All Fall Down

By THOMAS L. FRIEDMAN
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I SPENT SUNDAY afternoon brooding over a great piece of Times reporting by Eric Dash and Julie Creswell about Citigroup. Maybe brooding isn't the right word. The front-page article, entitled "Citigroup Pays for a Rush to Risk," actually left me totally disgusted.

Why? Because in searing detail it exposed — using Citigroup as Exhibit A — how some of our country's best-paid bankers were overrated dopes who had no idea what they were selling, or greedy cynics who did know and turned a blind eye. But it wasn't only the bankers. This financial meltdown involved a broad national breakdown in personal responsibility, government regulation and financial ethics.

So many people were in on it: People who had no business buying a home, with nothing down and nothing to pay for two years; people who had no business pushing such mortgages, but made fortunes doing so; people who had no business bundling those loans into securities and selling them to third parties, as if they were AAA bonds, but made fortunes doing so; people who had no business rating those loans as AAA, but made fortunes doing so; and people who had no business buying those bonds and putting them on their balance sheets so they could earn a little better yield, but made fortunes doing so.

Citigroup was involved in, and made money from, almost every link in that chain. And the bank's executives, including, sad to see, the former Treasury Secretary Robert Rubin, were clueless about the reckless financial instruments they were creating, or were so ensnared by the cronyism between the bank's risk managers and risk takers (and so bought off by their bonuses) that they had no interest in stopping it.

These are the people whom taxpayers bailed out on Monday to the tune of what could be more than $300 billion. We probably had no choice. Just letting Citigroup melt down could have been catastrophic. But when the government throws together a bailout that could end up being hundreds of billions of dollars in 48 hours, you can bet there will be unintended consequences — many, many, many.

Also check out Michael Lewis's superb essay, "The End of Wall Street's Boom," on Portfolio.com. Lewis, who first chronicled Wall Street's excesses in *Liar's Poker,* profiles some of the decent people on Wall Street who tried to expose the credit binge — including Meredith Whitney, a little known banking analyst who declared, over a year ago, that "Citigroup had so mismanaged its affairs that it would need to slash its dividend or go bust," wrote Lewis.

"This woman wasn't saying that Wall Street bankers were corrupt," he added. "She was saying they were stupid. Her message was clear. If you want to know what these Wall Street firms are really worth, take a hard look at the crappy assets they bought with huge sums of borrowed money, and imagine what they'd fetch in a fire sale… For better than a year now, Whitney has responded to the claims by bankers and brokers that they had put their problems behind them with this write-down or that capital raise with a claim of her own: You're wrong. You're still not facing up to how badly you have mismanaged your business."

Lewis also tracked down Steve Eisman, the hedge fund investor who early on saw through the subprime mortgages and shorted the companies engaged in them, like Long Beach Financial, owned by Washington Mutual.

"Long Beach Financial," wrote Lewis, "was moving money out the door as fast as it could, few questions asked, in loans built to self-destruct. It specialized in asking homeowners with bad credit and no proof of income to put no money down and defer interest payments for as long as possible. In Bakersfield, Calif., a Mexican strawberry picker with an income of $14,000 and no English was lent every penny he needed to buy a house for $720,000."

Lewis continued: Eisman knew that subprime lenders could be disreputable. "What he underestimated was the total unabashed complicity of the upper class of American capitalism... 'We always asked the same question,' says Eisman. 'Where are the rating agencies in all of this? And I'd always get the same reaction. It was a smirk.' He called Standard & Poor's and asked what would happen to default rates if real estate prices fell. The man at S.& P. couldn't say; its model for home prices had no ability to accept a negative number. 'They were just assuming home prices would keep going up,' Eisman says."

That's how we got here — a near total breakdown of responsibility at every link in our financial chain, and now we either bail out the people who brought us here or risk a total systemic crash. These are the wages of our sins. I used to say our kids will pay dearly for this. But actually, it's our problem. For the next few years we're all going to be working harder for less money and fewer government services — if we're lucky.