

# Banks, Regulators Get Blame

By **ARIANA EUNJUNG CHA**  
*The Washington Post*

WASHINGTON — Regulators fell short in using their powers "forcefully or effectively" to stop risky practices by banks and were slow to identify and address abuses in the U.S. financial system that led to global economic crisis, Federal Reserve Chairman Ben Bernanke told a panel investigating the financial crisis on Thursday.



Bernanke

In a lengthy analysis delivered before the congressionally appointed committee, Bernanke said government regulators did not do enough to protect consumers in the marketplace and to force large financial institutions to curtail risky practices.

"Regulators had recognized these problems in some cases but did not press firms

vigorously enough to fix them," he said. Bernanke said the single most important lesson from the crisis was that the problem of financial institutions that are "too big to fail" must be solved.

He said that the U.S. government should be prepared to close down even the nation's largest firms if they pose a broader threat to the financial system. The financial overhaul signed into law earlier this summer gives regulators that power.

Bernanke's remarks were delivered on the second day of hearings by the Financial Crisis Inquiry Commission, which is charged with writing the official account of the causes of the financial crisis and the subsequent response by U.S. regulators. The government, invoking emergency powers, has issued more than \$2 trillion in loans and other assistance since 2008 to help support the financial sector.

On Wednesday, former Lehman Brothers Chief Executive Richard Fuld said that U.S. regulators had acted on "flawed infor-

mation" in making their decision to deny Lehman Brothers aid and force it into bankruptcy proceedings.

Thursday's event on Capitol Hill marked the final public hearing of the commission before the panel issues its report in December.

The commission's 10 members have been critical of Wall Street's role in the crisis since beginning their inquiry in January. They continued their attack on financial firms this week, but in questioning witnesses, they also began shifting their attention to the government's responsibilities.

Following Bernanke's remarks, members of the commission repeatedly pressed the central bank chairman on two of the most vexing questions about the financial crisis. They want to know why Lehman did not receive a government bailout, and what role the Fed played in the housing market bubble.

Philip Angelides, chairman of the commission and a former California state treasurer, asked Bernanke to explain the Federal Reserve's decision-making on whether Lehman was considered too big to fail.

Bernanke said he recognized that if Lehman failed, the consequences would be catastrophic but that the Fed could not extend a lifeline without a reasonable expectation that it could get repaid.

Commission Vice Chairman Bill Thomas, a former Republican chairman of the House Ways and Means Committee who is now a visiting fellow at the American Enterprise Institute, asked Bernanke to explain the difference between Lehman and insurer American International Group, which received a \$182 billion rescue package from the government.

Bernanke said there was a "very big difference" in whether the government was reasonably likely to be paid back. While Lehman's entire value was in financial instruments, he explained, AIG was "the largest insurance company in America, and the financial products division was just one

outpost of this very large and very valuable insurance company."

After 2 1/2 hours of answering questions, Bernanke made a frank admission: Even as the Fed scrambled to save Lehman the weekend before it declared bankruptcy, the Fed had already concluded the bank would fail because customers and investors had declared it dead.

On the Fed's role in the housing market's runup, Bernanke said it would have been "questionable" for the Fed to raise interest rates before the real estate market became overheated.

Bernanke, who in 2007 told lawmakers that he thought the subprime mortgage issue was "manageable," said he did not recognize the weaknesses that would turn the housing problem into a much bigger crisis.

Much of Bernanke's prepared testimony focused on reviewing the immediate triggers of the crisis and the longer-term structural weaknesses in the financial system.

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Thought for Today "I was glad when they said unto me, Let us go into the House of the Lord." Psalm 122:1

## Panel: Income Tax Stays

Athens Banner-Herald

Nobody likes to pay taxes. For the past couple of days, that truism has, unsurprisingly, been much in evidence as the Special Council on Tax Reform has held a series of fact-finding sessions. The council was established by the state legislature in this year's General Assembly session.

The task in front of the council, which comprises economists from most of the state's major universities, including the University of Georgia, along with a number of the state's business leaders, is to develop a set of recommendations for reshaping the state's tax system for possible action in the 2011 legislative session, which convenes in January.

The fact-finding sessions now under way are an integral part of that effort. Information about the sessions, including how to file comments in person or by e-mail, is available online at [fiscalresearch.gsu.edu/taxcouncil/index.htm](http://fiscalresearch.gsu.edu/taxcouncil/index.htm).

