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So much for the myth of Deregulation and the Free, Unfettered Marketplace. So much for the easy "bumper sticker" nonsense that "the government isn't the solution, the government is the problem". It seems the opposite is true. There has to be a realization that the government is US. Its not some foreign country, a place designed to be our enemy ... its US. We elect these people to represent US. What the government does is reflective of who WE are as a nation, not who they are as a group. It isn't US against Them; Them is US. When we include the government in the equation of our actions we are including ourselves. If the government is the enemy then we are our own enemy. We have been conned by the big money players, individuals and companies alike, Them, that the government is against us, holding us back with their stupid 'regulations' and 'oversight'. They have told US that so they can run free without the government, US, making sure they don't run US into the ground and steal our tax dollars. Seven Hundred Billion Dollars worth of our tax dollars is being confiscated to make up for the lack of government oversight and regulations designed to protect US from Them. Well, today the government became the solution to the myth of Deregulation and the Free, Unfettered Marketplace at a terrible cost to the American people, US.

Business

A Professor and a Banker Bury Old Dogma on Markets

By PETER BAKER

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This article was reported by **Peter Baker**, **Stephen Labaton** and **Eric Lipton** and written by Mr. Baker.



Chip Somodevilla/Getty Images

Henry M. Paulson Jr., left, and Ben S. Bernanke in July.

WASHINGTON — For the last year, as the nation's economy lurched from crisis to crisis, the chairman of the **Federal Reserve**, **Ben S. Bernanke**, had been warning **Henry M. Paulson Jr.**, the Treasury secretary, that the worsening situation might ultimately force a sweeping federal intervention.

A longtime student of the Great Depression, Mr. Bernanke was acutely aware of what could happen without a decisive move. Finally, the moment that called for action arrived late Wednesday. Less than 24 hours after the Fed bailed out **American International Group**, the giant insurer, it was clear the turmoil gripping Wall Street was only growing worse and that ad hoc solutions were not working.

Talking into a speaker phone from his ornate office, Mr. Bernanke told Mr. Paulson that it was time to adopt a comprehensive strategy that Congress would have to approve. Mr. Paulson understood. Reluctant in recent days to send Congress a plan that lawmakers had warned had little chance of quick passage, he had worried that a rejection would only further shock the markets. But during two conference calls Wednesday night and Thursday morning, he agreed that they had no choice.

"It just happened dramatically," Mr. Paulson said in an interview on Friday. "There was only one way that we could reassure the markets and deal with a very significant and broad-based freezing of the credit market. There was no political calculus. It was overwhelmingly obvious."

Just like that, Mr. Bernanke, the reserved former **Ivy League** professor, and Mr. Paulson, the hard-charging former Wall Street deal maker, launched what

would be the government's largest economic rescue operation in modern times, one that rivals the Iraq war in cost and at the same time may redefine Washington's role in the marketplace for years.

The plan to buy \$700 billion in troubled assets with taxpayer money was shaped by two men who did not know each other until two years ago and did not travel in the same circles, but now find themselves brought together by history. If Mr. Bernanke is the intellectual force and Mr. Paulson the action man of this unlikely tandem, they have managed to create a nearly seamless partnership as they rush to stop the financial upheaval and keep the economy afloat.

Befitting their roles and personalities, Mr. Paulson has become the public face of their team — he plans to appear on four Sunday talk shows — while the less visible Mr. Bernanke provides the historical underpinnings for their strategy.

Along the way, they have cast aside the administration's long-held views about regulation and government involvement in private business, even reversing decisions over the space of 24 hours and justifying them as practical solutions to dire threats.

"There are no atheists in foxholes and no ideologues in financial crises," Mr. Bernanke told colleagues last week, according to one meeting participant.

