with Goldman Sachs in 1966. In 1990 Rubin was named co-chair of Goldman Sachs along with another lawyer, Steve Friedman (#22). It would appear that by having two lawyers run the firm, banking in the conventional sense is not a large part of the business at Goldman Sachs. (The current CEO of Goldman Sachs, Lloyd Blankfein (#4), is also a lawyer.)

From 1993-1995 Rubin served as the director of President Clinton's National Economic Council. He then served as President Clinton's Treasury secretary from 1995-1999. Among the things he can take "credit" for as Treasury secretary was vociferously arguing against any regulation of credit derivatives after the commissioner of the Commodities Futures Trading Commission, Brooksley Born, first floated the idea in May 1998. In July 1998 he had his undersecretary, fellow Harvard alumni and financial services errand boy, Lawrence Summers (#45), testify to Congress against regulating derivatives. Even after knowing the large role that credit derivatives played in the collapse of the high profile hedge fund Long Term Capital Management (LTCM) in September 1998, Rubin never reconsidered his position on credit derivatives.

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As Treasury secretary Rubin also spearheaded the campaign to eliminate portions of the Depression-era Glass-Steagall Act. Before the Depression many of the larger banks had subsidiaries known as securities affiliates. When these securities affiliates suffered losses in the stock market crash, the solvency of the large commercial bank holding companies was threatened. To prevent this from re-occurring, the Glass-Steagall Act, among other things,[132] placed limits on the relationship a bank could have with a securities firm. In the wake of the financial crisis many people cited the 1999 modifications to the depression-era Glass-Steagall Act – 1999's Gramm-Leach-Bliley Act – as a significant contributing factor to the origin of the financial crisis.

The role the Gramm-Leach-Bliley Act played or did not play in the financial crisis is not a focus of this discussion. Instead, the mere passage of the act does much to demonstrate the completely corrupt, de-facto revolving door that has been established between the upper echelons of government and the executive suites in Wall Street finance. In 1998, Citicorp merged with the Travelers insurance company to form Citigroup. There was one major issue with the merger – the resulting company, Citigroup, was in violation of the Glass-Steagall Act! In order for the merger to proceed, Citigroup had to be exempted from the Glass-Stegall Act. It hardly needs to be mentioned that the obsequious Federal Reserve of Alan Greenspan was all too eager to do Wall Street's bidding and quickly issued an exemption for Citigroup. However, it was not until the Gramm-Leach-Bliley Act passed in November 1999 that Citigroup even had official, legal standing. Some people evenly mockingly referred to the Gramm-Leach-Bliley Act as the "Citigroup Relief Act."

After having led the effort to alter the Glass-Steagall Act to advance Citigroup's interests, Rubin left the Treasury department in 1999 and returned to Wall Street. Amazingly – and in an obvious conflict of interest for anyone without degrees from Harvard and Yale or close contacts with the Clinton White House – Rubin went to work for the very company that benefited like no other from his career in government – Citigroup. Over the next eight years Rubin made approximately $115-million working for Citigroup – a company that owed its very existence to Rubin's tenure as Treasury Secretary. (As an aside, no one should spend much time trying to determine why so many Americans hold their government in utter contempt.)

In November 2007 and after Citigroup suffered massive losses and required an equally massive government-led bailout, Rubin claimed, amazingly, that he bore no responsibility for the company's problems. In one of the most scandalous comments in a crisis that was full of them, Robert Rubin claimed, *"I am not senior management, I have a side role."*[133] Of course this contention is completely undermined by the salary he was paid by the ship of fools masquerading as one of the world's largest financial institutions.

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In spite of his Yale law degree and vast network of political contacts, Rubin's excuses concerning his role at Citi did not get very far with the congressional panel investigating the cause of the financial crisis. In the words of Phil Angelides, the panel's co-chair,

> *"I didn't see him stepping forward and accepting the responsibility of the disaster that Citigroup was and for the impact it had on the taxpayers and our financial system. I just don't think you can be in that kind of leadership position, get paid more than $115-million, and ultimately disclaim any responsibility for the fate of the ship you helped captain."*[134]

Perhaps best-selling author Nassim Nicolas Taleb best summed up Robert Rubin when he stated, *(Rubin) represents everything that is wrong with America."*[135]

Additional Information:
See Lloyd Blankfein (#4), Jon Corzine (#13) and Steve Friedman (#22) for the fungible nature of business ethics when exercised by a Goldman Sachs CEO. See Charles Prince (#39) for more information on the enormous losses incurred by Citi when Rubin was a senior executive. See Sanford Weil (#48) for details on the enormous lengths the Fed and the government went to in order to do Citigroup's bidding. See Weil also for the role the Gramm-Leach-Bliley Act *didn't* play in the financial crisis.

42. **Mark Rubinstein; (B.A. Economics – Harvard; MBA – Stanford; PhD. – UCLA**)
Rubinstein, a finance professor at UC-Berkeley, played an enormous role in the formation of "financial engineering" as some sort of half-baked academic "discipline," and the concomitant rise of finance as an end in itself rather than a means to end. In 1976, Rubinstein - along with another Berkeley colleague, Hayne Leland - introduced the idea of "portfolio insurance."[136] The idea behind portfolio insurance was to program a computer to monitor market conditions. In the event certain "trips" or "triggers" take place, the computer will then automatically initiate trades to prevent further losses. Generally speaking, the idea makes sense – after all, computers are programed to fly airplanes and help run power plants. What could possibly go wrong?

Well, two things actually. The first flaw with this concept was the notion that market conditions – which can be dominated by human emotion – could ever be reduced to machine coded instructions to an unthinking computational engine like a 1970s-1980s vintage computer. Computers programed to fly airplanes and control power plants only need to capture the physics of flight and the laws of thermodynamics respectively. These computers and the programs that run them don't need to account for the mood of pilots or the temperament of plant operators respectively to work properly. A program designed to work in a trading environment would need to model *all* the nuances of human behavior – how is this even remotely possible?

However, the flaw associated with the impossibility of modelling human emotion– as great as it was – was dwarfed by an even greater fallacy latent to the entire portfolio insurance concept. The

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same portfolio insurance trading program was provided to a large number of market participants. By having a large number of traders making the same trades at the same time, violent swings in the market were not prevented, *they became inevitable*. This is exactly what happened on October 19, 1987.

Because so many market participants were using the same portfolio insurance program, once the market started to move down in earnest, the same trades were initiated all over Wall Street. For example as the S&P500 started to drop a certain amount, the portfolio insurance programs automatically started to sell certain securities to raise cash and avoid further losses. As these securities were sold in massive volumes their price dropped. These price drops prompted the portfolio insurance programs to initiate automatic trades of still other securities. The portfolio insurance induced selling fed on itself, and, like a swarm of locusts devouring a pioneer's wheat crop, the damage was done in just a few hours. Market participants stood by transfixed and appeared powerless to intervene or even understand what was happening as markets plummeted. By days end stocks were down 20%. This remains, by far, the largest one-day drop in history.

The role that his product played in the 1987 market crash and his failure to understand this in advance notwithstanding, Prof. Rubinstein was undaunted. Rather than trying to more fully understand the Frankenstein's monster he helped create, he has since started the "Masters in Financial Engineering" program at UC-Berkeley. He has dedicated his life to the creation of still more, even bigger financial monsters. As it turned out, October 19, 1987 – as violent as it was - proved to be a mere harbinger of things to come.

In spite of the enormous losses produced – in part by programmed trading as well as the transparently bogus belief in the power of computers to flawlessly manage highly-leveraged investments - the financial services industry would re-order itself to take advantage of the completely mythical and non-existent power of computers to reduce financial risk. The best example of this remains the changes enacted to the SEC's "net capital rule." Here, investment banks, financial services firms as well as their media and academia stooges successfully argued to the SEC that because of computers, the SEC's "net capital rule" should be changed to allow banks to use far more leverage. Changes to the net capital rule were adopted in 2004 and these changes then played a major role in the financial crisis just a few years later.

Additional Information:
See William Donaldson (#17) for changes to the SEC's net capital rule which allowed banks to use much more leverage and the role computer models played in this decision. See Gary Gorton (#27) for another finance professor who erroneously believed computer programs could flawless manage complex, highly leveraged investments. See Henry Paulson (#38) for his efforts to have the net capital rule changed to allow greater leverage in the banking system.

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43. Jeremy Siegel; (Bachelors – Columbia University; PhD Economics – MIT)
Jeremy Siegel has two Ivy League degrees in economics, teaches at an Ivy League college - the University of Pennsylvania - and is a frequent guest on CNBC. In the same way that "three strikes and you're out" is the fundamental rule of baseball, these three attributes of Siegel amount to proverbial three strikes against his competence in anything even tangentially related to the real economy. Fortunately, because Jeremy Siegel is so eager to offer his opinion on all sorts of topics he clearly knows nothing about, it is not necessary to simply rely on the three attributes above to prove his colossal ignorance.