The sessions began Aug. 26 in Atlanta and wind up with the Gainesville session, with stops in Augusta, Savannah, Valdosta, Macon and Rome sandwiched in between.

According to an *Augusta Chronicle* story on the Monday fact-finding session in that city, "(a) handful of area industries defended their state tax exemptions and warned against tax hikes." The story went on to note that the council's chairman "admonished one speaker that eliminating Georgia's income tax was not in the picture."

A *Savannah Morning News* story on the fact-finding session held in the coastal city Tuesday — at which the council was represented only by its chairman — noted that "farmers, tree growers, health advocates, businesses, local officials and others" were in attendance, and indicated that "(m)any speakers sought to keep sales tax exemptions that benefit them

and, they also said, create or preserve jobs."

Again, duly noted. People don't like to pay taxes, whether on their income or in connection with various aspects of businesses they may run or industries in which they may work.

But as the Special Council on Tax Reform and Fairness for Georgians does its work, and as lawmakers consider any recommendations the council might make, one thing that everyone should bear in mind is that some level of taxation is necessary if this state is going to adequately maintain and improve its infrastructure, adequately educate its young people for college or the world of work, and support the institutions of higher education that, in many instances, serve as economic engines for their communities and economic development tools for the entire state. And that's not to mention the myriad public health and public safety responsibilities assigned to the state government.

Are there economies to be achieved in state government that might allow some lessening of the tax burden? Almost certainly, with potential savings on energy consumption in state offices and some consideration of workforce reduction as just two possible areas for trimming government expenses.

But there are areas where expenditures are, if not outright necessary, at least advisable. Take, for example, Gov. Sonny Perdue's address earlier this week to a state tourism conference held in Athens. Perdue called tourism "an industry that we need to focus on, because this is an industry that gives us a return on our investment."

He's exactly correct, of course, and the "investment" that the state makes in tourism takes many forms, from having state patrol troopers ensuring the safety of visitors on the roads, to having a transportation infrastructure that allows those visitors to move quickly and easily around the state.

## Oval Office Gets Facelift

Marietta Daily Journal

When President Barack Obama introduced the first budget of his presidency last February, he piously observed: "There are times where you can afford to redecorate your house, and then there are times when you need to focus on rebuilding your foundation."

He probably wishes he had never said that. While he and the family were vacationing on posh Martha's Vineyard, a small army of decorators and craftsmen gave the Oval Office a makeover, erasing the last vestiges of George W. Bush.

While Obama's aides repeatedly stressed that the makeover was done at no cost to the American taxpayers — it was paid for by the privately funded White House Historical Foundation — the redecoration of a perfectly good office reinforced the Obama's reputation for relishing the good things in life a little too much — luxury vacation destinations, quick getaways to Manhattan, expensive private schools.

And there's a voter demographic that Obama has been chasing — blue-collar, gun-owning, beer-drinking white male Pennsylvanians and their equivalents here in Georgia and elsewhere — who think any interest in interior design beyond a recliner and a wide-screen TV is effeminate.

Bush got around this problem by subcontracting his redo of the Oval Office to his wife, Laura. We are still awaiting intelligence about whether this president spent evenings curled up with swatches of fabric and paint samples and wallpaper samples or left it in Michelle's hands and hit the links, as he so often does.

This particular demographic does not differentiate among taupe, beige, wheat, caramel and buff; it is all brown to them.

