ON THE MONEY

STEVEN PEARLSTEIN

Starve the political beast of cash. End the stalemate.

PEARLSTEIN FROM G1

the stalemate continues.

There was, as you recall, the threatened government shutdown last December, followed by the debt ceiling fight in the spring, which led to the supercommittee failure this fall, which gave rise to another threat of government shutdown last week, while postponing until March 1 the battle royale over a further extension of a temporary payroll tax cut. Anyone who believes that these dramatic showdowns will actually resolve anything of significance might also want to rush right out to the mall and let Santa know which color mink you would like for Christmas.

The conventional wisdom is that all of this will get sorted out by the election next year, when the voters will supposedly deliver their definitive verdict after being presented with starkly contrasting visions for the role and size and cost of government. When the votes are all counted, however, the more likely outcome is that we'll be left with a slightly reconfigured version of the same divided government that we have now: a wounded Democrat in the White House, a smaller Republican majority in the House and a Senate so paralyzed by its own rules that it won't matter which party has the slim majority.

There are lots of different institutional strands that come together to create this political Gordian knot. Fragmentation of the media. A highly partisan redistricting process. The proliferation of narrow special interest groups. The disappearance of any sense of stewardship on the part of the business and political elite.

No factor, however, has been more important than the tidal wave of political money that has overwhelmed the political system. This money has now corrupted and polarized the legislative process, warped the judgment of elected officials and regulators, transformed elections into destructive media wars and provided the whip that enforces party discipline.

Who's money is it? Actually, a lot of it is yours. Some of it is in the form of direct political contributions to campaigns, political parties and political action committees. But an increasing share of it comes indirectly — every time you pay dues to join a labor union or a professional association, when you buy shares of stock in a company, when join a church, an environmental organization, a gun club or the local chamber of commerce. It is in your name, with your money, that this unproductive game is played. One way or another, we are all enablers.

At this point, it's almost impossible to change this game through the electoral process — all the candidates are products of the same system. Come November, your choice is between a Republican who won't compromise or a Democrat who won't compromise, with both beholden to special interests and party leaders for the money necessary to win reelection. Any vote winds up being a vote for continued stalemate. Nash equilibrium.

The only way to change their behavior is to stop the flow of political cash to both parties. It's the only currency that seems to matter to these guys, the only thing that will get their attention, the only message they are likely to understand. No Grand Bargain=No Political Money.

Howard Schultz, the founder and chief executive of Starbucks, took up this cause back in August, focusing his attentions on the business community. So far, he's got 23,000 Americans to take the "no contributions" pledge, among them chief executives Tim Armstrong of AOL, Mickey Drexler of J. Crew, Dan DiMicco of Nucor, Barry Sternlicht of Starwood Capital, Myron Ullman of J.C. Penney and Ted Leonsis, the lead owner of the Caps and Wizards.

The next time anyone calls you for a campaign contribution or tries to bill you for next year's association dues or solicits your vote on a corporate proxy statement, do yourself and all the rest of us a favor: Just say no.

LILLIAN CUNNINGHAM/THE WASHINGTON POST

Starbucks chief executive Howard Schultz has gotten 23,000 Americans to take the "no contributions" pledge.

Now, with prospects for a deal even dimmer, it's time to take this campaign to the next level, with a full national boycott on campaign contributions just as the election year begins. You can add your own name at www.upwardspiral2011.org.

The next time anyone calls you for a campaign contribution or tries to bill you for next year's association dues or solicits your vote on a corporate proxy statement, do yourself and all the rest of us a favor: Just say no. Tell them you're not interested in participating unless they become part of the solution rather than part of the problem and put their weight behind a fair, sensible and credible grand bargain in Washington.

Over the past year, people across the world have decided they've had enough with the political establishment in their countries. Dictators have been overturned in Egypt and Libya. Syrians have mounted a revolt. Russians have taken to the street. And governments have fallen in Ireland, Italy, Greece and Portugal.

In this country, the tea party movement and Occupy Wall Street have both channeled the frustration that Americans feel about the inability of their government to address serious and long-standing problems, but their activities have only served to further polarize and paralyze the political process. This has left the Moderate Majority either turned off or toying with romantic fantasies of a third-party presidential candidacy.

It's gotten to the point now that only a significant shock could upset this Nash equilibrium in the political marketplace. Another financial crisis might do it, but that seems like a strategy we might want to avoid. A much better strategy would be to starve the political establishment of the money that is used to keep itself, along with the rest of the country, locked in stalemate.

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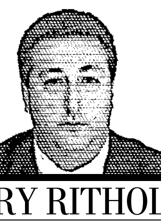
The systemic risk revealed by MF Global's collapse



BARRY RITHOLTZ

On Investing

ANDREW HARRER/BLOOMBERG NEWS

Former chairman MF Global Jon S. Corzine recently testified before a Senate committee.

