The New York Times
nytimes.com

October 7, 2008

TALKING BUSINESS

A Day (Gasp) Like Any Other

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Is it ever going to end?

We woke up Monday morning, all of us, hoping for the best but bracing for the worst. The federal government's $700 billion bailout package had been passed into law, which offered hope of a respite from this unrelenting crisis — or at least a chance to catch our breath.

We all needed a break. But we didn't get one. Instead, we got yet another horrible weekend. In Europe, the credit contagion raged like a wildfire. The Dutch government seized Fortis, the Belgian-Dutch bank. The German government bailed out a huge lender, Hypo Real Estate. European governments raced to follow Ireland's lead and guarantee all bank deposits, fearing that if they didn't, depositors would move their money to "safer" countries with guarantees. The euro and the British pound sank against the dollar.

In America, meanwhile, Citigroup, Wachovia and Wells Fargo spent the weekend in a circus of court hearings, as Citigroup tried to get a state judge to enforce its F.D.I.C.-approved merger agreement with Wachovia — while Wells Fargo and Wachovia sought out other judges, both state and federal, to overrule him, and allow the Wells Fargo offer to proceed. Not exactly confidence-inspiring.

And by the time we got in the shower Monday morning, we knew what the day foretold: bailout law or not, the Asian markets had been hammered. European markets were falling. Russia shut down trading. So did Brazil. In the United States, the Dow dropped a frightening 800 points by midafternoon. It rallied in the last hour of trading, closing down "only" 370 points. That wasn't confidence-inspiring either.

But the situation on Monday was far worse in the credit markets — as has consistently been the case during the crisis. "There is no liquidity anywhere," one hedge fund manager told me. "No lending available. No interbank lending available. The fixed-income market is completely shut down. There is no activity going on anywhere." (He asked me not to use his name because he didn't want to spook his investors.)

The Federal Reserve announced yet another enormous injection of liquidity into the system Monday morning, saying it would make as much as $900 billion available. "What the Fed said was that it wasn't just opening the window," said Daniel Alpert, managing partner at Westwood Capital. "It is taking out the window sill and chipping out the bricks around it."

The Fed's move was barely noticed. Now there's talk of another intervention by the Federal Reserve to help thaw the frozen credit markets by buying up short-term commercial debt.

"What I am worried about with all these bailouts," said the great Wall Street historian Ron Chernow, "is whether they are going to eventually tax the resources of the federal government. The numbers are already getting very, very large. What is especially scary and unsettling is that even actions of this magnitude have not seemed to restore confidence. Each time, you thought that would be the one to stop the contagion. It hasn't happened."

This panic is taking place in such a compressed time frame that it is just astonishing. Mr. Chernow pointed out that while the stock market crash of 1929 took place over three brutal trading days in October 1929, it took nearly three years to reach bottom. By then, stocks had lost a shocking 89 percent of their value.

This crisis, by contrast, seems to be moving at hyper-speed — one day it is Lehman Brothers, the next A.I.G., the day after that Washington Mutual. This crisis doesn't wear you down over time. It hits you over the head with a two-by-four. On a daily basis.

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Of course the crisis is also playing out in Washington, and that is where the spotlight shifted Monday afternoon. Richard S. Fuld Jr., the longtime chief executive of Lehman Brothers, was testifying before the House Committee on Oversight and Government Reform. The committee's chairman is Henry Waxman, the Democrat of California who loves nothing more than raking C.E.O.'s over the coals. The blame game was starting in earnest.

To give him his due, Mr. Waxman has conducted hearings that have been truly important. In one of the most memorable scenes in modern Congressional history, Mr. Waxman pushed the chief executives of the country's biggest tobacco companies to deny under oath in 1994 that cigarettes were addictive and caused cancer. He was also the congressman who gave the country its first up-close look in 2002 at the combative, delusional personality of Jeffrey Skilling, the former Enron chief executive.

