How to Turn Crisis Into Catastrophe

> *"The bankers fervently believed their new structures and systems would better ensure the soundness of their loans than old- fashioned credit analysis and human judgment, fraught as ever with human error. Having crafted a system that seemed to relieve them of responsibility for making good judgments, they naturally proceeded to make an enormous amount of bad loans. Similarly, the government did not know the bank's financial condition not because the banks were hiding it but because the banks themselves did not know. Believing that statistical systems could transcend the need for human judgment, the bankers created and the regulators encouraged financial institutions with balance sheets no one could judge."*

> *"Finally, when the fraud began to be revealed by its consequences, the government turned crisis into catastrophe. It was the government that actually collapsed stressed credit markets, largely by treating fraud as misfortune. Transfixed by the same ideology of irresponsibility, the government coddled those who perpetuated the fraud and concentrated its ire on those who exposed it, especially short sellers. (Short sellers are to financial markets what free speech is to political markets.)"*

from *Panic – The Betrayal of Capitalism by Wall Street and* Washington by Andrew Redleaf and Richard Vigilante