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OP-ED COLUMNIST

The Great Unraveling

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Hong Kong

The stranger, a Western businessman, slipped into the chair next to me at an Asia Society lunch here in Hong Kong and asked me a question that I can honestly say I've never been asked before: "So, just how corrupt is America?"

His question was occasioned by the arrest of the Wall Street money manager Bernard Madoff on charges of running a Ponzi scheme that bilked investors out of billions of dollars, but it wasn't only that. It's the whole bloody mess coming out of Wall Street — the financial center that Hong Kong moneymen had always looked up to. How could it be, they wonder, that such brand names as Bear Stearns, Lehman Brothers and A.I.G. could turn out to have such feet of clay? Where, they wonder, was our Securities and Exchange Commission and the high standards that we had preached to them all these years?

One of Hong Kong's most-respected bankers, who asked not to be identified, told me that the U.S.-owned investment company where he works made a mint in the last decade cleaning up sick Asian banks. They did so by importing the best U.S. practices, particularly the principles of "know thy customers" and strict risk controls. But now, he asked, who is there to look to for exemplary leadership?

"Previously, there was America," he said. "American investors were supposed to know better, and now America itself is in trouble. Whom do they sell their banks to? It is hard for America to take its own medicine that it prescribed successfully for others. There is no doctor anymore. The doctor himself is sick."

I have no sympathy for Madoff. But the fact is, his alleged Ponzi scheme was only slightly more outrageous than the "legal" scheme that Wall Street was running, fueled by cheap credit, low standards and high greed. What do you call giving a worker who makes only \$14,000 a year a nothing-down and nothing-to-pay-for-two-years mortgage to buy a \$750,000 home, and then bundling that mortgage with 100 others into bonds — which Moody's or Standard & Poors rate AAA — and then selling them to banks and pension funds the world over? That is what our financial industry was doing. If that isn't a pyramid scheme, what is?

Far from being built on best practices, this legal Ponzi scheme was built on the mortgage brokers, bond bundlers, rating agencies, bond sellers and homeowners all working on the I.B.G. principle: "I'll be gone" when the payments come due or the mortgage has to be renegotiated.

It is both eye-opening and depressing to look at our banking crisis from China. It is eye-opening because it is hard to avoid the conclusion that the U.S. and China are becoming two countries, one system.

How so? Easy, in the wake of our massive bank bailout, one can now look at China and America and say: "Well, China has a big-state-owned banking sector, next to a private one, and America now has a big state-owned banking sector next to a private one. China has big state-owned industries, alongside private ones, and once Washington bails out Detroit, America will have a big state-owned industry next to private ones."

Yes, an exaggeration to be sure, but the truth is the differences are starting to blur. For two decades, a parade of U.S. officials came to China and lectured Beijing on the necessity of privatizing its banks, said Qu Hongbin, the chief economist for China at HSBC. "So, slowly we did that, and now, all of a sudden, we see everybody else nationalizing their banks."

It's depressing because China in many ways feels more stable than America today, with a clearer strategy for working through this crisis. And while the two countries are looking more alike, they appear to be on very different historical trajectories. China went crazy in the 1970s, with its Cultural Revolution, and only after the death of Mao and the rise of Deng Xiaoping has it managed to right itself, gradually moving to a market economy.

But while capitalism has saved China, the end of communism seems to have slightly unhinged America. We lost our two biggest ideological competitors — Beijing and Moscow. Everyone needs a competitor. It keeps you disciplined. But once American capitalism no longer had to worry about communism, it seems to have gone crazy. Investment banks and hedge funds were leveraging themselves at crazy levels, paying themselves crazy salaries and, most of all, inventing financial instruments that completely disconnected the ultimate lenders from the original borrowers, and left no one accountable. "The collapse of communism pushed China to the center and [America] to the extreme," said Ben Simpfendorfer, chief China economist at Royal Bank of Scotland.

The Madoff affair is the cherry on top of a national breakdown in financial propriety, regulations and common sense. Which is why we don't just need a financial bailout; we need an ethical bailout. We need to re-establish the core balance between our markets, ethics and regulations. I don't want to kill the animal spirits that necessarily drive capitalism — but I don't want to be eaten by them either.

Maureen Dowd is off today.

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