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An Economy of Liars

Nick Gillespie | April 22, 2010

Writing in the Wall Street Journal, Gerald O'Driscoll writes about the new normal in our wonderful world of crony capitalism:

The idea that multiplying rules and statutes can protect consumers and investors is surely one of the great intellectual failures of the 20th century. Any static rule will be circumvented or manipulated to evade its application. Better than multiplying rules, financial accounting should be governed by the traditional principle that one has an affirmative duty to present the true condition fairly and accurately—not withstanding what any rule might otherwise allow. And financial institutions should have a duty of care to their customers. Lawyers tell me that would get us closer to the common law approach to fraud and bad dealing....

In the U.S today, we are moving away from reliance on honest pricing. The federal government controls 90% of housing finance. Policies to encourage home ownership remain on the books, and more have been added. Fed policies of low interest rates result in capital being misallocated across time. Low interest rates particularly impact housing because a home is a pre-eminent long-lived asset whose value is enhanced by low interest rates.

Distorted prices and interest rates no longer serve as accurate indicators of the relative importance of goods. Crony capitalism ensures the special access of protected firms and industries to capital. Businesses that stumble in the process of doing what is politically favored are bailed out. That leads to moral hazard and more bailouts in the future. And those losing money may be enabled to hide it by accounting chicanery.

If we want to restore our economic freedom and recover the wonderfully productive free market, we must restore truth-telling on markets. That means the end to price-distorting subsidies, which include artificially low interest rates. No one admits to preferring crony capitalism, but an expansive regulatory state undergirds it in practice.

Read the whole thing here.

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Alan Vanneman | 4.22.10 @ 7:40AM | #

"Lawyers tell me that would get us closer to the common law approach to fraud and bad dealing"

What a pathetic, bullshit line. Translation: "The corporate pimps I hang out with tell me this is what their masters desire."

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An Economy of Liars - Hit & Run : Rea...

Oh, and "If we want to restore our economic freedom and recover the wonderfully productive free market, we must restore truth-telling on markets."

Excuse me, but when was that? Even by WSJ standards, this is lame.

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Charles Dickens | 4.22.10 @ 8:14AM | #

Good day sir. I couldn't help but notice your critique doth not fall from the realm of your own circumstance. And this plot device seems familiar...a word sir?

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MNG | 4.22.10 @ 7:53AM | #

It strikes me that even under some common law fiduciary rule for accountants these kinds of rules will be developed, a precedent of what met the affirmative duty in circumstance x, and a precedent for what meets the duty in circumstance y, another for z, etc., as cases come down the pike. i guess it would make some people feel better to have a mountain of case law (lawyers) rather than a mountain of regulatory law though (bureaucrats).

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Groovus Maximus | 4.22.10 @ 8:29AM | #

i guess it would make some people feel better to have a mountain of case law (lawyers) rather than a mountain of regulatory law though (bureaucrats).

False dilemma MNG.

Perhaps people would feel better about their investments and assets if government wasn't bailing out the mistakes of the cronies with whom they sleep.

What the public does not see, in their desire for "fairness" is so many stifling laws that commerce cannot happen effectively for the public, is the very laws they clamor for and regulation are going to stifle their own investment opportunities. And the connected cronies will hide behind an ever expansive wall of regulation and beauracracy. The lawyers won't care either way because with case law, they get paid, and regulatory law, they get paid. And contribute more campaign dollars to the bureaucrat who will keep the status quo.

In the end, blinded by class envy, the populous loses.

Which reminds me, shouldn't you be wishing the death of your neighbor's livestock?

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Fatty Bolger | 4.22.10 @ 7:55AM | #

I wish more people would begin to understand this. Big companies swim freely through the ocean of rules and regulations, while their smaller competitors get swallowed up.

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CoyoteBlue | 4.22.10 @ 8:47AM | #

In Crystal City, Va the big companies have offices filled with retired federal bureaucrats. They spend their days making sure the company most **efficiently** meets the requirements of the rules and regulations (some that they had written in their previous occupations). Only the mega-corporations or medium-sized government contractors can afford these compliance offices. The need for these offices guarantees that the Haliburtons and GoldmanSachs will be with us forever.

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Corduroy Rocks | 4.22.10 @ 9:04AM | #

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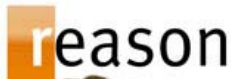
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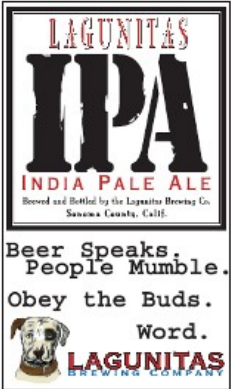
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The best a small company can hope for is to be ignored by the government, because if the bureaucrats turn their attention on you, there is no escape from the neverending assault of regulations with which you cannot pretend to hope to comply.