Like most of his predecessors, Obama sits at a

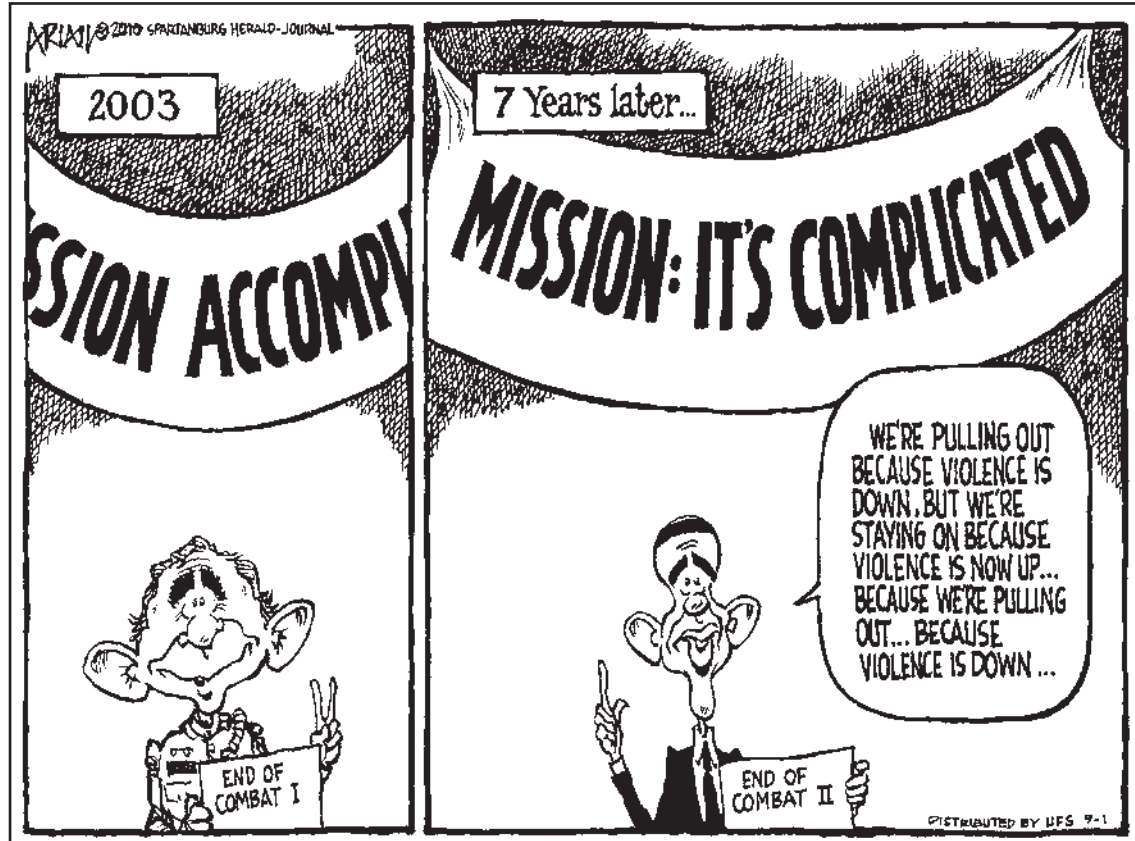
desk made from the timbers of the British warship *Resolute*, a gift from Queen Victoria to Rutherford B. Hayes. Hayes, president from 1877-81, is a salutary presidential example of things going wrong in spite of best efforts — the spread of Jim Crow laws, federal troops firing on striking railroad workers and West Coast xenophobia that ultimately led to the Chinese Exclusion Act. Hayes, not surprisingly, opted to serve only one term.

The centerpiece of the room is a wheat and cream-colored rug — made of 25 percent recycled wool, we're told — with a presidential seal in the middle and quotes from Kennedy, Lincoln, the Roosevelts and Martin Luther King Jr. around the border. From the photos it looks like you would bump into a lot of furniture trying to read, "The only thing we have to fear is fear itself."

The company that made the rug donated it, but *The Washington Post* says the last four presidential rugs ranged in cost from \$28,550 to \$61,000. (Bo the presidential dog may be getting only limited access to the Oval Office.) Facing each other on the rug are two couches covered in light brown cotton, evoking, in the words of one observer, "the feel of a den."

The portraits of Washington and Lincoln and the grandfather clock stayed. The shelves, which held antique porcelain when the Bushes were in residence, now hold books. It also looks like Obama opted to retain Bush's choice of a Frederic Remington bronze, "The Bronco Buster," although it appears to have been moved to another side table across the office.

Obama will inevitably take a beating over his choice of decor. He's due even more criticism over the timing of his redecorating fling, what with the economy on the rocks thanks in part to his policies.



## Iraq's Bombers Surprised Victorious Allies

By **ROBERT BURNS**  
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An AP News Analysis

WASHINGTON (AP) — Shortly after U.S. troops captured Baghdad in April 2003, the U.S. military's top officer made a prediction about the future of Saddam Hussein's elite Republican Guard.

"They're history," Gen. Richard Myers, then-chairman of the Joint Chiefs of Staff, told an Associated Press reporter traveling with him from Washington to visit the war front.