In December 1996, Alan Greenspan (#29) gave one of the most memorable and remarkable speeches in the history of central banking – *"The Irrational Exuberance"* speech of December 05, 1996. The speech was officially titled "The Challenge of Central Banking in a Democratic Society," but most people simply dubbed it the "irrational exuberance speech." In this speech – which was given to the American Enterprise Institute (AEI) - Greenspan said,

> *"How do we know when irrational exuberance has unduly escalated asset values, which then become subject to unexpected and prolonged contractions, as they have in Japan over the past decade? And how do we factor that assessment into monetary policy? We as central bankers need not to be concerned if a collapsing financial asset bubble does not threaten to impair the real economy, its production, jobs, and price stability…But we should not underestimate or become complacent about the complexity of the interactions of asset markets and the economy. Thus, evaluating shifts in balance sheets generally, and in asset prices particularly, must be an integral part of the development of monetary policy."*[137] (Emphasis added)

The speech – which was long even by Greenspan standards – and doubtless came at the end of an evening full of drinking. Most likely the by now slightly sauced policy wonks of the AEI didn't even notice the financial world shifting under their feet as the speech was being made. However, the financial markets certainly did. The reaction by the markets to the speech was immediate and explosive. Asian markets fell by several percent just hours after the speech. When markets opened in the US they tumbled as well. After having been long conditioned by the "Greenspan put" and his loose monetary policies, markets were shocked their prime benefactor, Chairman Greenspan, might be worried about *"unduly escalated asset values"* or that the impact of stock prices on the economy *"must be an integral part of the development of monetary policy."*

Faced with the prospect of losing their sugar daddy and having to work for their money like every other business, the largest Wall Street banks and wealthiest investors everywhere threw a temper tantrum. Like a spoiled child screaming at the top of their lungs at a supermarket checkout in the hopes of getting yet another candy bar from their parents, market participants hoped to force Greenspan to reconsider the less expansionary policy he appeared to endorse in

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his speech. It was a test of wills between the market and Greenspan – and Greenspan folded, like origami.

Instead of leaning against the emerging stock market bubble and having the Fed adopt a more passive role in the economy, Alan Greenspan became the most ardent disciple of what came to be called – incorrectly, it hardly needs to be said - the "new economy." He constantly praised how the emergence of computer technologies would fundamentally alter business and virtually prevent mistakes of the past such as poor inventory management or bad strategic decisions. Most fatally, he was firmly convinced – like nearly all PhDs in economics – that computers allowed central planners/central bankers to precisely control and fine-tune the economy. These same computer technologies would also allowing investment bankers to model prices of all sorts of financial assets to seven significant digits of accuracy. This level of mathematical precision would allow an enormously beneficial, market-smoothing industry of incredibly complex, "derivative" securities to be created.

Of course in all this, Greenspan was completely wrong. The stock market soared throughout the late 1990s, culminating in the madness of the "dot com" mania. Before the dust from the tech bubble crash had even settled, Greenspan was being criticized for his awful judgement and people cited the "irrational exuberance" speech as strong evidence that Greenspan did indeed know better and failed to put his correct judgement into action.

However, a variety of people – mostly academics wedded to the belief that central planning in the form of central banking provides a tremendous benefit to the economy – defended Greenspan after he failed to take any action after threatening the market to do so in his "irrational exuberance" speech. In the front ranks of these Greenspan defenders, was Jeremy Siegel. Here is Siegel writing in the Wall Street Journal as a Wharton finance professor, stock market cheerleader and CNBC favorite ten years after the irrational exuberance speech,

> *"Now that we have 10 years of economic and financial data, we can now accurately determine whether the market was indeed "irrationally exuberant" in December 1996. The answer is decidedly no. Had the market been overvalued, it would have shown poor returns in the following decade. But it did not…"*[138]

The stupidity in this comment is basically biblical in scope. Prof. Siegel cites stock valuations in 2006 - which were *exclusively* fueled by the housing bubble, only the largest financial bubble in history - to refute the notion that stocks weren't overvalued when Greenspan gave his irrational exuberance speech. This wasn't a flat earth society crackpot questioning the validity of a lunar landing. This was the economic analysis of a finance professor at what is reputed to be the best college in the world to study finance, the University of Pennsylvania. Time has revealed Siegel's judgement to be wrong on all counts and yet he is still a widely respected commentator on financial markets. What additional proof is needed to conclude that most of what passes for

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finance in the U.S. today is nothing but a fraud and its leading proponents, many of whom come from our elite universities, nothing but hucksters?

To further prove just how often Jeremy Siegel gets everything wrong, here he is in December 2007 predicting what the economic future holds for 2008, the year when all the financial chickens associated with Bill Clinton's central plan for housing, the Fed's monetary madness and Wall Street avarice finally came home to roost;

> *"I think the actual number of* (mortgage) *delinquencies next year will be below what the market predicts as investors have overreacted to the mortgage crisis. When this happens it could lead to a nice recovery in financial stocks…And I believe financial stocks, which have plummeted 18% so far this year, will outperform the S&P500 index next year as the crisis fades."*[139]

Of course, far from overreacting to the mortgage crisis, most investors didn't have an inkling of just how bad the crisis would become. In the stock market, financial stocks, far from leading the market higher, would be annihilated, with two of the five Wall Street investment banks – Lehman Brothers and Bear Stearns - vanishing from the financial universe. Jeremy Siegel didn't limit his incorrect predictions to his supposed area of expertise – finance. He also predicted that Hilary Clinton and Rudolph Giuliani would win their party's nomination for president.

To be sure, the financial crisis relied on several key individuals to flourish and grow. Chief among the individuals most responsible for the emergence of an enormous financial crisis in 2008 are of course Ben Bernanke (#3), Bill Clinton (#12), Andrew Cuomo (#16), Barney Frank (#21), Alan Greenspan (#29) and Lawrence Summers (#45). However, along with these key individuals it was also necessary for an entire infrastructure of lousy economic theory to not only exist, but to flourish and become accepted as gospel. Jeremy Siegel – and all the other less well-known, largely anonymous dolts teaching economics at Ivy League colleges – played an enormous role in creating an intellectual environment in which the fallacies latent in Bill Clinton's central plan for housing, and the Federal Reserve's active control of the economy would be accepted as unchallenged, universally accepted truths.

Additional Information:
See Austan Goolsbee (#25) and Art Laffer (#32) for two other PhDs in economics regularly featured as experts on CNBC who regularly demonstrate enormous gaps in their knowledge of economics.

44. Martin Sullivan; (Did not attend college)

Martin Sullivan was a long-time insurance industry veteran when he was named CEO of AIG in 2002. The insurance business that Sullivan started in as a 16-year old clerk in AIG's London office in the 1970s bore no resemblance whatsoever to what AIG had become in the 2000s. Rather than investing insurance premiums in conservative stocks paying good dividends, AIG –

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particularly the AIG Financial Products (AIG FP) group in London – routinely made highly leveraged speculative "bets" on investment outcomes via financial derivatives. Sullivan – who was well-liked wherever he worked and seemed to have an easy going nature – was too willing to defer and delegate to so-called experts. The most fatal example of this deference to "experts" was Sullivan's almost complete reliance on complicated financial models developed by Gary Gorton (#27) of Wharton. These models incorrectly showed that the risks AIG FP was running in its derivatives trades were actually quite mild. It was an enormous miscalculation and resulted in the sinking of AIG.

Additional Information:
See Joseph Cassano (#9) for the head of AIG FP. See Tim Geithner (#24) for the size of AIG's enormous losses. See Gary Gorton (#27) for more information on AIG's trade in derivatives.

45. Lawrence Summers (Bachelors – MIT; PhD Economics – Harvard)
Lawrence Summers shares many things in common with Robert Rubin (#41), not the least of which is an enormously flawed character. Exactly like Rubin, Summers would be at the center of enormous and easily discernible blunders in judgement that directly led to the crisis. Nevertheless, even after the financial crisis hit and caused enormous damage, Summers continued to consider himself an "expert" in economics. He continued to offer advice on all sorts of economic topics his role in causing the crisis clearly shows he knows nothing about. Completely unsurprisingly, the political, media and Wall Street establishments – all of whom also have much to answer for concerning the financial crisis' origins – share the opinion of Lawrence Summers that Lawrence Summers has of himself. Despite his obvious role in causing the crisis, after the crisis Summers was made an economic advisor to President Obama, wrote several high-profile editorials in the *New York Times* and *Washington Post* and still consults with hedge funds. Don't be confused by the establishment's take on Lawrence Summers; Lawrence Summers is a dunce.

Summers' role in the crisis is inextricably linked to the critical role derivatives played in the financial crisis. Derivatives are not typical investments like stocks or bonds that are, themselves, assets. Instead, derivatives "derive" their value from some other asset. During the housing bubble, an enormous industry had developed around derivatives tied to mortgage bonds. These derivative investments were essentially little more than "side bets" on whether an individual mortgage bond would remain solvent or not. AIG, relying on models developed by a Wharton finance professor, Gary Gorton (#27), was the biggest player in derivatives tied to mortgage bonds and would lose tens of billions of dollars when the housing bubble collapsed.

As far as understanding Summers' critical role in the financial crisis is concerned, the most important thing to understand about derivatives – linked as they are to Summers - is far more money was likely lost on derivatives going bad then mortgage loans going bad. In other words,

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without all the derivative side bets going bad, there probably wouldn't have been a financial crisis in the first place. To be sure, even without the impact of failing derivatives, the economy would have suffered a serious setback as a result of the housing bubble bursting and the enormous numbers of failing mortgages. However, it is unlikely that anything resembling the financial crisis would have occurred.

The market for derivatives didn't grow as large as it did by chance; it grew as large as it did because powerful people wanted the market for derivatives to grow. Lawrence Summers in particular is a primary reason the derivative market became as large as it did. The influence Lawrence Summers exerted to make the market for derivatives so large makes Lawrence Summers – along with Ben Bernanke (#3), Bill Clinton (#12), Andrew Cuomo (#16), Barney Frank (#21) and Alan Greenspan (#29) – one of the very few key catalysts for the entire financial crisis.

Surely, and given the enormous role played by complicated derivative investments in the crisis, one of the major milestones on the road to the financial crisis must be the July 1998 congressional hearings on derivatives. These hearings were called because of Brooksley Born's modest proposal from May 1998 to regulate the trade in derivatives. At the time, derivatives were largely unregulated and derivative positions were often recorded "off the balance sheet." In other words, while regulations existed – namely the net capital rule, see William Donaldson (#17) - to limit the amount of leverage banks could employ, these limits on leverage could easily be avoided by using derivatives. As a result, highly leveraged positions could be established with derivatives that couldn't be taken with other investments.

