

Ask not how government will fix the economy

January 1, 2010 - Jonathan Wellum

On April 22, 1903, the New York Stock Exchange opened in a new building at 18 Broad Street, to much fanfare and festivity. The building was immediately recognized as an example of masterful architecture. The six massive Corinthian columns across its Broad Street front imparted a feeling of substance and permanence and, for many, the very embodiment of the nation's growth and prosperity. While the building had many amazing features, it is the great figural sculpture on the building façade that is one of its most recognizable and photographed features.



John Quincy Adams Ward, a prolific and well-known American sculptor, designed the very important pediment that sat above the massive Corinthian columns. It was entitled "Integrity Protecting the Works of Man." The classic design depicts the 22-foot figure of Integrity in the centre, depicted as a woman, hands stretched out to the left and to the right, with Agricultural and Mining figures (human capital) to the right and Science, Industry and Invention figures on left (intellectual capital). These sectors represented the sources of

American prosperity. Significantly, two children were strategically placed at the feet of Integrity, and a pregnant farmhand was included.

Previous generations understood that without integrity at the centre and over all the areas of life, the stock exchange would not be a place of wealth creation, prosperity and economic justice. Rather, without integrity at the core, the stock exchange would become a place of dishonesty, speculation and greed which would lead to wealth polarization, envy and, eventually, government intrusion and seizure of wealth.

Interestingly, in 1936, due to the statue's weight (approximately 90 tons), the Exchange replaced the marble figures with lead-coated replicas weighing only 10 tons.

The events in our financial markets are analogous to the replacement of the original marble sculpture in 1936. As with the building which could not support the weight of the first authentic sculpture, the New York Stock Exchange as a symbol of capitalism has not been able to withstand the deterioration of integrity that has broadsided our culture and undercut the foundation of our economic system. The current economic challenges have little to do with economic capitalism and the need for more government, and more with the market's participants and the attenuation of integrity.

What is integrity? It is the state or quality of being complete; it refers to wholeness, moral soundness, honesty, freedom from corrupting influence or motive. At the core of integrity is the belief in truth and ethical standards of right and wrong. But what is integrity and what are ethics in a world without a base or foundation for absolute standards of morality?

What's wrong with misrepresenting financial statements, if that misrepresentation leads to a higher bonus? What's wrong with creating obscure and difficult to understand securities and marketing them as high quality assets, when in reality they are junk? Why require citizens to save for a down payment when the government will provide a state-guaranteed mortgage with little to nothing down? Why pay now when you can pay later?

The loss of integrity and standards of morality are primarily to blame for the financial mess we are in. A look at the three key causes for the financial crisis reveals this to us. First, cheap and easy access to credit led a large portion of the population in developed economies to increase their size of debt to irresponsible levels. The baby boomer generation went on a debt-ridden buying binge. What drives a whole generation to build their lives on things they cannot afford?

The second reason for the financial mess must be put at the feet of our financial services industry and the lack of principled leadership, ethics and risk management in too many companies. The pressure for short-term results regardless of the long-term implications was endemic. This was seen in the abuse of derivatives, excessive financial engineering, extreme leverage and conflicts of interest. Rather than strict credit adjudication directing capital to the best businesses, they did the opposite—resulting in a massive misallocation of capital and wealth destruction.

Thirdly, weak and often dishonest political and regulatory oversight contributed to the financial crisis. More government intrusion and more regulations can never act as a substitute for integrity. Let's not forget that three highly regulated areas—banking, insurance and mortgages—were central to the financial problems. Government bungling and politically motivated regulations supporting misguided social policy contributed to the problems as much as any greed on the part of individuals and corporations.

Extensive regulations are no badge of honour for a people. After all, the degree by which an economy is burdened with regulations reflects the moral state of the culture. The most corrupt economies in the world are the most regulated and controlled. They are also the least efficient in producing wealth for anyone outside of the government and its circle of friends.

What should concern citizens of the major developed economies today is the dogma that more regulations and government involvement will solve our financial woes. Who will regulate the regulator as it expands its sphere of power and places itself over all? Do we have enough integrity left in our culture to push the government back into its legitimate but smaller sphere?

The government has now become the problem, advocating solving the financial crisis with more consumption and more debt. In fact, another financial crisis much worse than the one we have been experiencing is on the horizon. This time, it will be a public debt crisis the likes we have not seen in more than a century. Simply stated: the size of current government deficits and debts throughout the developed world, coupled with the massive entitlement promises to an aging population, make current government profligacy throughout the West utterly immoral and lacking of all integrity. We are witnessing the unfolding of the greatest act of theft in history. Even 1% interest rates, put in place to reward

the debtors at the expense of the creditors, can't stop this financial madness from blowing up. But who cares as long as the Ponzi scheme rolls on?

There is little integrity left. But without integrity, how will we protect the works of man? It must begin with each of us. Let's start by placing integrity above all we do.