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Where’s the Accountability?

JPMorgan’s private-sector losses pale in comparison with the federal government's.

By Michael Tanner

Late last week JPMorgan Chase announced that it had lost some $2.3 billion, and possibly more, as a result of bad investment decisions made by its risk-hedging operation. Predictably, some have seized on this misstep to call for greater regulation of the banking industry.

White House spokesman Jay Carney said: “The president fought very hard against Republicans and Wall Street lobbyists to get Wall Street reform passed . . . I think that this event merely reinforces why the President was right to take on this fight and why we still need to make sure it’s implemented.” Massachusetts Democratic Senate candidate Elizabeth Warren released a new radio ad warning, “Wall Street isn’t going to change its ways until Washington gets serious about strong oversight and real accountability.” Paul Krugman called JPMorgan Chase “an object demonstration of why Wall Street does, in fact, need to be regulated.”

There is reason to question whether more regulation would, in fact, have done anything to prevent JPMorgan’s losses. Bloomberg notes that bank regulators and the Federal Reserve already had the power to examine the books of the London branch of the investment office, where the trades in credit-derivative indexes were made. And while these investments may have lost money, and may indeed have been unduly risky, such risk hedging is crucial to making it possible for banks to lend money. Comptroller of the Currency Thomas Curry says that it is too soon to know whether the so-called Volcker Rule would have prohibited the trades in question.

Regardless, JPMorgan has already been punished for its mistakes — by the market. The company’s reputation has been damaged, and its share price has dropped roughly 10 percent since the news came out. Its executives, who are heavily compensated through stock options, have lost millions. The top investment officer, Ina Drew, has been forced into retirement, and other corporate officers may also be on the way out. CEO Jamie Dimon must now face angry shareholders. All of this, despite the fact that JPMorgan Chase will still make a profit overall this year.

JPMorgan Chase's losses show that the private sector sometimes does stupid things. Well, duh! But in a truly capitalist system — not the crony capitalism of bailouts and TARP — the market enforces accountability. Compare that with government.

The federal government borrows more than $2.3 billion every day. But that's only the tip of the iceberg when it comes to government failure and stupidity. The federal government will spend $668 billion this year on 126 separate anti-poverty programs, but fail to reduce poverty. The federal government will spend another $67 billion on education, but fail to educate our children. Government job-training programs actually leave workers less prepared for employment than before they received the training.

The federal government has managed to run the Social Security program $22 trillion into the red. The health-care programs it operates, Medicare and Medicaid, are models of dysfunction and are driving the country toward bankruptcy. Even the collapse of the housing bubble and the banking failures that followed are traceable, at least in part, to government policies.

Where's the accountability? Where's the outrage? Who is being fired? The government drops $535 million on Solyndra (roughly a quarter of what JPMorgan Chase just lost), but Energy Secretary Steven Chu still has his job. The new health-care bill turns out to cost far more than advertised, adding hundreds of billions to the federal deficit, and HHS Secretary Kathleen Sebelius is hardly asked a tough question.

For that matter, when was the last time that the government eliminated a program simply because it didn't work? The failures of government are too often met with . . . calls to give the government still more money, power, and control.

Accountability — it's a capitalist thing.

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