In the halcyon days of a passive central bank that wouldn't bail out Wall Street at the first hint of trouble, banks had a natural aversion to excessively high levels of leverage. However, because of Alan Greenspan (#29) and the "Greenspan put," banks became far less reticent about using enormous amounts of leverage in the interest of generating the biggest returns. The combination of a completely unregulated market in derivatives with the active central bank of Alan Greenspan dedicated to providing constant succor and support to Wall Street was a disaster waiting to happen. It would prove to be a disaster the world wouldn't have to wait long for.

Well before the July 1998 hearings on derivatives or even the May 1998 proposal to subject derivative securities to some sort of regulation, financial derivatives had generated considerable scrutiny from within the banking establishment. In a January 1992 speech to the New York Bankers Association Gerald Corrigan, the Governor of the Federal Reserve Bank of New York, cautioned bankers about the danger of financial derivatives. He warned bankers they need to *"take a very hard look at off balance sheet activities (derivatives)"* and *"I hope this sounds like a warning because it is."* Later that year Allan Taylor, Chairman of the Royal Bank of Canada, likened derivatives to a *"time bomb that could explode just like the LDC crisis did, threatening*

the world financial system." (The LDC crisis was the crisis spawned by hundreds of billions of loans to third world countries going bad.) Picking up on the bomb metaphor, Felix Rohatyn, a senior partner at investment bank Lazard Freres, likened the market for derivatives as *"26-year-olds with computers creating financial hydrogen bombs."*[140]

As these concerns show, the post-crisis criticism of Summers and others for failing to act on derivatives in July 1998 is not Monday morning quarterbacking. The dangers inherent in derivatives and the enormous leverage that could be employed with them had been topics of discussion for years, particularly among the more conservative elements of the banking establishment. Given these concerns, what explains the enormous resistance to Born's seemingly modest proposal that clearly had some merit, and would simply treat derivative investments in the same way that other investments were already being treated? The simple reason is regulating derivatives would - in the opinion of Larry Summers, the biggest banks on Wall Street and the supposedly brightest members of Ivy League economics departments – kill the proverbial goose that laid golden eggs.

Larry Summers and the rest of the economic establishment believed they could marry their economic insights – the most obvious manifestation of which was a raft of completely worthless, nonsensical equations – with the power of modern computers to precisely model not only entire national economies, but small, virtually imperceptible differences between the market price of an asset and its computer predicted "fair" price. Stripped of their mathematical complexity and Ivy League pedigrees, the complicated economic models used in trading derivatives rested on three enormous blunders;

- Prices from the past could be used to predict prices in the future
- The models confused correlation with causation
- People always act rationally

These mistakes are so basic and the ignorance of them so replete with enormous risks, that PhD economists - particularly those, like Summers, with degrees from Harvard or MIT - are about the only "educated" people walking the face of the earth dumb enough to make them.

Armed with their sophisticated mathematical models – which weren't worth the paper they were written on – hedge funds, investment banks and PhD economists like Larry Summers believed they had created a financial perpetual motion machine. Once started, this machine would effortlessly and continuously generate enormous trading profits. Unlike the voodoo science which modern economics has clearly become and the witch doctor economists who are its chief practitioners, in the rigorous, rule-based field of thermodynamics, engineers recognize that perpetual motion machines *can't* exist. They are simply too good to be true. Regrettably, the simple notion of something being too good to be true was lost on the largest Wall Street banks and their financial errand boys in the Treasury Department like Larry Summers.

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An understanding of the trade in derivatives and the models used to justify these trades can be gained by using government bonds as an example. Government bonds will yield different rates of interest depending on the country issuing the bonds. For example, German bonds will always pay less interest than an equivalent French bond because Germany has a much better record of diligence, living within its means and keeping its financial wits about itself than France. Based on historical data, statistical regressions of this data and – laughably - assuming a normal distribution to this historical data - it was believed that it was possible to determine if the spread between German and French bonds was too high, too low or optimally priced. If the bonds were mispriced, then a derivative security could be established based on the interest rate spread between the bonds narrowing or widening.

In addition to the complete implausibility of believing historical data would flawless predict prices in the future, another problem with trading derivatives was the very small difference in prices predicted by the model and those prevailing in the market. Returning to the example of government bonds, the difference in the interest payments between German and French bonds – or the "spread" - might only be a small fraction of a percentage point – say 0.25%. Because the spreads were so small, the only way to make serious money on derivative investments of this type was to use enormous leverage.

Long Term Capital Management, LTCM, was the poster child for derivative investments in the 1990s, and a review of their history proves the importance of leverage to a strategy based on derivatives. In 1995, LTCM generated a total return of 59% on its capital. However, its return on total assets – which accounts for the enormous amounts of borrowed money and leverage – was just 2.5%![141] Basically, LTCM used enormous amounts of borrowed money to enter hundreds of trades each year, and only hoped to make a very small return on each of these trades. While the return on any one trade would be small, the total return on all the trades – the vast majority of which were made with borrowed money – would allow the total return on capital to be enormous. PhD economists like Lawrence Summers considered their models to be so accurate and precise that even with enormous leverage, it was virtually impossible to lose money.

Of course, the confidence the economic establishment had in their models was completely misplaced. Moreover, because of the enormous amounts of leverage used and the relatively small returns that could be gained with any one trade, the strategy used to trade derivatives was the Wall Street equivalent of picking up pennies in front of a runaway freight train; the potential returns were completely dwarfed by the potential losses.

Amazingly, not long after the July 1998 hearings ended, LTCM suffered a spectacular collapse in September. LTCM's collapse was considered so serious and potentially damaging to the entire financial system that the Federal Reserve Bank of New York organized a Wall Street

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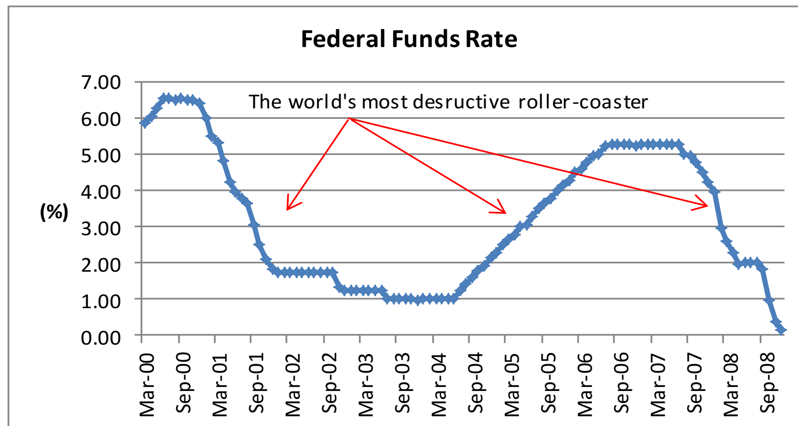
bailout of LTCM to avoid a financial panic. Most disastrously, the Fed's Alan Greenspan (#29) essentially duplicated the mistakes made by the Fed's Ben Strong 71-years earlier. Greenspan didn't call a secret meeting of the world's most important central bankers; instead, in October 1998 he cut rates between regularly scheduled meetings of the Fed's Open Market Committee (FOMC).

In doing so Greenspan gave Wall Street the proverbial greenlight to start a period of virtually unprecedented speculative excess, and Wall Street was more than happy to drop the clutch. From Greenspan's irresponsible interest rate cut in October 1998 through March 2000, the NASDAQ soared from 1,611 to just over 5,000. However - and duplicating what happens after every speculative bubble - the market fell even faster than it rose. From its peak in March 2000 to its bottom at 1,114 in October 2001, the NASDAQ suffered a nearly 80% drop. Unfortunately, Alan Greenspan and the Fed weren't finished with interfering in the economy and would cause far more damage.

In response to the tech bubble collapse – the climax run of which was fueled by his October 1998 rate cut - Greenspan and his partner in criminal stupidity, Ben Bernanke (#3), would then embark on an enormous interest rate cutting spree. It is important to realize that interest rates just didn't fall in the early 2000s, they fell off a cliff. See the chart below, data is from the St. Louis Fed;



In the same way an unscrupulous football trainer would shoot up his team's star running back with high-strength pain killers to mask the pain of a dislocated shoulder, the Federal Reserve slashed rates to deaden the economy to the dislocations caused by the stock bubble collapse. From just March 2000, the top of the NASDAQ bubble, to December 2001 rates fell from 5.85% to just 1.82%. To put the 1.82% rate into perspective, the last time rates were this low for any period of time was during the Eisenhower administration. Rates stayed below the unprecedented low level of 1.25% for years on end! While the Fed's rate cutting spree did mask some of the short-term economic pain created by the tech bubble collapse, the long-term damage these rate cuts caused was more destructive than any short term pain that was alleviated. The Fed's rate

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cutting spree fueled the terminal states of a bubble that dwarfed the recently collapsed bubble in tech stocks – the world altering housing bubble.

Essentially, the derivative inspired failure of LTCM caused the Fed to act irresponsibly, which then fueled even more speculative excess on Wall Street in the form of the tech bubble. When the tech bubble collapsed, the Fed embarked on another round of even more irresponsible policies and this helped to fuel the terminal states of the housing bubble. On this basis alone, it is pretty safe to say that the July 1998 hearings on derivatives and the enormous efforts spent to keep derivatives unregulated had a lot to do with the housing crisis. Thanks Larry!

Even without understanding the chain reaction that started with the collapse of LTCM and ended with the collapse of the housing bubble, it is difficult for any fair-minded person to understand how the failure of LTCM – coming as soon as it did after the July 1998 hearings on derivatives – didn't prompt the issue of derivatives to be revisited. The fact that even after LTCM collapsed derivatives were left unregulated is clear evidence of the enormous power held by financiers in today's political environment. The issue of derivatives and their regulation would never be decided on the basis of any sort of objective weighing of merits. Instead, the financial powers to be didn't want to see derivatives regulated, and this is what they were going to get – no questions asked!