But Monday's hearing was illuminating only in what it showed about Congress's sorry willingness to use a national emergency to score political points. Representative Carolyn Maloney, Democrat of New York, pressed a panel of experts who appeared before Mr. Fuld to say whether the crisis had been caused by the abolition of Glass-Steagall, the Depression-era law that had separated commercial banks from investment banks. ("Yes or no!" she demanded.)

She was implying that Republicans were the villains by tearing down financial regulation — which may well be true, though the example she picked was a poor one. The companies that have best withstood the crisis are those that took advantage of the end of Glass-Steagall to form one-stop-shopping banks: Citigroup, JPMorgan and Bank of America. The companies that have fallen are the stand-alone investment banks: Bear Stearns, Lehman Brothers and Merrill Lynch.

Representative John Mica, Republican of Florida, railed about the lack of witnesses from Fannie Mae and Freddie Mac — "Any hearing that does not start with Fannie is a sham," he complained. He was trying to pin the crisis on Democrats, for pushing Fannie and Freddie to offer more mortgages to low-income home buyers. That has become the Republican rallying cry. It too has a grain of truth but it is hardly the whole truth.

For his part, Mr. Waxman seemed to care only about one thing: the tens of millions of dollars Mr. Fuld pocketed as Lehman's chief executive. "Is it fair?" he kept asking — a question Mr. Fuld was never going to answer, as Mr. Waxman well knew. But he wasn't looking for a real answer. This was theater.

Which is a shame. This hearing was billed as an effort to get to the bottom of the Lehman collapse. That would be genuinely useful for the country to understand. Flogging Mr. Fuld on his compensation — enjoyable though it must have been for Mr. Waxman — was a sideshow.

Mr. Fuld, in typical C.E.O. fashion, claimed to take "full responsibility" for his actions — but spent the entire time blaming others for Lehman's downfall. Early in his testimony, he even blamed "naked short-sellers" who passed along "false rumors" that started a run on his bank. As both The New York Times and The Wall Street Journal pointed out in lengthy stories on Monday, Mr. Fuld had assets on his books that were wildly overvalued.

It may well be that failing to save Lehman was the single worst mistake the government has made in this crisis — the event that set off this latest, scariest stage. But Lehman's own mistakes put it in a position where only a government bailout could save it. This, however, is not something Mr. Fuld was prepared to admit.

Sad to say, the crisis does not appear to be winding down. One reason the market acted so skittishly Monday is that it simply can't wait six weeks or so before the government is ready to start buying the first $250 billion worth of toxic securities from troubled firms. In normal times, this would seem blazingly fast. In these compressed times, it seems terribly slow. The markets want to know — right now — whether the bailout plan will work.

Another reason is that certain ominous dates are fast approaching. One is Oct. 23, when the auction will take place to settle the credit-default swaps relating to the Lehman bankruptcy. I saw one estimate that the amount of money firms will owe each other could be as much as $400 billion. Why? Firms that insured against the risk of a Lehman default are going to owe billions to other firms — but they'll want to collect from the firms with whom they laid off the risk. And so on down the line. The upshot is that many firms are not going to have the money to pay off the insurance claims they owe, and they are likely to be ruined.

A third problem, though, is that confidence keeps eroding. The latest wrinkle is that many hedge fund investors, fearing big losses, no longer have confidence in their hedge fund managers. Thus, hedge fund managers are preparing for huge withdrawals at the end of the year, and so they are selling billions of dollars worth of stock preparing to pay redemptions. That is one reason the stock market is under pressure.

"It becomes a self-fulfilling prophecy," said one hedge fund manager. Firms fearing redemptions sell off stocks, which hurts their performance. Which undermines their investors' confidence. Which means there are likely to be even more redemptions. Around and around it goes.

Twelve years ago, Alan Greenspan invented the term "irrational exuberance." That era seems tame compared with this one. What is going on in the markets is anything but exuberant — at this point, though, it is undeniably irrational.