The improvisational nature of their effort has turned President Bush and Congressional Democrats into virtual bystanders, sometimes uncertain about what comes next and left to wonder about the new power dynamics in the capital. Seemingly every time lawmakers tried to get a handle on what was happening and what role they might play with elections around the corner, Mr. Paulson and Mr. Bernanke would show up again on Capitol Hill for another evening meeting with another surprise development.

The two men have been working early and working late, tracking Asian markets and fielding calls from their European counterparts, then reconnecting with each other by phone eight or nine times a day, talking so often that they speak in shorthand. Mr. Paulson has powered through the long days with a steady infusion of Diet Coke. Asked twice to testify by the Senate last week, he begged off.

"He told me he had like four hours of sleep," said Senator [Christopher J. Dodd](#), Democrat of Connecticut and chairman of the Banking Committee. But there were limits to Mr. Dodd's sympathy. "The public wants to know what's going on," he said he replied.

Mr. Bernanke (his drink: Diet Dr Pepper) has made a point of leaving the office by midnight to get at least some rest, but friends say the toll on him is clear as well. [Alan S. Blinder](#), a longtime friend and former vice chairman of the Federal Reserve, recalled seeing Mr. Bernanke at a conference last month in Jackson Hole, Wyo. "He looked like he had the weight of the world on his shoulders," Mr. Blinder said.

And that was before last week.

Mr. Bernanke took office in February 2006 and Mr. Paulson five months later, both Republicans and Bush appointees, yet arriving from starkly different places. Mr. Bernanke, 54, had managed the academic politics of the Princeton economics department, where he served as chairman, by developing a conciliator's style. Mr. Paulson, 62, rose to the top of [Goldman Sachs](#) by pounding the phones, and the occasional table.

"Hank is just the most hyperactive, get-it-done kind of guy who's always trying to get the problem solved and move on. He's impatient to fix things," said Allan B. Hubbard, a former national economic adviser to Mr. Bush. "Ben is much more low-key. He's very thoughtful. He's an incredible thinker, listens well, analyzes well and is not intimidated by anyone. It's probably a great pair."

While Mr. Bernanke talks in lofty terms and Mr. Paulson speaks in great bursts of Wall Street jock language, the new Washington odd couple bonded in part over baseball. The Treasury secretary is a Chicago Cubs fan and the Fed chairman is a Boston Red Sox fan who has adopted the Washington Nationals and shares season tickets with the White House chief of staff, [Joshua B. Bolten](#).

But neither Mr. Paulson nor Mr. Bernanke has been deeply involved in the political process before. As they try to navigate Washington together, they have surrounded themselves respectively with advisers drawn from Goldman and career professionals at the Fed.

Mr. Paulson initially declined to join the cabinet. He changed his mind only after extensive lobbying by Mr. Bolten, a former Goldman executive, and commitments by Mr. Bush to let him truly run economic policy, unlike his predecessors. The Hammer, as Mr. Paulson has been called since his days on the Dartmouth football squad, brought to Washington his characteristic intensity.

"He is a hurricane. He is used to living in a turbulent world," said John H. Bryan Jr., a close friend and former chief executive of the [Sara Lee Corporation](#). "He has lived in a world of deadlines, decisions and pressure-packed things."

Mr. Paulson, a Christian Scientist, does not drink or smoke. Once, at a cocktail party where he was giving a speech, recalled Andrew M. Alper, a former Goldman colleague, Mr. Paulson accidentally took a gulp from a glass of vodka, thinking it was water. His face turned bright red and his eyes were watering for an hour. “He just kept going,” Mr. Alper said. “It did not slow him down.”

Mr. Bernanke has a more obscure nickname, Helicopter Ben, after a speech he gave in 2002 in which he talked about the Fed’s “helicopter drops” of emergency money to keep the system liquid. For Mr. Bernanke, the current crisis is the culmination of a lifetime of figuring how the system works from a theoretical viewpoint.