Watching the MF Global saga unfold, I had to wonder: "How was it possible for a broker dealer to tap segregated client monies to speculate in risky assets and lose billions?"

MF Global's story, as you will soon understand it, raises serious concerns for any investor. That the activities that led to MF Global's collapse were possibly legal (!) is stunning. The details are complex, but follow them through to the end and you will see all of the problems of our system — political corruption, excess leverage, focus on short-term profit at the expense of survival — in one sordid affair.

The MF Global story contains six elements that I found astonishing:

1. What MF Global did with client monies was "technically" legal (though it probably violated the spirit of the law).

2. Britain's leverage loopholes provided a back door for U.S. firms such as Lehman Brothers and MF Global to "re-hypothecate" client assets — and leverage up.

3. As a result of MF Global's lobbying, key rules were deregulated. This allowed the firm to use client money to buy risky sovereign debt.

4. In 2010, someone from the Commodities Futures Trading Commission recognized these prior deregulations had dramatically ramped clients' exposure to risk and proposed changing those rules. Jon Corzine, MF Global's chief executive, successfully prevented the tightening of these regulations. Had the regulations been tightened, it would have prevented the kind of bets that lost MF Global's segregated client monies.

5. None of MF Global's Canadian clients lost any money thanks to tighter regulations there.

6. Little noticed in this affair is (once again) the gross incompetency of the ratings agencies. Had they not been maintaining "A" ratings on Spain and Italy, MF Global could not have made its disastrous bets there.

First, let me explain hypothecation. The classic example of this occurs when you take a mortgage to buy a house. You are pledging collateral (the house) to secure a debt (the mortgage). Your collateral is "hypothetically" controlled by the bank, as the lender has the right to take possession if you default on your mortgage payments.

To equity traders, hypothecation occurs when their broker uses client stock holdings as collateral for trading or leverage. To oversimplify, buying equity with leverage involves pledging shares (collateral) to a third party (broker) in order to borrow against them. You still own the stock, but the broker can sell it if you fail to make payments when necessary. (This is the basis of a margin call and forced liquidation.)

Back to MF Global. The rules covering what a commodity firm can do regarding hypothecation are governed by two regulations. Equity and commodity brokers have, for as long as I can remember, been able to tap into client monies to make short-term purchases of U.S. Treasuries. William Cohan, author of "Money and Power: How Goldman Sachs Came to Rule the World" and "House of Cards," the story of Bear Stearns's demise, quoted the rule as allowing "obligations of the United States and obligations fully guaranteed as to principal and interest by the United States (U.S. government securities), and general obligations of any State or of any political subdivision thereof (municipal securities)." In other words, safe, liquid, AAA-rated investments.

Here is where the parallels to the 2007-09 collapse develop. You may recall that in 2004, the five largest banks petitioned the Securities and Exchange Commission to waive the net capitalization rules to exempt themselves from leverage limits. It was called, ironically, the Bear Stearns exemption — out went 12 to 1, in came 40 to 1, boom went the market.

Also, MF Global petitioned the CFTC to deregulate the rules covering customer accounts and segregated monies. In 2000, 2004 and 2005, the CFTC made fairly radical amendments to Regulation 1.25. These changes permitted brokers to make a much broader scope of riskier investments using client monies. Recall that the original rule allowed customer monies to be used to buy only U.S. Treasuries and investment grade munis. After the rule was amended, commodity brokers were allowed to buy investment rated "obligations of a sovereign nation." Other rule changes allowed commodity brokers (including MF Global) to perform "internal repos of customers' deposits" — these were the sorts of off-balance sheet maneuvers that allowed Lehman Brothers to hide $100 billion in debts from investors' prying eyes.

Thus, these rule changes gave firms an ability to re-hypothecate (borrow) client assets, as long as they were used to buy "investment grade sovereign debt." Amazingly, the speculative, higher yielding distressed debt, such as Spain (AA) and Italy's (A), were still listed as investment grade by the credit-rating agencies.

So that was what MF Global did. The company bought distressed paper from European countries already in financial danger using client monies. And while it did not violate the letter of the rule changes MF Global lobbied for, it surely violated the spirit of the law.

With the regulations rewritten to include any "investment grade sovereign," MF Global was able to go far beyond the proscriptions of the original regulations. "A-rated European sovereign debt," despite the fact they were obviously not the equivalent of U.S. Treasuries, technically qualified.

Of course, this raises another question: If corrupt and compromised rating agencies had done their jobs — downgrade European junk to what it really was — would MF Global been able to empty client accounts?

I suspect not — their bets on Italian and Spanish sovereign debt should have been downgraded below "A" many moons ago. That it was not merely serves to remind us that these incompetent credit-rating agencies are still part of our regulatory firmament.