Equally representative of the enormous power held by the financial services industry is the timing of the July 1998 hearings. Note in particular how quickly the hearings were held and who took part in them. Brooksley Born's proposed her ideas in May and hearings were scheduled for July? That seems pretty fast! In these hearings, President Clinton quickly dispatched his two most senior figures in the Treasury Department, Summers and Robert Rubin (#41), to lead the administration's efforts to fight – tooth and nail – against Brooksley Born's proposal. The Fed's ubiquitous Alan Greenspan (#29) joined the fight as well and was later joined by Arthur Levitt of the Securities and Exchange Commission (SEC).

Brooksley Born led a tiny commission – the Commodity Futures Trading Commission (CFTC) – and the CFTC was no watch for the combined and quickly assembled might of the Clinton administration, the Fed and the SEC. The "Kodak moment"[142] of the July 1998 hearings must be Summers – doing his best impression of an unmade bed – simultaneously slouching and glaring at Born while she calmly and dispassionately – made the case for regulating financial derivatives. Against the enormous bulk that was sloppily and hastily organized against her – personified as it was by the slovenly Lawrence Summers – Born's proposal never had a chance.

Additional Information:
See Lloyd Blankfein (#4) for more information on the derivative trade in mortgage bond insurance. See Jon Corzine (#13) for more information on the LTCM bailout. For another

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Harvard educated person who never learned enough to know when he was wrong, see Barney Frank (#21). See Gary Gorton (#27) and Mark Rubinstein (#42) for more information on the highly-leveraged nature of derivative trades and how they can be likened to picking up pennies in front of a freight train. For the disastrous impact of LTCMs collapse on the Federal Reserve, see Alan Greenspan (#29). See Sanford Weil (#48) for another example of how the financial powers that be can quickly prompt their errand boys in government to do their bidding.

46. John Thain; (Bachelors – MIT; MBA – Harvard)
Well before the financial crisis, John Thain was a major player on Wall Street. Thain was a long-time Goldman Sachs employee and was Jon Corzine's (#13) veritable shadow during the crisis negotiations regarding Long Term Capital Management (LTCM) in September 1998. He was Goldman Sachs' chief operating officer (COO) when Goldman went public in May 1999, and survived the purge when Henry Paulson (#38) won the power struggle with Corzine for control of Goldman. However, it was only when Thain was named chairman of the New York Stock Exchange (NYSE) in 2004 that he became more widely known to the investing public.

Thain replaced Richard Grasso as chairman of the NYSE. Grasso had started at the New York Stock Exchange (NYSE) as a clerk in 1968 and by 1995 rose to become chairman. As a result of the spectacular collapse of formerly high flying companies like Enron and WorldCom due in large part to accounting fraud, as well as the nearly 80% fall in the NASDAQ from its March 2000 peak, the Securities and Exchange Commission (SEC) pursued a variety of corporate governance reforms. Included in these reforms was increased transparency concerning executive compensation. Consistent with these reforms, in August 2003 the NYSE was forced to announce – admit is a better word - Richard Grasso would earn $140-million in 2003 and was owed another $48-million in deferred compensation. Coming in the wake of the tech bubble bursting, and given the fact that the quasi-public NYSE only made $28-million in 2002, Grasso's pay seemed more than a little excessive. Apparently, upon hearing of Grasso's NYSE salary one of the NYSE board members – who should have been more knowledgeable about his chairman's pay – thought it was a typo![143]

The most obscene aspect of Grasso's salary was not its magnitude, but the obvious conflict of interest that was latent in it. The NYSE board set Grasso's salary, but the NYSE board was comprised of employees of companies that were regulated by Grasso and the NYSE. To everyone outside of Wall Street, the fact that someone having no obvious special talent, like Richard Grasso, could be paid $188-million for one year's "work" by the companies he was responsible for regulating appeared to be a clear cut case of quid pro quo, or you scratch my back and I'll scratch yours. Of course, with the enormous firestorm of controversy swirling around the size of his salary, Grasso's days at the NYSE became numbered and he was forced to resign. After Grasso was forced to resign, the NYSE was forced to look for a new chairman. In a case

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of going from the ethical frying pan and into the fire, in early 2004 the NYSE selected Goldman Sachs' John Thain as its new chairman.

While he was firmly ensconced as NYSE chairman, John Thain was fortunate to avoid the sub-prime mortgage related chaos that was wreaking havoc up and down Wall Street. Not as lucky in this regard was fellow Harvard MBA alumni and CEO of Merrill Lynch, Stanley O'Neal (#37). On October 30, 2007 and following in the wake of both billions of dollars in losses and a clumsy attempt at merging with Wachovia, Stanley O'Neal was forced to resign by Merrill's board. In this case "forced" is a relative term because as part of this forced resignation O'Neal took home $161.5-million in retirement benefits.[144] On November 14, 2007 and just two weeks after Stanley O'Neal's forced resignation, Merrill Lynch announced that Thain had been hired as its new CEO.

Much can be gleaned about John Thain and the prevailing Wall Street culture by evaluating what he did almost immediately upon being hired by Merrill Lynch. However, before discussing Thain's initial actions at Merrill, it is first necessary to fully understand what was occurring at Merrill Lynch and throughout Wall Street at the time he was hired. As mentioned above, the previous Merrill Lynch CEO, Stanley O'Neal, had been forced to resign as a result of billions of dollars in losses. In January 2008 Merrill Lynch would announce billions more in losses, and Merrill's total losses in the financial crisis would ultimately exceed $56-billion.[145] Looking forward a few months, in April 2008 Merrill would announce a layoff of 10% of its employees.

Problems such as these were not limited to Merrill; other large banks also suffered billions of dollars in losses. In November 2007 Citigroup announced billions of losses in sub-prime mortgages – which of course prompted Robert Rubin's infamous (#41) "side role" comment. In December 2007 - and as a result of investor concerns surrounding AIG's credit default swap business - Wharton professor Gary Gorton (#27) as well as senior AIG executives Joseph Cassano (#9) and Martin Sullivan (#44) discussed the "high level of comfort" that Gorton's models gave AIG in their credit default swap business. Of course, as events transpired the concerns of investors were fully justified, and the losses incurred by AIG in its credit default swap business exceeded $50-billion.[146] In this atmosphere of staggering losses and soon to be massive layoffs at both his company and industry wide, one of the first things John Thain did upon being hired as CEO of Merrill Lynch was to spend over $1-million to redecorate his office. You can't make this up.

Included in the redecoration effort was a $35,000 "commode on legs" and a $1,400 trash can. However, in Thain's defense he did have the good taste to use the same decorator - Michael Smith - that Barack Obama hired to redecorate the White House. To be sure the money Thain spent in redecorating his office is not even a rounding error in Merrill's financial crisis related losses of $56-billion. Indeed, Thain's redecorating costs were not even a large fraction of his

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2007 salary of $83-million - which according to the Associated Press - was the highest earned by any CEO that year.[147]

Focusing on the cost of the redecorating work misses the fundamental aspect of what is most at fault with it. The most damning aspect of Thain redecorating his office was not the cost to do so, but the defective mindset that judged it a reasonable action. What type of person in a leadership position would dedicate any of their limited time and energy to such a trivial task when so much important work obviously needed to be done? Whatever the ultimate answer to this question, it should be clear that the type of person who would do such a thing is completely ill-suited for a leadership position.

Additional Information:
See Jay Light (#34) for the perspective of the dean of Harvard Business School's on the role that leadership failures played in the financial crisis but who somehow remains completely ignorant of the enormous role his school played in these leadership failures. (Thain's MBA is from Harvard.)

47. Maxine Waters; (Bachelor Degree – California State University, Los Angeles)
Like Senator Kit Bond (#6) and her House colleagues Barney Frank (#21) and Gregory Meeks (#35), Waters was among the most ardent defenders of Fannie Mae and its completely incompetent CEO, Franklin Raines (#40). Even as the crisis became increasingly greater in size, Waters' defense grew more intense and unyielding. Waters focused her considerable ire on OFHEO and its director, Armando Falcon. More generally Waters was completely blind to the enormous risk that was being incurred to expand homeownership rates to meet the edicts of President Clinton's (#12) housing strategy. The only way for homeownership rates to expand at the necessary rate to achieve President Clinton's housing goals was to slash lending standards and thus make it easier for people to obtain mortgages.

Lending standards that had developed over decades and were based on trial and error were turned upside down overnight. Waters saw nothing wrong with that. Here is Maxine Waters in October 2004 – approximately 6-months after the housing bubble peaked in April – dismissing any concerns about Fannie Mae, the housing market or providing loans with no down payments;

> *"Through nearly a dozen hearings we were frankly trying to fix something that wasn't broke. Mr. Chairman, we don't not have a crisis at Freddie Mac and particularly at Fannie Mae, under the outstanding leadership of Franklin Raines…What we need to do today is to focus on the regulator,* (OFHEO, author)*, and this must be done in a manner so as not to impede the affordable home mission. That mission, as you noted, has seen innovation flourish from desktop underwriting to 100-percent loans."*[148]

As this quote – and the mindset it reflects – attests, Maxine Waters and all the other like-minded members of Congress have much to answer for regarding the financial crisis.

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Additional Information:
See Bill Clinton (#12) for his central plan for housing. See Henry Cisneros (#11) and Andrew Cuomo (#16) for the great lengths President Clinton's two HUD secretaries went to advance this central plan. For Waters' congressional colleagues in advancing the Clinton central plan for housing, see Kit Bond (#6), Barney Frank (#21) and Gregory Meeks (#35).

