

sun-sentinel.com/news/opinion/sfl-forum05meltdownsbocto05,0,7663596.story

## South Florida Sun-Sentinel.com

### Wall Street: Reforms must include strong medicine

By Michael E. Lewitt

October 5, 2008

The problem with making laws in the middle of a revolution is that the new world you are trying to govern hasn't yet taken shape.

Wall Street as we knew it is gone. That is a good thing. Now America must move forward with reform that includes sufficiently strong medicine to prevent the culture of self-delusion and moral hazard that created the current crisis from perpetuating itself.

America must not only summon the courage to endure the real economic pain that genuine economic restructuring is going to require, but it must also re-examine the moral lapses that led to this crisis.

Each financial crisis is caused by human greed and hubris. The current bust was preceded by a debt bubble whose unique manifestations were debt securitization and credit derivatives. While many of these financial products were novel, the improper and incompetent behavior on the part of Wall Street firms, rating agencies, and regulators was depressingly familiar.

Any emergency plan must restore market confidence, give financial institutions time to heal their balance sheets, and prevent a recurrence of the most profound series of regulatory lapses in the history of Western capitalism. The following plan would accomplish these goals:

*The government* should announce that it will effectively stand behind the U.S. financial system against failure through some sort of guarantee or insurance program. The government has already done this with respect to money market assets.

*Mark-to-market* accounting for financial institutions should be suspended for an indefinite period.

*The Federal Reserve* should reduce the overnight interest rate by 75 basis points immediately. This will allow financial institutions to begin to earn more on their assets.

*The Securities and Exchange Commission* should announce the formation of a study group that will report back no later than December 31, 2008 on a comprehensive regime for regulating the credit default swap market.

This reform plan would improve the appearance of systemic fairness to allow Main Street to regain confidence in Wall Street. Once short-term stabilization has been accomplished, the following long-term reforms would still be needed, to prevent a replay of what just occurred:

*Placing strict* limitations on financial institutions' leverage to insure they can't place the entire system in jeopardy again in the future.

*Outlawing* off-balance sheet entities designed to hide debt from regulators and investors.

*Changing tax* laws that permit private equity executives and hedge fund managers to pay taxes at much lower rates than ordinary Americans.



+ MORE DETAILS

INTRODUCING  
POINTS  
YOU CAN  
SPEND LIKE  
CASH.

GET A \$50 STATEMENT  
CREDIT AFTER YOUR  
FIRST PURCHASE.  
FREEDOM MATTERS  
CHASE WHAT MATTERS™

CHASE FREEDOM  
VISA

LEARN MORE

*Regulating* the \$55 trillion market for credit default swaps that was permitted to grow without any government oversight due to Wall Street lobbying.

These pragmatic reforms will not succeed without deeper changes in the American psyche.

The so-called best and brightest minds on Wall Street led our financial system to a near-death experience. They were thinking only of enriching themselves.

At some point, however, Americans need to learn that how money is made is more important than how much money is made. Much of the world looks to America for economic and political leadership; our failures become the world's failures.

Now that we have let down ourselves and the world, it is time for America to restore its moral values as the core of the new global financial regime it is going to build.

Michael E. Lewitt is president of Harch Capital Management, a [Boca Raton](#) based investment management firm.

Copyright © 2008, [South Florida Sun-Sentinel](#)