We have two last international aspects of this debacle to mull over: Canada and Britain.

Clients of MF Global who lived in Canada lost no money in the collapse. Canada's regulations do not allow client-segregated monies to be borrowed for speculative purposes. Further, voting and lobbying laws there do not tolerate the sort of corrupt legislative lobbying that is rampant in the United States. Hence, regulators in Canada are far more independent and less affected by lobbying than the regulators in the United States.

Across the pond in Britain, the rules were far looser regarding re-hypothecation than even here in the States. Christopher Elias reported in Thomson Reuters that the Brits allowed U.S. brokerage firms to circumvent U.S. rules. In Britain, there is no limit to the amount of leverage against borrowed collateral through re-hypothecation. Unlimited leverage? As Elias wrote, it was "as simple as having MF Global UK Limited, an English subsidiary, enter into a prime brokerage agreement with a customer, a U.S. based prime broker can immediately take advantage of the UK's unrestricted re-hypothecation rules."

Finally, one last disturbing bit: The shadow banking system — the alternative system existing outside of the regulatory rules — is highly dependent on derivatives and leverage. In particular, it is highly dependent on the sort of accounting and credit games like the re-hypothecation and off-balance sheet repos that led to MF Global's demise. Its failure revealed an enormous degree of systemic risk that remains in the current banking system.

MF Global may have been the first firm that tapped into segregated client monies to speculate and lose it all. It won't be the last.

Ritholtz is chief executive of FusionIQ, a quantitative research firm. He is the author of "Bailout Nation" and runs a finance blog, the Big Picture.

THE COLOR OF MONEY

Finding the right gift for those who give of themselves

COLOR FROM G1

challenging time in our lives and we often have no idea how long it will continue."

The majority of caregivers participating in the Gallup poll said they have been providing care for three years or more.

So what could you give a caregiver? Here are just a few things on Goyer's list:

● **Listen.** As my pastor often says, God gave us two ears and one mouth for a reason. Often caregivers want simply to vent or sound out a decision they have to make. "If you feel like you don't know how to help the caregiver in your life," Goyer says, "remember that sometimes just listening is indeed helping."

● **Offer encouragement.** Goyer writes: "I'm constantly questioning and trying to do things better! But what about the positives? What about the things I'm doing right?" I so identify with that plea. I've been the caregiver for several relatives, and it's frustrating to get critical remarks that outweigh the number of times someone says you're doing a good job, especially when the people with lots of opinions and criticism aren't helping very much with the care-giving.

● **Help out.** Here's something people often say that Goyer believes isn't very helpful: "Let me know if there is anything I can do to help." People who are busy caring for others often don't have the energy to list all the things they need help with doing. Or they may be too proud to ask for help. Be specific in what help you can offer.

Now that you know what a caregiver might need, here are some suggestions from me on how to make those wishes tangible for the holidays:

● **Create a gift certificate that gives the caregiver six 20-minute venting sessions.** When the certificate is redeemed, just listen to whatever the caregiver needs to talk about. Money Management International, a credit-counseling agency, has a site where you can personalize a holiday gift certificate. You can choose from five backgrounds and type in what the recipient will receive. Go to www.regiftable.com and click on the link for "Gift Certificates."

● **Find funny and encouraging greeting cards, and send one to the caregiver every month.** Or set up a schedule to send a monthly e-card. You can find free e-cards at www.americangreetings.com, www.smilebox.com, www.123greetings.com and www.hallmark.com. If you want access to premium cards, you might have to sign up for a subscription. And Goyer says don't be offended if the person doesn't have a chance to acknowledge the card.

17%
Percentage of Americans working full time or part time who are caregivers

20%
Percentage of caregivers who are working women

16%
Percentage of caregivers who are working men

Gallup poll

● **Use the personalized gift certificate to volunteer for a regular household task.** Gallup found that caregivers spend a lot of their time on tasks such as going shopping, doing laundry and providing transportation. Caregivers also have to take care of a lot of administrative-type responsibilities, such as researching care services, coordinating physician visits and managing financial matters. Give a gift certificate that offers to do a specific task, such as cooking a meal.

● **Buy a caregiver a gift certificate to a spa.** Spafinder.com can help you find a spa facility in your area. (This gift might need to come with an offer to sit with the elderly relative while the person gets the spa treatment.)

For more gift-giving ideas, read Goyer's blog. Go to www.aarp.org and search for "A Caregiver's Christmas Wish List."

This holiday, help bring some peace and joy to the caregivers you know.

Readers can write to Michelle Singletary c/o The Washington Post, 1150 15th St., N.W., Washington, D.C. 20071. Or e-mail: singletarym@washpost.com. Personal responses may not be possible. Please also note comments or questions may be used in a future column, with the writer's name, unless a specific request to do otherwise is indicated.