48. Sanford Weil (B.A. Government – Cornell)
The personification of the completely outsized influence the largest Wall Street banks have in the government and at the Federal Reserve. In the late 1990s Weil decided to create a "one-stop shop" for all types of financial services – from insurance to investing. In 1998, Citicorp merged with the Travelers insurance company to form Citigroup. There was one major issue with the merger – the resulting company, Citigroup, was in violation of the Glass-Steagall Act! The Glass-Steagall Act was a piece of Depression-era legislation, which – among many other things – prohibited the merger of commercial and investment banks.

In order for the merger to proceed, Citigroup had to be exempted from the Glass-Stegall Act. Even the largest Wall Street banks and richest people in the country would be hard pressed to have laws created for their benefit in just a few weeks. To give Citigroup time to get legislation passed to its liking, the Federal Reserve of Alan Greenspan exempted Citigroup form the Glass-Steagall Act. However, it was not until the Gramm-Leach-Bliley Act passed in November 1999 that Citigroup even had official, legal standing. Some people evenly mockingly referred to the Gramm-Leach-Bliley Act as the "Citigroup Relief Act.

The passage of the Gramm-Leach-Bliley Act was spearheaded by President Clinton's Treasury Secretary, Robert Rubin (#41) and Phil Gramm (#28) had his name on the legislation. After the crisis many people believe the Gramm-Leach-Bliley act was a huge factor in causing the crisis. However this belief doesn't withstand real scrutiny. The two firms whose existence was made possible by the Act – Citigroup and Merrill – did suffer enormous losses, but even these losses were dwarfed by those of the GSEs, Fannie and Freddie. In fact, one of the few things Ben Bernanke gets correct in his crisis memoir, The Courage to Act, is his conclusion that repeal of portions of the Glass-Steagall Act had little to do with the crisis.[149]

What is significant about the repeal of portions of the Glass-Steagall Act in the formation of the crisis is the clear evidence it provides of the zeal with which the government and the Federal Reserve were willing to do Wall Street's bidding.

Additional Information:
See Phil Gramm (#28) and Robert Rubin (#41) for additional information on the corrupt bargain between Wall Street and government.

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49. Paul Willen; (BA – Williams; MA – Yale; PhD Economics – Yale)
Paul Willen is another in the long line of elite university educated people featured on this list whose benefits from their college education would appear to be limited to learning how to generate excuses and how to avoid accepting responsibility. In 2010 three PhD economists working for the Fed - Willen, Kristopher Gerardi and a Harvard economics professor, Christopher Foote - published a paper on the housing crash. In spite of the massive increase in home prices preceding the crash, the enormous increase in homeownership rates and the collapse in lending standards necessary to meet President Clinton's (#12) housing goals, the Fed researchers reached the remarkable conclusion that economics is of little value in identifying asset bubbles;

> *"Many observers have argued that these rosy (housing price) forecasts ignored basic theoretical and empirical evidence that pointed to a massive overvaluation of housing and thus to an inevitable and severe price decline. We revisit the boom years and show that the economics profession provided little such countervailing evidence at the time….Economic theory provides little guidance as to what should be the 'correct' level of asset prices — including housing prices."*[150]

Note that the conclusion reached here is in complete contradiction with statements made by James Bullard (#8), the president of the Federal Reserve Bank of St. Louis. In September 2013 Bullard characterized the bubbles in tech stocks and housing as *"gigantic and obvious"* and a few months later called the housing bubble *"blindingly obvious."* Even Alan Greenspan would contradict the position established in Willen's paper. Here is "Mr. Chairman", as CNBC lovingly refers to him, discussing the Lehman Brothers failure with his CNBC acolytes in October 2013, *"We missed the timing badly on September 15th, 2008. All of us knew there was a bubble."*[151] (September 15 was the day Lehman Brothers went bankrupt.)

The obvious conflict around asset bubbles at the highest levels of the Fed clearly show the Fed doesn't merit a fraction of the power it has. How can an organization with this much confusion about basic economic concepts like asset bubbles have the power to actively manage, control and direct a credit market as large as that of the United States? Even if there was some reason for an organization made of fully fallible human beings to have as much power as the Fed, wouldn't it be incumbent on that organization to learn from the mistakes it is sure to make? As the Willen paper shows, the Fed appears to be organizationally incapable of learning from its mistakes. Given this organizational failure – as well as the proclivity of Ivy League educated elites everywhere to never admit an individual mistake - the Federal Reserve will almost certainly fail to learn from any of the myriad mistakes it made that led to the crisis. Because of this, another crisis of similar magnitude is inevitable.

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See James Bullard (#8) for his contradictory position on the housing bubble. See Bill Clinton (#12) for more information on his central plan for housing. See Phil Gramm (#28) for an additional discussion on the Fed's inability to learn from its mistakes.

50. Martin Wolf; (Bachelor's – Oxford; Masters – Oxford)

Wolf is an editor and chief economics commentator for the *Financial Times.* Most of the world's economic elite consider him to be the most influential – and best - business writer today. What he really is, is little more than Steve Liesman (#33) with a British accent; a tireless apologist and propagandist for the world's central banks, investment banks, activists governments and elite university economics departments.

The best evidence of this is a January 12, 2005 column where Wolf remarkably asked *"Why are the English-speaking nations doing best?"* In terms of homeownership by January 2005 the US housing bubble had already peaked and was starting to deflate! The performance that Wolf was praising was completely illusory and doomed to failure. The economy's "performance" was fueled by government central planning and a massive credit expansion engineered by a central bank that would soon end in a disastrous collapse. Wolf was not only completely blind to all of this; he was endorsing all the radical central bank and government intervention in the economy that had fueled the enormous imbalances that would all soon come crashing down.

Less well-known – or feted – than Martin Wolf is the late Dr. Kurt Richebächer. One of the things that made Dr. Richebächer much less celebrated than the Martin Wolfs and Steve Liesmans of the world was his unwillingness to be a lackey or stooge for central banks or the investment banks on Wall Street or in London. Dr. Richebächer knew the laws of economics – like the laws of nature – could never be suspended indefinitely. He also knew that the longer the laws of economics were suspended by government or central bank interventionism, the larger the crash would be when these laws were finally able to exert themselves again.

Here is Dr. Richebächer correctly identifying everything that was wrong with the US economy just a few months after Martin Wolf praised it;

> *"Why has the unusually aggressive combination of monetary and fiscal policy so lamentably failed to generate a recovery of the vigor that had been standard in postwar periods? Our short answer: The Greenspan Fed deliberately pursued a policy to instantly replace the bursting equity bubble, with another, even greater, housing bubble. By rapidly slashing interest rates to rock-bottom levels, it succeeded in generating the housing bubble and also in provoking the consumer to sustain and accelerate his borrowing-and-spending binge, now against the soaring collateral of rising house prices."*[152]

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Paul Volcker, the only Fed chairman since 1971 not to cause enormous damage to the United States, is rumored to have said, "Sometimes I think the job of central bankers is to prove Kurt Richebächer wrong." No one who knows anything of value about economics will ever say the same thing about Martin Wolf.

Additional Information:
See Steve Liesman (#33) for another apologist for central banking, investment banks and the academic establishment.

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ENDNOTES

[1] The legislation that created the Federal Reserve was signed by Woodrow Wilson on December 23, 1913. Like the additional capital injections into the GSEs on Christmas Eve, the signing of the legislation that created the Fed was completed on a day clearly chosen to minimize scrutiny.

[2] Kate Kelly and Jon Hilsenrath, "NY Fed Chairman's Ties to Goldman Raise Questions," May 04, 2009 Wall Street Journal, http://online.wsj.com/news/articles/SB124139546243981801

[3] Federal Reserve Bank of New York press release, "Stephen Friedman Resigns as Chairman of the New York Fed's Board of Directors", May 07, 2009

[4] Richard Teitelbaum and Hugh Son, "NY Fed's Secret Choice to Pay for Swaps Hits Taxpayers"

[5] Remarks by Governor Ben S. Bernanke at the Conference to Honor Milton Friedman, University of Chicago, Chicago, IL November 08, 2002. This speech will be quoted without additional references to it. http://www.federalreserve.gov/boarddocs/Speeches/2002/20021108/default.htm

[6] The Friedman theory essentially reduces an enormously complex mechanism – the US economy – to the functions of a single variable, the money supply. Viewed from this standpoint alone, it makes little sense.

[7] Ben Bernanke, The Courage to Act, W.W. Norton and Company, New York, 2015, p. 81

[8] Paulson made billions from the collapse of the housing market. He took some of his "winnings" – as they are certainly not investments in any sort of traditional, mutually beneficial sense - and donated $400-million to Harvard. Paulson has an MBA from Harvard. What Harvard needs with the money when their endowment is approaching $40 billion is anyone's guess. The fact that Harvard continues to conduct capital campaigns to raise still more money proves that Harvard's institutional judgement stinks. The fact that Harvard alumni – a huge fraction of which work on Wall Street, and in their capacity as Wall Streeters helped to sink the world – continue to donate huge sums of money to Harvard proves the judgement of Harvard alumni is just as bad. Indeed, the fact Harvard alumni continue to donate so much money to Harvard when Harvard already has an endowment far larger than any school could ever need, and while there is still so much material need outside of Cambridge proves – quite convincingly – the education these people received at Harvard couldn't have been very good at all.