Mr. Bernanke made clear long ago that he realized he might someday be called on to act on his studies. Vincent R. Reinhart, a former Fed official, said Mr. Bernanke’s research into Japan’s financial crisis in the 1990s reinforced his view that the government had to be aggressive in intervening during market crises.

And at a party he had in 2002 to honor the 90th birthday of [Milton Friedman](#), the famed economist, Mr. Bernanke, then a governor of the Federal Reserve, brought up the mistakes the nation made in the face of the Depression and promised not to repeat them. “We did it,” he said then. “We won’t do it again.”

Mr. Paulson, in the interview Friday, said that Mr. Bernanke had long warned that a moment might come like the one they saw last week.

“Going back a long time, maybe a year ago, Ben, as a world-class economist, said to me, ‘When you look at the housing bubble and the correction, if the price decline was significant enough,’ ” the only solution might be a large-scale government intervention, Mr. Paulson said. “He talked about what had happened when there had been other situations historically.”

Mr. Paulson said he agreed but hoped it would not come to that. “I knew he was right theoretically,” he said. “But I also had, and we both did, some hope that, with all the liquidity out there from investors, that after a certain decline that we would reach a bottom.”

He was also hearing as late as last Monday from senior Democratic and Republican lawmakers, including [Steny H. Hoyer](#), the House majority leader, and Representative [John A. Boehner](#) of Ohio, the House Republican leader, that there was no chance Congress would adopt any legislation before it planned to leave town in September. Even Representative [Barney Frank](#), a proponent of a greater role for the government in the market, said on Monday that the issue would have to be resolved by the next president and the new Congress next year.

By Tuesday, however, the troubles were only deepening. Lehman Brothers had declared

bankruptcy, [Merrill Lynch](#) had agreed to be bought by [Bank of America](#) and A.I.G. was on the verge of collapse. Mr. Paulson and Mr. Bernanke put together an \$85 billion bailout of A.I.G. and presented it to Mr. Bush.

But the two warned the president that it might not be enough to stabilize the broader crisis. A senior administration official, who spoke on condition of anonymity to discuss internal deliberations, paraphrased their message to Mr. Bush this way: “There may still be problems after this, and if there are, we’ll come back to you.”

They did, two days later, after plunging stock prices and frozen credit markets made clear the case-by-case strategy was not working. Mr. Paulson had been talking with Mr. Bush by telephone throughout Wednesday and early Thursday. The decision to finally take a radical, systemwide step came after an endless stream of conference calls involving Fed, Treasury and Securities and Exchange Commission officials, one participant recalled, when Mr. Bernanke said: “We have got to go to Congress.” Mr. Paulson concurred.

On Thursday afternoon, the two men, along with [Christopher Cox](#), the S.E.C. chairman, went to the White House to explain their plan. “The president said, ‘Let’s do it,’ ” an official said. “There was no hesitation.”

Within hours, Mr. Paulson and Mr. Bernanke were in the office of House Speaker [Nancy Pelosi](#), briefing Congressional leaders on how bleak the situation was. Lawmakers were shaken but offered tentative support. Torn by conflicting imperatives to take action and to go home to campaign, they seemed alternately grateful and resentful of the new power couple in Washington. Some referred to “President Paulson” and others grouched about an unelected central bank chairman doling out hundreds of billions of dollars.

Mr. Paulson and Mr. Bernanke came under fire for being too aggressive and for not being aggressive enough. Senator [Jim Bunning](#), Republican of Kentucky, said they were killing the free market. R. Glenn Hubbard, former chairman of Mr. Bush’s [Council of Economic Advisers](#), said they should have acted sooner.

“The opportunity to have taken bold action would obviously have been better had they done it months ago,” he said. “But better late than never.”

In the end, what left so many lawmakers and economists frustrated was the sense that no one had a better idea. So they waited for Mr. Paulson and Mr. Bernanke to give them more details about what they wanted to do.

David M. Herszenhorn contributed reporting from Washington, and Michael Barbaro and Eric Dash from New York.