

9 JIM WHITE THE ECONOMY WILL CURE ITSELF, BUT IMPOSE CAPITAL REQUIREMENTS

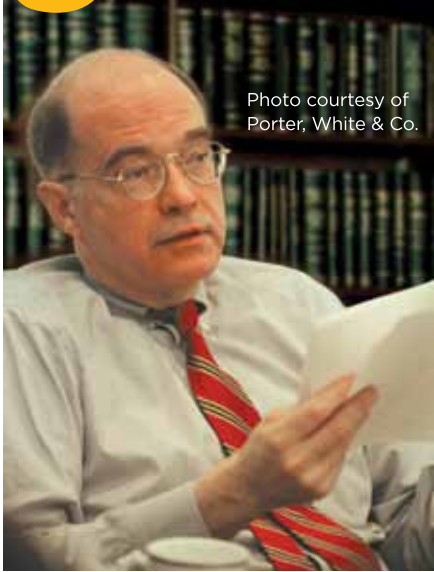


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Porter, White & Co. is an investment management firm in Birmingham that helps individuals and organizations raise capital, structure their debt offerings and manage investments. James White founded the company 35 years ago. He has helped raise capital for major public and private projects, including a steel mill, an auto plant site, airport modernization, civil and convention centers, utilities and health care institutions.

The problems with the economy started in the financial sector.

When the financial sector collapsed, the problems migrated to the real economy—a substantial contrac-

tion in credit, dramatic losses in the stock market, dramatic declines in housing values, dramatic reductions in consumer confidence, reductions in consumer purchases and a drop in demand for goods and services. We haven't recovered from those things, and certain segments won't recover for a good while.

It's indisputable that government was juicing single-family home ownership,

encouraging irresponsible lending and not providing enough oversight of Fannie Mae and Freddie Mac and activities that led to fraud and abuse of consumers. Those activities were magnified by financial engineering that led to the creation of securities that were totally unrealistic. Greedy bankers and other participants in the financial sector were making ridiculous decisions and entering into ridiculous transactions that were very risky. . Basically, the financial sector just went crazy.

For a time there in late 2008 nobody was making any loans, everybody was scared.

Bankers were scared. They thought their institutions might fail. They were thinking very short-term, so they didn't feel in a position to finance things long-term. The venture capital market dried up. Appetite for risk went way down. And the disease was worldwide.

The economy will cure itself over time.

Human beings want to do things. They want to make products, want to earn another dollar. Nei-

ther the government nor anybody else is smart enough to manage the economy. It is highly doubtful that the government can spend us out of recession or depression.

However imperfect they may be, free markets are much better

than command and control economies in fostering recovery and growth. Thus, the prime directive of government is to follow the Hippocratic injunction and "First, do no harm." Like human beings, free markets are not perfect. They are just better than the alternative. Not infrequently, markets produce consequences that are harmful. Recognizing this, our society has backed the creation of safety nets to provide modest relief to the most vulnerable.

The best thing government can do

is stop encouraging private institutions to engage in these excessive, unreasonable financial transactions and exercise prudence in loan standards. I think the government needs to get out of certain segments of the financial markets and impose transparency and impose substantial capital requirements so financial institutions are less likely to fail.

You need to expect that they'll make mistakes

and you need to manage your affairs in anticipation that something like this might happen. So if you're a bank, you need to have plenty of capital. If you're an individual, you need to remember the stock market sometimes goes down, it doesn't always go up. And it's unpredictable. If you're a bank, don't get committed to increasing your per share earnings every quarter, because you may have to take more risk than you ought to in order to pull that off.