[9] On January 23, 2007, Tourre sent an e-mail to his girlfriend – a fellow Goldman employee named Marine Serres working in London. In this e-mail he lamented the increasingly complex nature of financial markets and the derivative products he was involved with. One of these derivative products was Abacus 2007-AC1. Tourre wrote, "The whole building is about to collapse anytime now…Only potential survivor, the Fabulous Fab…Standing in the middle of all these complex, highly leveraged, exotic trades he created without necessarily understanding all of the implications of these monstrosities." See "Tourre Tries to Downplay 'Fabulous Fab' E-mail," Nate Raymond, Reuters, July 25, 2013 http://www.reuters.com/article/sec-goldman-tourre/tourre-tries-to-play-down-fabulous-fab-email-idUSL1N0FV1H420130725

[10] Mark Faber, "The Financial Crisis was no Accident," Daily Reckoning, December 03, 2013 http://dailyreckoning.com/that-financial-crisis-was-no-accident/#

[11] Hedonic adjustments purport to capture the improvements in the quality of an item that are not reflected in the item's price. To take the most extreme example of computers, it was argued that because 1990s vintage computers were so much faster than the computers they replaced, the "value" of the computer to the economy was much greater than its price. For example, in 1995 a total of $95-billion was spent on new computers. However, when determining the country's GDP for the year, the Bureau of Labor Statistics estimated the value of the computers as $353-billion! It was this sort of rampant statistical

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stupidity that Alan Blinder and Janet Yellen mistook for real growth. See William Fleckenstein and Frederick Sheehan, Greenspan's Bubbles, McGraw-Hill, NY, 2008, pp. 41-42

[12] Inept – (1) lacking in fitness or aptitude: unfit (2) foolish (3) being out of place: inappropriate (4) generally incompetent: bungling. These definitions are from The New Merriam-Webster Dictionary, 1989 edition. Gorelick and Raines at Fannie provide perfect practical examples of a person being inept.

[13] David Hilzenrath, "Freddie Mac Problems Led to Tougher OFHEO," Washington Post, November 20, 2004 http://www.washingtonpost.com/wp-dyn/articles/A63950-2004Nov19.html

[14] David Hilzenrath, "Freddie Mac Problems Led to Tougher OFHEO," Washington Post, November 20, 2004 http://www.washingtonpost.com/wp-dyn/articles/A63950-2004Nov19.html

[15] "Countriwide Announces Changes in Board of Directors", PR Newswire, March 30, 2007 http://www.prnewswire.com/news-releases/countrywide-announces-changes-in-board-of-directors-52190797.html

[16] Sarah Todd, "Former Countrywide Director Kathleen Brown Joins L.A. Law Firm," *American Banker*, September 16, 2013 http://www.americanbanker.com/people/former-countrywide-director-kathleen-brown-joins-l-a-law-firm-1062058-1.html

[17] Anthony Bianco, "AIG Chief Can't Stop Looking Over His Shoulder," New York Times, February 03, 2008, http://www.nytimes.com/2008/02/03/business/03sully.html

[18] Steven C. Johnson, "Fed Need Not Rush to Taper While Inflation is Low", September 20, 2013 Reuters, http://www.reuters.com/article/us-usa-fed-bullard-idUSBRE98J0BI20130920

[19] Matthew J. Belvedere, "Fed's Bullard: $1-trillion a year QE pace torrid," CNBC, http://www.cnbc.com/id/101166475

[20] The total market capitalization of stocks in the tech stock era relative to the size of the economy was much higher during the tech bubble era than it ever was in the 1920s. Similarly, the price of homes relative to household income had never been greater than it was during the housing bubble era.

[21] Ben Bernanke, The Courage to Act, p. 62 – "Nobody ever knows for sure the fundamental value of an asset…Indeed if bubbles were easy to identify, investors wouldn't get caught up in them in the first place."

[22] Remarks by Chairman Alan Greenspan, Federal Reserve Bank of Kansas City Symposium, Jackson Hole, Wyoming, August 30, 2002 http://www.federalreserve.gov/boarddocs/speeches/2002/20020830/

[23] James Grant, Mr. Market Miscalculates, Axios Press, Mount Jackson, VA, 2008 p. 242

[24] Michael Lewis, The Big Short, Penguin Books, London, 2010 p. 83

[25] Michael Lewis, The Big Short, p. 89

[26] Roger Lowenstein, When Genius Failed, Random House, NY, 2011, p. 201

[27] Ben Bernanke, The Courage to Act, pp. 210-211

[28] Remarks on the National Homeownership Strategy by President William J. Clinton, June 5, 1995 http://www.presidency.ucsb.edu/ws/index.php?pid=51448

[29] President William J. Clinton, Executive Order 12892, January 17, 1994

[30] Phil Angelides and Bill Thomas, The Financial Crisis Inquiry Report, p. 523

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[31] U.S. Housing Market Conditions Summary: HUD Prepares to Set New Housing Goals, Table 1, http://www.huduser.org/periodicals/ushmc/summer98/summary-2.html

[32] U.S. Housing Market Conditions Summary: HUD Prepares to Set New Housing Goals, http://www.huduser.org/periodicals/ushmc/summer98/summary-2.html

[33] "Countrywide Expands Commitment to $1-trillion in Home Loans to Minority and Lower-Income Borrowers," January 14, 2005 http://www.prnewswire.com/news-releases/countrywide-expands-commitment-to-1-trillion-in-home-loans-to-minority-and-lower-income-borrowers-54027497.html

[34] David Streitfeld and Gretchen Morgenson, "Building Flawed American Dreams," New York Times, October 18, 2008,

[35] Marc Faber, "The Financial Crisis Was no Accident," Daily Reckoning, December 13, 2013 http://dailyreckoning.com/that-financial-crisis-was-no-accident/

[36] Remarks on the National Homeownership Strategy by President William J. Clinton, June 5, 1995 http://www.presidency.ucsb.edu/ws/index.php?pid=51448

[37] Roger Lowenstein, When Genius Failed, Random House, NY 2011. See page 172 for Goldman and Goldfield setting up shop in LTCM's office and see p. 191 for the trading results of September 21, 1998.

[38] While he was a senior executive with Goldman, Corzine decided to prevent David Tepper from becoming a partner. Tepper would leave Goldman, start a hedge fund and earn billions on Wall Street. Tepper purchased Corzine's beloved beach home in the Hamptons from Corzine's ex-wife for more than $40-million. He then had it destroyed to build a new home twice as large as Corzine's old one.

[39] When Genius Failed, p. 216

[40] When Genius Failed, p. 202

[41] Wilhelm Röpke, A Humane Economy, ISI Books, Wilmington, DE 1998, p. 16

[42] "Cramer: Bernanke Wake Up," http://www.youtube.com/watch?v=rOVXh4xM-Ww

[43] Amanda Cos, Charles Duhigg, Xaquín G.V., Mika Gröndahl, Haeyoun Park, Graham Roberts, and Karl Russell, "The I-Phone Economy," New York Times, January 20, 2012 http://www.nytimes.com/interactive/2012/01/20/business/the-iphone-economy.html?_r=0

[44] Wall Street executives routinely claim that Wall Street salaries have to be as high as they are because the people working on Wall Street are so uniquely talented. As Cruz's literature major makes clear, whatever Wall Street executives need to learn, they can learn as part of on-the-job training. This seriously undermines the notion that the people who work on Wall Street are uniquely talented and have special skills that other people don't.

[45] Michael Lewis, The Big Short, p. 210

[46] HUD News Release 00-317, October 31, 2000, http://archives.hud.gov/news/2000/pr00-317.html

[47] Prepared testimony of Henry A. Paulson, Chairman and CEO Goldman Sachs and Company, Securities and Exchange Commission Hearing on the "Financial Marketplace of the Future," February 29, 2000

[48] Chairman William H. Donaldson, Opening Statement at the SECs April 28, 2004 Meeting, https://www.sec.gov/news/speech/spch042804whd.htm

[49] Julie Satow, "Ex-SEC Official Blames Agency for Blow-Up of Broker Dealers," New York Sun, September 28, 2008, http://www.nysun.com/business/ex-sec-official-blames-agency-for-blow-up/86130/

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[50] Nick Timiraos, "HUD Secretary: Fannie, Freddie Housing Goals Didn't Work," Wall Street Journal Blogs, March 03, 2011 http://blogs.wsj.com/developments/2011/03/03/hud-secretary-fannie-freddie-housing-goals-didnt-work/

[51] Paul Krugman, "The Conscience of a Liberal: Things Everyone in Chicago Knows," New York Times, June 03, 2010 http://krugman.blogs.nytimes.com/2010/06/03/things-everyone-in-chicago-knows/?_php=true&_type=blogs&_r=0

[52] As some evidence of the costs associated with crew salaries, I have a friend who has a degree in geography and is a commercial pilot. He drives a ZR-1 Corvette. Perhaps the only other geography major who is paid more than my friend is the basketball player Michael Jordan.

[53] Bethany McLean and Peter Elkind, The Smartest Guys in the Room – the Amazing Rise and Scandalous Fall of Enron (10th Anniversary Edition), Penguin Group, New York, 2004, p. 240. Of all the ruinous investments and squandering of real capital that led to Enron's high profile bankruptcy, in the first rank must stand paying Paul Krugman $50,000 to meet with Enron's CEO, Ken Lay twice a year. Apparently the point of these meetings was for Enron to benefit from Krugman's insights.

[54] Federal Reserve Bank of New York, Press Release, January 27, 2009 – New York Fed Names William C. Dudley President. https://www.newyorkfed.org/newsevents/news/aboutthefed/2009/oa090127.html

[55] "I Can't Eat an I-Pad: The Federal Reserve Bombs in Queens", Wall Street Journal, March 15, 2011 http://online.wsj.com/news/articles/SB10001424052748704893604576199113452719274

[56] On August 15, 1971, President Nixon "temporarily" suspended the convertability of the dollar to gold. At the time, foreign central banks could exchange $35 for an ounce of gold. Now that same ounce of gold – which is merely a proxy for all prices – costs approximately $1200. Measured in terms of gold, the dollar is worth 3% of what it was in 1971.