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TP | 4.22.10 @ 8:04AM | #

Goldman: SEC Attacks 'Hurt America'

There's no doubt that GS is guilty of major fraud. There's no doubt that there are many throughout the banking industry and government who are guilty of fraud and corruption. How many people from IndyMac and Countrywide have been prosecuted? Answer: none. Nobody has been indicted for writing bad loans and knowingly selling them as AAA. \$80 billion from IndyMac alone. If GS says they didn't know, they are liars. Blankfein is a liar. Geithner is incompetent. Bernanke is clueless. Hank Paulson was scared shitless. Greenspan lost touch with reality. Enabling, greed, and incompetence created the perfect storm which caused the meltdown, and allows it to continue. Then, add to all of that, this ridiculous sense of entitlement that many Americans have to own a home which they are not qualified for and can not afford --> Disaster.

Of course this investigation will hurt America. Especially if it leads to investigations of other major firms. But doing nothing (the proposed reforms amount to nothing) hurts America far greater. The Administration through the DoJ should put together a team of real regulators, investigators and prosecutors, and get these people out of the banking system and begin to restore confidence. There are plenty of bankers out there to replace them. Where are they? They are most likely standing in the unemployment line. Because any banker with any sense of integrity in the past 10 years, was fired. "But, but, our financial system will collapse, and we will all be left unemployed and destitute." I say, let it collapse, and rebuild it, bigger, better and stronger. That's what you do when something is broken beyond repair. You tear it down, and rebuild it. Only this time, you let the real entrepreneurs do it, with little or no interference from the government. And shut down that fucking Federal Reserve Bank, for Christ's sake.

I don't expect the government to hold everybody's hand on every credit card agreement and mortgage. What I do expect, is for government to uphold the law. What would happen if there were gangs of thugs going from house to house and stealing people's property and the government did nothing to stop it? People would take the law into their own hands. If our government continues to do nothing about this widespread fraud in the financial system, people should take the law into their own hands and stop paying their credit cards, mortgages and federal taxes. We should not be forced to live in a world where the law means nothing to a select group of very rich and powerful individuals.

Ultimately, I believe the government will do nothing, since they played a major role in all of this. Will the American people simply roll over and say, "thank you sir, may I have another?", or will they actually grow some balls and do something about it?

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DWCarkuff | 4.22.10 @ 8:20AM | #

Well, the fact is our entire economic system as well as our political system is defined by moral hazard. Our society is characterized fundamentally by moral hazard, most particularly for those at the top who manage. You can not talk about eliminating moral hazard without changing the entire system from top to bottom.

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ed | 4.22.10 @ 8:22AM | #

Geithner is selling the latest regulatory scheme on *Morning Joe* and he used an argumentative tactic peculiar to this Administration, to wit: if Wall Street weren't so *guilty*, they wouldn't be fighting so hard against more regulation. Obama does this all the time. He finds a scapegoat, and if that scapegoat has the nerve to defend himself, he must be guilty by virtue of his defense. Presumably, if you're innocent of a crime, there is no *need* to defend yourself. Hell of a thing for a former Constitutional law professor to believe.

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Groovus Maximus | 4.22.10 @ 8:37AM | #

It's totally consistent ed with his governing philosophy ed. The law is, as he views it, in terms of presumption of guilt by proxy of the business environment as opposed to presumption of innocence. The mindset is "you're guilty of *something*, it's just a matter of time before we catch you." It's a question, in his mind, of how many laws have been broken at any one time, not whether or not a crime actually took place.

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ed | 4.22.10 @ 9:10AM | #

Obama and his kind are like the cop who is miffed that you won't let him search your car. "What are you afraid of? If you're innocent, you have nothing to hide!"

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R C Dean | 4.22.10 @ 9:53AM | #

Any static rule will be circumvented or manipulated to evade its application.

What those of us who do regulatory compliance for a living call the jello principle. Regulations are like a brick sitting on a bowl of jello. The jello squeezes out from under the brick, but its still there.

As noted, large bodies of arbitrary regulations are a feature of crony capitalism, because the costs of compliance favor large politically firms and act as barriers to competition and entry. The interpretation and application of these rules also favor politically connected firms.

Could we possibly have asked for a clearer exhibition of the failure of this approach than the recent banking crisis, coming as it did a few short years after SARBOX, which was supposed to apply a plethora of rules to prevent exactly what happened?

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Groovus Maximus | 4.22.10 @ 10:42AM | #

Could we possibly have asked for a clearer exhibition of the failure of this approach than the recent banking crisis, coming as it did a few short years after SARBOX, which was supposed to apply a plethora of rules to prevent exactly what happened?

Of course not RC. The problem isn't Sarbane's-Oxley itself. The problem is we need more regulation to place mortar in the cracks to shore it up. The plethora will now become a cornocopia.

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boomshanka | 4.22.10 @ 10:57AM | #

As long as we live in a country where money = free speech, we will have "crony capitalism." take the good with the bad, people.

you throw that term around as though it's not a result of fundamental principles you claim to support.

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