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***Beware the unscrupulous salesman peddling unsuitable financial products.***

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Although we are lectured periodically on the inability of pump-priming economic policy to ensure economic development, stability, and prosperity, this is nevertheless the policy diet we have been served and have come to expect. The low-interest-rate policy has never been properly justified, based as it was on an artificial concept of "core inflation" which enabled us to ignore the above-average increases in several key commodity prices, chiefly food and energy. And this interest-rate orientation provided highly combustible fuel for the flames of financial excesses by creating powerful incentives to engage in "irrational exuberance" as well as ignore the risks of moral hazard.

The dot-com bubble was an early warning and a crisis from which we got off relatively lightly. Rather than learn from our mistakes, we took it as a sign that we had developed immunity to, or at least a cure for, bubble-induced crises.

As long ago as the 1990s, prescient voices raised the alarm that unscrupulous salesmen were peddling unsuitable financial products to unsuspecting customers whose deeper interests could not be served by the induced sales. The financial products in question were subprime mortgages. The warnings and calls for controls were brushed aside, or ignored, right up to the pinnacle of our financial system. Perhaps this deaf-ear syndrome was attributable to an even greater fear of economic recession, or even deflation. No matter. In consequence, moral responsibility for the resultant fiasco is widely distributed.

Debt securitization, including collateralized mortgage obligations, collateralized debt obligations, and a plethora of other instruments, represent enhanced methods of financial intermediation, even if less understood and less transparent than traditional methods. They were welcomed in their day as the ultimate free lunch—higher return at lower risk—and it is only now that the bill is being presented. One way or another, the taxpayer will pick up the tab and this should be kept as low as possible.

This means first of all that the stability of the financial system must be preserved—the safety net must hold. Any protection of shareholders and investors should be set at a low level to ensure that those who had most to gain should contribute proportionately to the loss. Furthermore, there is nothing obvious to be gained by window-dressing measures to postpone the inevitable correction. In this context, the current spectacle of the perpetrators of the orgy of avarice being allowed to depart the scene of crime with grossly inflated severance payments, rather than stand trial, is most counterproductive as a signal to those who will now bear the effective burden of the crisis and as an incentive to their successors.