[57] Newsmax, February 28, 2014, ""Fed's Evans: US May Need to Let Inflation Run Hot to Meet Economic Goals," http://www.newsmax.com/Finance/StreetTalk/federal-reserve-inflation-economy-charles-evans/2014/02/28/id/555415/

[58] James Grant, Mr. Market Miscalculates, p. 2

[59] The most important price in an economy is the price of money or the interest rate charged for loans. Interest rates help to discriminate between different uses of capital. When interest rates are set by the free market, they help to ensure that only the best, most profitable, risk-appropriate projects go forward; all of which helps to prevent malinvestments. Because rates are set by the central planners at the Fed, the rates do not reflect a realistic risk profile. The massive malinvestments which defined the tech and housing bubbles are the inevitable result of setting interest rates via central planning.

[60] Daniel Pope, Nuclear Implosions – The Rise and Fall of the Washington Public Power System, Cambridge University Press, New York, 2008, p. 25; Pope cites the Census Bureau's "Statistical History of the United States from Colonial Times to the Present (1970)."

[61] "Richest 1% Earn Biggest Share Since Roaring 1920's," published September 11, 2012; www.cnbc.com/id/101025377

[62] Robert Frank, "Druckenmiller: Fed robbing poor to pay rich", http://www.cnbc.com/id/101046937

[63] David Hilzenrath, "Freddie Mac Problems Led to Tougher OFHEO," Washington Post, November 20, 2004 http://www.washingtonpost.com/wp-dyn/articles/A63950-2004Nov19.html

[64] Henry Paulson, On the Brink, Business Plus, New York, 2010, p. xxxiii

[65] Henry Paulson, One the Brink, p. 11

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[66] Frederick Mishkin (#36) missed this meeting because he was skiing in Lake Tahoe. He would also miss the emergency meeting in March 2008 where the Fed decided to assist with JPMorgan's takeover of Bear Stearns. Again, Mishkin was skiing, this time in Finland.

[67] Ben Bernanke, The Courage to Act, W.W. Norton and Company, NY, 2010, p.196

[68] Henry Paulson, On the Brink, p. 185

[69] Ben Bernanke, The Courage to Act, W.W. Norton and Company, New York, 2015, p. 78

[70] Federal Reserve Bank of New York – Serving the Second District and the Nation, About the New York Fed, Supervision; https://www.newyorkfed.org/aboutthefed/org_banksup.html

[71] Ben Bernanke, The Courage to Act, p. 193 ("market contacts") and 217 ("eyes and ears")

[72] Henry Paulson, On the Brink, p. 185

[73] Dylan Ratigan, "The Case Against Tim Geithner," Dylan Ratigan, Business Insider, January 11, 2010, http://www.businessinsider.com/dylan-ratigan-the-case-against-tim-geithner-2010-1

[74] One of the best measures of inflation is to simply watch old movies and to note what prices and costs were at the time the movie was made. "Any Which Way You Can" was released in 1980. In the move, the mafia pays Wilson $5,000 per month as a retainer of sorts. Apparently in 1980 this was a king's ransom. Today, of course, this is a much more pedestrian sum of money. Comparisons such as this put to lie the Federal Reserve's contemporary notion that there is not enough inflation.

[75] Ben Bernanke, The Courage to Act, W.W. Norton and Company, NY, 2015, p. xi

[76] Henry Paulson, On the Brink, Business Plus, New York, 2013, p. 236

[77] Richard Teitelbaum and Hugh Son, "NY Fed's Secret Choice to Pay for Swaps Hits Taxpayers," October 27, 2009, Bloomberg http://www.bloomberg.com/apps/news?pid=newsarchive&sid=a7T5HaOgYHpE

[78] Henry Paulson, On the Brink, p. 293

[79] "The $25-billion Secret: The NY Fed, Goldman and the AIG Cover-Up," BusinessInsider.com, November 06, 2009 http://www.businessinsider.com/the-25-billion-dollar-secret-the-ny-fed-goldman-and-the-aig-cover-up-2009-11

[80] Henry Paulson, On the Brink, p. 392-393

[81] SIGTARP Report 10-003, "Factors Affecting Efforts to Limit Payments to AIG Counterparties." November 17, 2009

[82] In their post-crisis memoirs both Bernanke and Paulson – who acted as little more than Wall Street errand boys during the crisis - single out AIG for criticism while remaining almost completely silent on the malfeasance of the other Wall Street banks. Bernanke "seethed" in anger at AIG and considered their management "clueless." (See The Courage to Act, p. 286) Paulson on the other hand, called AIG's incompetence "stunning." (See On the Brink, p. 229) Bernanke even claimed that Goldman Sachs "alumni" act with a "strong dedication to the public interest." (See The Courage to Act, p. 296)

[83] Austan Goolsbee, "Irresponsible Mortgages Have Opened Doors to Many of the Excluded," New York Times, March 29, 2007 http://www.nytimes.com/2007/03/29/business/29scene.html?_r=0

[84] James Grant, Mr. Market Miscalculates – The Bubble Years and Beyond, Axios Press, Mount Jackson, VA 2008, pp. 169-170.

[85] Michael Lewis, The Big Short, Penguin, NY, 2010, p. 104

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[86] Michael Lewis, The Big Short, p. 212

[87] Remarks delivered by Jamie S. Gorelick to the American Bankers Association, National Community and Economic Development Conference, Chicago, IL October 30, 2000 http://web.archive.org/web/20011120061407/www.fanniemae.com/news/speeches/speech_152.html

[88] *National Mortgage News*, "Fannie to Boost Subprime Activites", March 03, 2000, http://www.nationalmortgagenews.com/dailybriefing/2000_43/-390282-1.html

[89] Carrick Mollenkamp, Serena Ng, Liam Pleven and Randall Smith, "Behind AIG's Fall, Risk Model Failed to Pass Real World Test," Wall Street Journal, October 31, 2008

[90] Mollenkamp, Ng, Pleven and Smith, "Behind AIG's Fall, Risk Models Failed to Pass Real World Test," Wall Street Journal, October 31, 2008

[91] Ben Bernanke, The Courage to Act, W.W. Norton and Company, NY, 2015, p. 243

[92] Ben Bernanke, The Courgage to Act, p. 286

[93] News from the Senate Banking Committee, Senator Phil Gramm Chairman, "Excerpts from Senator Gramm's Speech on Alan Greenspan," February 03, 2000 http://www.banking.senate.gov/prel00/0203flr.htm

[94] This philosophy is called "Bagehot's dictum" in honor of Walter Bagehot who developed the concept in the 1850s. This was the philosophy that the Bank of England had used for centuries. It was this banking philosophy – more than her globe straddling navy - that allowed England, a tiny, resource poor country, to develop an empire that would dwarf Rome's.

[95] Wilhelm Röpke, Economics of a Free Society, Ludwig von Mises Institute, Auburn, AL 2008, p. 100

[96] William Fleckenstein and Fred Sheehan, Greenspan's Bubbles, p. 51

[97] William Greider, Secrets of the Temple – How the Federal Reserve Runs the Country, Touchstone Books, New York, 1987, p. 297

[98] Lionel Robbins, The Great Depression, Transaction Publishers, London, 2009, p. 53 *"Acceptances"* are contracts that promise payment for a good now that will be delivered in the future. Murray Rothbard in his America's Great Depression (5th edition), pp. 101-135 documents the exact nature of the credit expansion engineered by Ben Strong in the immediate aftermath of the July 1927 meeting of central bankers. Among the "active" methods of expanding credit used by the Fed were huge purchases of acceptances. These were among the "holdings" that Miller refers to.

Many critics of the gold standard believe Fed profligacy at this time was the result of huge volumes of gold entering the United States and the constraints imposed by the gold standard. According to these critics, gold entered the country and the Fed was forced to cut rates and expand credit. As Rothbard makes clear, this view is incorrect. The enormous credit expansion Ben Strong pursued after July 1927 was done in spite of the fact that huge volumes of gold were *leaving* the country. (Under a gold standard, properly administered, gold leaving the country would force interest rates up.) As Rothbard shows, Strong – by fiat – pursued a policy of low rates which was counter to the policy demanded by fidelity to the gold standard. The classical gold standard had nothing to do with the Great Depression!

[99] Anthony Brooks, "Business Schools Mull Over Blame in Financial Crisis," National Public Radio, May 17, 2009 http://www.npr.org/templates/story/story.php?storyId=103719186

[100] Right up until it collapsed under the weight of its own contradictions, godlessness and tyranny - communism enjoyed widespread academic support in the United States and elsewhere. Paul Samuelson –

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Lawrence Summers' (#45) uncle – wrote the most widely used introductory level economics textbook. From the 1960s and into the 1980s, each new edition featured Samuelson concluding the Soviet economy was growing faster than the US economy, and predicting it would soon overtake the US economy in size. See, "Soviet Growth and Economic Textbooks," by David M. Levy and Sandra J. Peart. What better evidence is there of the colossal ignorance that lies at the core of modern economic thinking?

[101] In a statistical sample, the median value is the value that will divide the sample into two equal populations. There will be just as many sample points above the median value as there will be below. By eliminating the effect extreme values have on a sample – like the extreme wealth of the relatively few super-rich – median values often provide a much more accurate description of a population.

[102] Tami Luhby, "America's Middle Class: Poorer Than You Think," CNN Money, August 5, 2014 http://money.cnn.com/2014/06/11/news/economy/middle-class-wealth/

[103] Josh Sanburn, "Paul Krugman: An Alien Invasion Could Fix the Economy," Time Magazine, August 16, 2011, http://business.time.com/2011/08/16/paul-krugman-an-alien-invasion-could-fix-the-economy/

[104] As a thermonuclear device, the B53 was a fission-fusion-fission bomb. The bomb had an explosive yield equal to 9-megatons or 9-million tons of TNT. This is approximately 500-times the explosive yield of the fission bomb dropped on Hiroshima, Japan.

