

Dancing in the dark

by *The St. Louis Post-Dispatch*

The great screenwriter William Goldman once wrote, apropos of the movie business, that "Nobody knows anything. Not one person in the entire motion picture field knows for a certainty what's going to work. Every time out it's a guess."

The longer the nation's economic crisis goes on, the more apparent it becomes that nobody knows anything about it, either. We're not the first to make this observation, but the events of the past week underscored its truth.

Nationally, comedian Jon Stewart spent the past week gleefully beating up on the CNBC financial network and its star financial analyst, Jim Cramer, for passing out bad advice. In St. Louis, after his firm was sued for misleading investors about the safety of something called auction-rate securities, Ron Kruszewski, CEO of Stifel Financial Corp., replied, in effect, that we just sold them, we didn't know what they were.

We'll give him points for honesty, but that's not something you really want to hear your financial adviser admit.

There was a lot of dancing in the dark going on in the last two decades. The Federal Reserve board said Thursday that the net worth of U.S. households declined by nearly 18 percent in 2008. That amounts to \$11 trillion in wealth that simply disappeared.

Much of it, as we've come to understand, was ephemeral, driven by a housing bubble built atop exotic collateralized debt obligations designed by "quants," quantitative analysts who used mathematics to create risk profiles that turned out to be bogus. "Beware of geeks bearing formulas," said Warren Buffett, the investment guru who personally lost \$25 billion last year.

Now these CDOs are known by another name, "toxic assets," plaque on the arteries of the international banking system, choking off the flow of credit and making the people who financed this spree — foreign investors — a little nervous.

On Friday, America's biggest creditor sent a shiver up Wall Street's spine. Wen Jiabao, China's prime minister, said at his semi-annual news conference that "We have lent a huge amount of money to the U.S. Of course we are concerned about the safety of our assets. To be honest, I am definitely a little worried."

America doesn't even want to think about what happens if China starts unloading its \$1 trillion in Treasury bills and other assets. For that matter, China doesn't want to think about it, either, which gives us a little breathing room.

In a way, this is the end result of what happens when we refinanced our homes so we could buy all those Chinese-made plasma TVs and Japanese cars. The mortgage company repackaged our mortgage into CDOs and sold them to banks, who then bought insurance for them in the form of credit swaps issued by AIG.

Now nobody knows anything: Not the value of the credit swaps, the value of the CDOs, the value of the banks or the value of our homes. So we continue printing and borrowing money to bail out banks and AIG because, we're told, if we don't things will get a whole lot worse.

This is the Gordian knot that President Barack Obama and his economic team must untangle. No wonder they're moving slowly. Wall Street is apoplectic at the thought that big banks will nationalized, that somehow the people and institutions holding all those toxic assets are going to get short-changed. Congress is apoplectic that it will have to spend another trillion or so bailing out the same people who started this mess or else see credit collapse and bring on the second Great Depression.

Fed Chairman Ben Bernanke and Treasury Tim Geithner were at pains last week to reassure the markets that a middle ground is being sought. Thus the markets rebounded a bit.

Someone, however, will get stuck holding the bag. Nobody knows anything, but the guess here is that it will be the taxpayers.

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