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'08: Our Date With Disaster

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At Year's End, What Was Happening Last January Feels Like Events in Another Century, Another Country

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When did 2008 begin?

Was it Oct. 14, when the federal government spent the first dollar of taxpayer money to buy into private banks, effectively changing the principles of the U.S. economy?

Was it Sept. 21, when Treasury secretary [Hank M. Paulson Jr.](#) gave Congress a three-page plea for \$700 billion to rescue failing [Wall Street](#) firms that threatened to bring down the national -- perhaps global -- economy?

Was it a few days earlier in September, when the government seized control of struggling mortgage funders [Fannie Mae](#) and [Freddie Mac](#), watched [Lehman Brothers](#) fall, gave [AIG](#) an emergency \$85 billion loan and told Americans that they were on the verge of a great abyss?

Or was it all the way back on March 16, when [J.P. Morgan Chase](#) agreed to buy failing Bear Stearns -- once the most profitable of all Wall Street investment banks -- for \$2 a share?

Regardless of which date you pick, this year has been split into two parts -- Before Crisis and After Crisis.

Compressed into just the past few months of 2008, Americans endured a lifetime's worth of seismic collapses, whipsawing markets, epoch-defining ideological shifts and heartbreaking human drama. What was happening in the economy back in January? Who knows? That feels like another century, another country.

Seems almost quaint. At least it was familiar -- none of that news had a once-in-a-century global meltdown feel to it.

Before Crisis 2008, we carped about airlines going a la carte, charging for extra bags, peanuts and beverages.

We speculated that [Microsoft](#)'s \$31-per-share bid for [Yahoo](#) would be a game-changer and might even knock [Google](#) off its perch. It sure seemed big at the time. Yahoo turned down Microsoft's offer, pushing for a higher price. Microsoft walked away, killing Yahoo's stock and forcing chief executive [Jerry Yang](#) to reverse field and prostrate himself before Microsoft. When the software giant told Yahoo to take a hike, out went Yang, who appears to have passed on the best deal since the French to sell offered Louisiana to Jefferson. Yahoo, by the way, closed 2008 yesterday at \$12.20 a share.

We watched gas prices soar past \$3 per gallon, then \$4 per gallon, as oil hit an all-time high of \$147 a barrel in July. The big news at the time was oil speculators and talk of a possible "green" bubble, as wind and solar stocks briefly sparkled.

We thought about [Apple](#), wondering whether the new [3G iPhone](#) due out in summer would pop the company stock and offset concerns about the health of [Steve Jobs](#), a pancreatic cancer survivor, who was being seen less and less.

Big news in regulatory Washington was the approval of the merger of satellite radio companies XM and Sirius. What else were we worried about? We were worried that everyone wouldn't know about the switch to digital TV. Amazing.

But none of those events led to the collapse of etched-in-stone Wall Street names Bear Stearns and Lehman. Nor caused an economic contraction that led to thousands and thousands of layoffs. Nor drew comparisons to the Great Depression. Nor led to the bankruptcy of an entire nation (Iceland). Nor drained billions from the retirement accounts of ordinary Americans. Nor sent the auto industry to the precipice of bankruptcy. Nor led a Republican executive branch to effectively nationalize parts of the U.S. economy.

No Before Crisis event called into question the very nature of American capitalism.

No, that all came After Crisis, a black-is-white, up-is-down world that everyone is still trying to figure out. And that includes the people on Wall Street, at Treasury, at the [Fed](#), at the [SEC](#) and so on and so on.

What do we call the New Economy? Semi-nationalization? Crypto-capitalism? Laissez-faire socialism? Sweden?

Whatever it is, it sure came fast. This metamorphosis began with what seemed like isolated crises that could be contained. Bear Stearns. Countrywide. Fannie and Freddie. But each time we were told the disease was being treated, it leapt to another firm, then another, then another. Dosing individual patients with similar symptoms was no longer an option. This was a pandemic, and the government mounted a [Manhattan Project](#)-like effort -- over the span of days -- to find a cure.

It came up with a \$700 billion plan to buy "toxic assets," one of several terms most Americans had never heard before than have since entered the lexicon, including "credit-default swap," "mortgage-backed security," "LIBOR" and "tranche."

Then Americans heard a different term: "bait and switch," as Rep. Ginny Brown-Waite (R-Fla.) put it in a House hearing. No sooner was Paulson's plan to buy toxic assets approved, than the Treasury secretary said, naw, we're not going to buy toxic assets. We're going to buy actual stakes in banks. Thus began the nationalization of the U.S. economy.

On Dec. 1, the biggest no-duh news of the year came out. A number of economists had soberly examined the data, taken sufficient time to reflect and proclaimed: We're in a recession. Thanks for that, guys.

As the year wound down, we debated the color of executive parachutes and the shape this recession would take -- would it be V-shaped, U-shaped or, most chillingly, L-shaped?

The latter speaks of a New Normal, an economy without investment banks, annual appreciation of homes values, fat lines of credit and a Dow that may not sniff 10,000 again, much less its all-time high of 14,164 in October 2007.

Here's what else may be missing from the New Economy: The regulation-light, oxygen-rich environment that fueled the hedge funds, banks and financial instruments that bought yachts for stockbrokers and pushed the stock market higher, taking your 401(k) along for a merry ride.

And just as we thought we were stumbling out of 2008 with a least some of our limbs intact, here came [Bernie Madoff](#) -- a grandfatherly looking fellow, a former head of the Nasdaq and a trusted broker to the super-wealthy -- who took our open wounds and poured in salt.

Let's hope that is not a harbinger for 2009.

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