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WHICH RECOVERY COUNTS: be careful what you wish for

"What the hell has Hoover got to do with it? Besides, I had a better year than he did." (Babe Ruth discussing his salary as compared to President Hoover in 1930)

We are constantly reminded by this Administration that we are in the midst of the worst economic crisis since the Great Depression. Since the Administration seems to like that period as a reference point, we felt it appropriate to dredge up this Babe Ruth story, apocryphal though it may. The Bambino received $80,000 in 1930. A reporter is said to have told him that was $5,000 more than President Hoover.

The Babe understood that in a capitalist economy your pay reflects what you are worth to the company that is paying you. Apparently, this Administration has another view of incentives, more reminiscent of the "just wage" doctrine. This Administration's inability to resolve the banking mess is critical. Down the path of sermons on "just wages," lies a fallow field of non-participation by private sector investors in the Fed's program to lift toxic assets off the balance sheets of insolvent banks. With the recriminations and legislation that it has inspired, which private investor wants to be a "partner" with the Government? Apparently the response this week to the TALF was palpably unimpressive.

Here we are in the midst of a kaleidoscopic financial infarct and the focus in Washington, including the President, seems to be on restricting compensation. One might have thought that their real interest would be on how to get the economy moving again; how to unblock our clogged financial arteries; how to allow credit to suffuse throughout the entire economy once again; how to expand output and reduce unemployment. Instead, the nation's leaders are bemoaning taxpayer money that may have been used to pay traders working for banks and/or insurance companies that have received Government financial amounts.

First, we received the revelation that some $170 million was paid out to AIG executives and traders, as part of the last Fed bailout of AIG. Then, the Governor of New York, not wishing to miss the opportunity to pose as the representative of the common man, announced that it was more like $215 million paid in bonus compensation. In between these jeremiads have come the disclosures that the Secretary of the Treasury knew about the bonuses; that the Chairman of the Senate Banking Committee had taken out the compensation restrictions embedded in the TARP bailout legislation; and that future Government assistance to companies bogged down by the credit crunch would be subject to various kinds of restrictions on executive compensation. What a pleasant investment environment we now have!

This Government has lost sight of the important objective. It is foundering in rising tide of incompetence policy schizophrenia. If you thought that your government was directing its energies to restarting the economy, you were wrong. This Government—and that includes both the executive and legislative branch---is in the business of redirecting both physical and financial capital and painting a clear picture of contract interference for the future. Political correctness has trumped economic wisdom. Who will pay for this exercise of public morality? All of us. Babe, we are surely not having a better year!

What this fiasco demonstrates, beyond all reasonable doubt, is that Government doesn't understand markets and is far less concerned with getting the economy up and running than it is on finding scapegoats for financial scandals and punishing them publicly when and if possible. To twist a phrase from the Great Depression, "…the only thing we have to fear is the Government itself."

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