Myers was talking about U.S. plans to disband Saddam's security apparatus, but his broader implication — that Saddam loyalists were out of the picture, unable to prolong the war — proved wrong.

In Iraq, reality kept intruding on American hope. And the gap between the two helps explain why it took so long to reach the end of U.S. combat operations — and why the Iraq effort may yet falter.

Some today question whether President Barack Obama's hope that Iraq will not unravel as U.S. troops head for the exits matches the reality of a country still in political turmoil.

Historians will sort out the details of what went wrong in Iraq, but already it's possible to point to a key reason: American troops and diplomats entered the country with little understanding of its ethnic and sectarian divisions and of the deep societal scars left by decades of repressive rule by Saddam.

That disconnect played a powerful role in altering what initially looked like a U.S. rout into a long, maddening fight. The shadowy and resilient Iraqi insurgency refused to bend to a tidy American vision for Iraq's future.

Thirteen days after Myers made his comment about the Republican Guard and the smaller Special Republican Guard that served as Saddam's personal shield, the senior U.S. civilian administrator then in Baghdad, Paul Bremer, issued a decree formally disbanding Saddam's military.

Rather than go away, as Myers had predicted, Saddam's loyalists found new work. They helped organize and finance insurgent groups like the 1920 Revolution Brigades, which was active against U.S. forces in Sunni-dominated parts of Iraq until it switched sides in 2007 to join the fight against al-Qaida.

In the first months of the war, the Pentagon brass dismissed the insurgents as "dead enders."

In a July 2003 interview in Baghdad, Bremer said that while security was a problem in central Iraq, the shadowy fighters who were carrying out attacks on U.S. troops would be stopped.

"These attacks do not pose a strategic threat to the coalition," Bremer said. "These are small-scale, bitter-end attacks. We will pacify this region."



Gen. Myers

In the early days of the war, confidence among U.S. officials ran high, fed by a belief that Iraqis were eager to embrace the end of the Saddam era and take affairs into their own hands.

It was considered a foregone conclusion that with Baghdad under the control of the U.S.-led coalition by April 9 — and Saddam on the run — the war was headed for a quick end. The Marines who helped spearhead the ground assault on Baghdad and afterward spent a quiet summer in predominantly Shiite areas south of the capital left Iraq in September.

One small measure of American confidence was a desk ornament that Bremer carried with him aboard Myers' plane on his arrival in Baghdad on May 12. Its raised letters read "Success Has a Thousand Fathers." Bremer, a veteran diplomat, was sent to put Iraq on track to democracy.

Upon landing in Baghdad, Bremer said: "We came to overthrow a despotic regime. That we have done. Now our job is to turn and help the Iraqi people regain control of their own destiny."

But there already were signs of hope clashing with reality.

On March 29, 2003, an orange-and-white Iraqi taxi stopped near a checkpoint manned by U.S. soldiers north of the holy city of Najaf. The driver gestured for help, then blew up his vehicle, killing himself and four soldiers from the Army's 1st Brigade, 3rd Infantry Division.

It was the first successful suicide car bombing of a war in which such tactics would become a hallmark of the insurgency.

Richard Henson, who was the dead soldiers' platoon sergeant, recalls the attack vividly. He also remembers that four months later he told Paul Wolfowitz, the visiting deputy secretary of defense, about its emotional impact. Wolfowitz, who was in Baghdad on a fact-finding tour, invited Henson's thoughts on the war but instead got a dose of ground-level realism.

Henson praised American air power, then suddenly switched gears, describing the March 29 car bombing.

"It was pretty emotional," Henson told Wolfowitz with an AP reporter present. Choking back tears, he added, "But my guys pulled together." He finished by saying there was nothing anyone in his platoon could have done to prevent the tragedy. Still, he added, "I feel guilty."

Henson, 47, now a sergeant major at U.S. Army North headquarters at Fort Sam Houston, Texas, said in a telephone interview last week that he recalls thinking that Wolfowitz needed to hear what was really happening, and how ordinary soldiers were persevering.

The suicide attack had been a surprise — not the kind of tactic the Americans had anticipated. With U.S. forces now winnowing down, Iraq's hard reality remains.

"I thought it was important that I share that with him," Henson said, recalling his effort to get Wolfowitz to see the full picture. "That way he knows the truth, the reality of what went on, that everything wasn't easy."