[105] Lionel Robbins, The Great Depression, Transaction Publishers, New Brunswick, NJ, 2009, p. 4

[106] Dwight D. Eisenhower, from a speech before the American Society of Newspaper Editors, April 16, 1953

[107] The Laffer Curve captures the common sense notion that tax revenue does not increase linearly with the tax rate. As the tax rate gets progressively higher, people get to keep less of their wages. A point is reached where the tax rate becomes so onerous that people work less and economic activity begins to slow down. The fact that this simple concept was considered such a revelation in the 1970s shows how weak and pathetic the economics community is.

[108] http://www.youtube.com/watch?v=LfascZSTU4o

[109] Michal Lewis, The Big Short, p. 168

[110] Ben Bernanke, The Courage to Act, W.W. Norton and Company, NY, 2015, p. 295

[111] Philip Delves Broughton, "Harvard's Masters of the Business Apocalypse," Sunday Times, March 01, 2009, http://www.thesundaytimes.co.uk/sto/news/uk_news/article153373.ece

[112] Stephen B Meister, Commercial Real Estate Restructuring Revolution, John Wiley and Sons, Inc. Hoboken, NJ 2011, p. 177

[113] Frederic S. Mishkin, The Economics of Money Banking and Financial Markets (8th edition), Pearson, New York, 2007, p. 420 Interestingly Fischer Black, who developed the options pricing model used by financial engineers the world over, had a completely different take than Mishkin on passive central banking and real bills doctrine. Writing in 1976 – in the midst of a Fed fuelled inflation – Black wrote, "I believe that in a country like the U.S, with a smoothly working financial system, the government does not, cannot, and should not control the money stock in any significant way. The government does, can only, and should simply respond passively to shifts in the private sector's demand for money. Monetary policy is passive, can only be passive and should be passive." (quoted in Martin Mayer, The Fed, p. 149) Black's other ideas eventually figured prominently in the creation of the market for derivatives but that largely occurred after his death in 1995 and he shouldn't be held responsible for the considerable excesses in the market for derivatives.

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[114] Famous Fed Flubs, Stability in Iceland
http://money.cnn.com/galleries/2011/news/1103/gallery.federal_reserve_flubs/5.htm

[115] Frederic S. Mishkin and Tryggvi Thor Herbertsson, "Financial Stability in Iceland," Reykjavik, Iceland, May 2006, pp. 8-9
http://www.vi.is/files/555877819Financial%20Stability%20in%20Iceland%20Screen%20Version.pdf

[116] Frederick Mishkin and Tryggvi Thor Herbertsson, "Financial Stability in Iceland," p. 56

[117] Ben Bernanke, the Courage to Act, W.W. Norton and Company, NY, 2015, p. 349

[118] James Grant, Mr. Market Miscalculates – the Bubble Years and Beyond, Axios Press, Mount Jackson, VA, 2008, p. 190

[119] Jenny Anderson and Landon Thomas, "NYSE Chief is Chosen to Lead Merrill Lynch, New York Times, November 15, 2007
http://www.nytimes.com/2007/11/15/business/15merrill.html?pagewanted=2&_r=3&sq=merrill%20lynch&st=cse&scp=8&

[120] Peter S. Green, "Merrill's Thain Said to Pay $1.2-million to Decorator", Bloomberg, January 23, 2009
http://www.bloomberg.com/apps/news?sid=aFcrG8er4FRw&pid=newsarchive

[121] See for example, Henry Paulson, On the Brink, Business Plus, New York, 2013, p. 69, ("excessive leverage was evident in nearly all quarters"), and p. 98, ("in recent years banks had borrowed more than ever – without increasing their capital enough.")

[122] Henry Paulson, On the Brink, p. 29

[123] Immediately before Goldman Sachs went public there was a power struggle between the top two executives at Goldman, Paulson and Jon Corzine (#13). Paulson won out and became CEO. In 2010 Corzine was named chairman and CEO of MF Global, an investment firm. Less than two years later and with Corzine still at the helm MF Global collapsed and declared bankruptcy.

[124] Roger Lowenstein, When Genius Failed, Random House, New York, 2011, p. 4

[125] Henry Paulson, On the Brink, p. 260

[126] Luke 12:34

[127] Wilhelm Röpke, A Human Economy, ISI Books, Wilmington, DE, 1998, p. 114

[128] Henry Paulson, On the Brink, pp. 69-70

[129] *New York Daily News, "*Chuck Prince's Quote That Citi Was 'Still Dancing' as Crisis Worsened Haunts Him at Panel Inquiry," April 08, 2010

[130] *National Mortgage News*, "Fannie to Boost Subprime Activites", March 03, 2000,
http://www.nationalmortgagenews.com/dailybriefing/2000_43/-390282-1.html

[131] "Fannie Mae Passes Halfway Point in $2 Trillion American Dream Commitment; Leads Market in Brining Housing Boom to Underserved Families and Communities," Business Wire, March 18, 2003
http://www.businesswire.com/news/home/20030318005307/en/Fannie-Mae-Passes-Halfway-Point-2-Trillion

[132] The Glass-Steagall Act also broadened the assets eligible for "rediscount" with the Fed and allowed the Federal Reserve to use government bonds as collateral for the currency it put into circulation. Previously commercial paper – which is short-term, self-liquidating loans taken out by a corporation – and of course gold were the principal reserve assets that the Fed could issue currency against. By loosening the standards of what constituted a reserve asset and including government debt specifically as

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a reserve asset, portions of the Glass-Steagall Act were inflationary and the source of many of our monetary related problems today. See Murray N. Rothbard, America's Great Depression, Mises Institute, Auburn, AL, 2005, pp. 301, 306-307

[133] Carol Loomis, "Robert Rubin on the Job He Never Wanted," Fortune, November 28, 2007 http://money.cnn.com/2007/11/09/news/newsmakers/merrill_rubin.fortune/

[134] William D. Cohan, "Rethinking Robert Rubin," Business Week, September 30, 2012

[135] Matthew Boesler, "Nassim Taleb: Former Treasury Secretary Bob Rubin Represents Everything That's Bad in America." Business Insider, September 20, 2012 http://www.businessinsider.com/nassim-taleb-bob-rubin-2012-9

[136] Hayne E. Leland and Mark Rubinstein, "The Evolution of Portfolio Insurance", published in Dynamic Hedging: A Guide to Portfolio Insurance, Don Luskin, editor. The contribution of "financial engineering" – the notion that wealth can be created by trading and simply rearranging assets in increasingly complicated financial structures - to the economic undermining of the United States should not be underestimated. Financial engineering has played a huge role in all the economic damage suffered by the hundreds of millions of Americans who work outside of Wall Street.

[137] Remarks by Chairman Alan Greenspan, "The Challenge of Central Banking in a Democratic Society," December 05, 1996 http://www.federalreserve.gov/boarddocs/speeches/1996/19961205.htm

[138] Jeremy Siegel, "Irrational Exuberance Reconsidered," Wall Street Journal, December 06, 2006 quoted in Economist's View, http://economistsview.typepad.com/economistsview/2006/12/rational_exuber.html

[139] Jeremy Siegel, "Outlook for 2008: Markets and the Economy," Yahoo Finance, December 14, 2007.

[140] Saul Hansell and Kevin Muchring, "Derivatives – Just How Risky Are They?" Institutional Investor, September 1992. http://www.institutionalinvestor.com/Article/2999311/From-the-Archive-Why-Derivatives-Rattle-the-Regulators-September-1992.html#.U61gfrEzITA

One of the less salutary aspects of the end of the Cold War was what became of the scientists that had spent their professional lives building nuclear bombs. When the Cold War ended, many of these PhD physicists and mathematicians started to use their talents on Wall Street to create increasingly complex and obtuse mathematical models of financial markets. Unfortunately, these models suffered from two enormous flaws; (1) they confused correlation with causation, and (2) they assumed people acted with the same mathematical precision as gamma rays in a hydrogen bomb. With these two enormous flaws at their core, it is completely unsurprising that these models – which formed the basis of much of the trading in derivatives - had no predictive value whatsoever.

[141] Roger Lowenstein, When Genius Failed, Random House, New York, 2011, p. 78

[142] Before digital cameras, Kodak was the largest camera manufacturer. Their advertising campaign was based on taking pictures with their cameras and film to catch the perfect "Kodak moment."

[143] BBC News Profile, Richard Grasso, September 18, 2003 http://news.bbc.co.uk/2/hi/business/3119030.stm

[144] Anderson and Thomas, "NYSE Chief is Chosen to Lead Merrill Lynch"

[145] Peter S. Green, "Merrill's Thain Said to Pay $1.2-million to Decorator", Bloomberg, January 23, 2009 http://www.bloomberg.com/apps/news?sid=aFcrG8er4FRw&pid=newsarchive

[146] Office of the Special Inspector General for the Troubled Asset Relief Program, "Factors Affecting Efforts to Limit Payments to AIG Counterparties", SIGTARP-10-003, November 17, 2009, p. 20

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[147] "Former Merrill CEO Thain Resigns From B of A", msnbc.com new services, January 23, 2009 http://www.nbcnews.com/id/28793175/ns/business-cnbc_tv/t/former-merrill-ceo-thain-resigns-bofa/

[148] Caroline Baum, "Imagine Pandit Querying Barney Frank," Bloomberg, February 13, 2009 http://corecomments.blogspot.com/2009_02_08_archive.html

[149] Ben Bernanke, The Courage to Act, pp. 439-440.

[150] Kristopher Gerardi, Christopher Foote and Paul Willen, "Reasonable People Did Disagree: Optimism and Pessimism About the US Housing Market Before the Crash", Federal Reserve Bank of Boston, Public Policy Discussion Paper #10-5, September 10, 2010

[151] Matthew J. Belvedere, "Bubbles and leverage cause crisis: Alan Greenspan", October 23, 2013 CNBC, http://www.cnbc.com/id/101135835

[152] The Richebacher Letter, #384, p. 2 (June 2005)

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