

# 2007—A Watershed Year

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by Martin Lowy  
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## Prologue

In 2007 the markets shook  
When no bank trusted another's book  
The downdraft whirlpool then ensnared  
Parties that were unprepared

How all this happened, though long foretold,  
Ve get too late shmart and too soon old,  
Will be my lesson, set in verse,  
Of what were the causes of this curse.

## Round Up the Usual Suspects

Is this what comes of *laisse faire*?  
Markets rise without a care  
Then descend, when more is less,  
And leave us with an awful mess?

If that is what free markets do  
I say fee and fie and foe on you  
Paulsons bake you in a pie  
And lock the doors of the AEI!

Unleash the wrath of Barney Frank  
He will make 'em walk the plank  
For foisting loans on folks in need  
Though mostly those that were late to greed

Regulate 'em, that'll teach 'em  
Thought the law would never reach 'em  
Send 'em subpoenas in the post  
Let 'em compete for who squirms most.

## The Voice of Reason

But soft, what light do I see behind those giants?  
I think it's a prof of the dismal science  
Who advocates that markets where all firms compete  
Are fair although their prices oft retreat.

The problems were bred by macro imbalance  
That augment bankers' persuasive talents  
Letting them sell the oil of snakes  
Magical potions that turn out fakes.

Like asset-backed so-called CP  
That's built on sand called an SIV  
The fancy banker's nomenclature  
Hides the facts of their true nature.

The SIV's in fact the bank  
As all found out when they went in the tank  
And banks bulked up their balance sheets  
Beating hasty accounting retreats.

The '30s wordplay Prudent Stince  
Foresaw Citi's Imprudent Prince  
Who said he'd dance while the music played  
Why was this banker not afraid?

In each generation, Galbraith explained,  
Leverage that is not contained  
Is greeted with pride as innovation  
Its inventors get paid above their station.

Later the house of cards implodes  
And the princes all turn back into toads  
They keep their bonuses, 'course paid in cash,  
Though they and their desks are gone in a flash.

## Who Done It?

Alan Greenspan, bubble blower,  
Drove down rates 'til they couldn't go lower  
Deflation'd be worse, he seemed to muse,  
While the flood of money lit the fuse.

Take back the punchbowl? Bah what a notion.  
I'll mix 'em up a stronger potion.  
The dotcom bust and Enron's deeds  
I'll cure with dollars, wherever that leads.

President Bush, no piker he,  
Ignored what had happened in '73.  
He first cut taxes, then started a war  
Isn't that what power is for?

Guns and butter we could afford  
Was LBJ's line 'til his ox got goled.  
W thought in loaves and fishes  
But both alike were thinking wishes.

With deficits and easy money  
All lever up while the world looks sunny  
And bubbles form where the rules are weak  
'Til pinprick breaks the winning streak.

The flood of money allowed us to pay  
For oil at whatever price they might say  
And buy all the goods that China could master  
Sending them dollars the mint can print faster.

A fish, they say, stinks from its head  
And there stops the buck, or so someone said,  
But this buck's unclaimed, a 4-pointer for sure,  
That pushed the poor dollar into a sewer.

## A World of Denial

Why'd the accountants allow all the shams?  
Did the banks pay for their seats at the 'Slams?  
And why did the Fed go along?  
Couldn't they see the accounting's wrong?

Supervisors can't manage risk  
Their job's to guard the public fisc  
Jawboning banks, even in rhyme,  
Is regulatory pantomime.

If excess money floats around  
 Mischievous conduct will abound  
 And there will be too many clues  
 Like Agatha Christie was the boom's muse.

Push a little here, squeeze a little there  
 'Til a circle becomes a square.  
 The word goes out across the land  
 Bring in loans to meet the demand.

Who'd have thought that Landesbanken  
 'd prime the pump and set it cranken  
 With billions stashed in SIVs  
 Modern finance, such a breeze!

Mortgage bankers all get tarred  
 If they were lawyers they'd be disbarred  
 For faking good folks' vital statistics  
 They made up the numbers, they weren't mystics.

The agencies that rated the bonds  
 Collected their fees and waved their wands  
 Now downgrades galore, they've no respect,  
 It's other folks' fault the economy's wrecked.

The data was bad, the bankers dissembled  
 A perfect storm, the heavens trembled  
 The fees we charge don't faze us at all  
 Like the ump Bill Klem, we just make the call.

And so it goes, the rating kabuki  
 Why do we trust a process so kooky  
 A stylized dance that the world applauds,  
 How to replace these fakers and frauds?

Some of those who experts be  
 Plead for more transparency  
 If everyone knew what everyone knows,  
 It'd make more safe all those capital flows.

Disclosure is great as a market tool  
 To prohibit tales told out of school  
 But when it's applied to a thought process  
 2 + 2 ain't 4 but less

### Consequences

Housing prices must go down  
 How much will vary from town to town  
 The value lost only briefly existed  
 Like bosons or quarks or stock that's not listed.

Sovereign funds that dollars created  
 Buy up banks that once were gold-plated.  
 We gorged ourselves on their oil and gas  
 Now they are here imitating Sam Bass.

Collateral damage, pun intended,  
 Spread round the world when the music ended  
 Cities, homes, women dressed to the nines,  
 It even threatened the monolines.

So what will happen, now the dance is done?  
 How long will it be 'til bankers have fun?  
 Oh fear ye not, the Fed's on the case  
 Throwing money all over the place.

The massive loss'll be monetized  
 And the mighty dollar'll be less prized  
 Spreads'll grow fat, interest income go up  
 Funding losses not seen since Hector's a pup  
 The banks'll pull through with credit that's dear  
 Restoring net worth, you need have no fear.

Banks will intermediate  
 On narrowing margins 'til it's too late  
 And when the Fed begins to tighten,  
 Stockholders' wallets again will lighten

We'll see the return of securitization,  
 A partial response to renewed inflation.  
 Before too long, spreads will narrow  
 And debt will be pierced by love's arrow.

Though it can cure a credit crunch  
 Easy money's no free lunch  
 We'll borrow from the future once more.  
 Isn't that what our kids are for?

The world'll prosper, mark my pen,  
 Though owned not by dollars nor by yen  
 With remnimbi ascendant and Euros supreme  
 Bretton Woods money looks like a dream.

Imbalances that defied all the rules  
 Caused by misuse of economists' tools  
 Have leveled the global playing field.  
 Such a natural case cannot be appealed.

### Coda

Is this America's fall and decline  
 Not with a bang but a cultural whine?  
 Or is it instead the start of our prime  
 Our primus inter pares time?

As hegemon we've had things our way  
 But be not nostalgic, greet the new day.  
 To the spirit of markets that animates growth  
 Most of the world has now pledged its troth.  
 Freedom'll follow, all in good time,  
 Making the world more sublime.  
 Peace then will come, of that I am sure,  
 But the market's imperfect, for that there's no cure.