Regulatory repeat: January 4, 2010.

At the G20 meeting in October, 2009, the US President described the steps being taken by his government to prevent the most recent financial crisis from happening again, as 'the most sweeping changes to the US financial regulatory system since the 1930's.

And presently, Jan 4, Federal Reserve Chairman, Ben Bernanke, has just noted: "the central bank's low interest rates didn't cause the past decade's housing bubble and that better regulation would have been more effective in limiting the boom". The Fed's efforts to constrain the bubble were "too late or were insufficient," which means that regulatory actions "must be better and smarter," he said.

(http://www.bloomberg.com/apps/news?pid=20601087&sid=auCLZh_HZf9E&pos=1)

For a man who has reportedly studied history, it is surprising how little he seems to have learnt.

In ***The Secret Life of Real Estate and Banking*** *(Shepheard-Walwyn, 2008)* I use the American real estate experience over the last 200 years as a case study to reveal the existence of a regular (18-20 year)property cycle. I show clearly how each phase of the cycle repeats, with 'nobody seeing it coming', the only variation being *the new ways bankers find to avoid the regulations put in place after each collapse* to ensure 'it will never happen again':

After the real estate collapse of 1819

'... debtors laws were repealed to allow those who had bought land at the top, not to have to make payment to the banks, who clearly had "ripped off" the populace, forcing them to borrow at exorbitant rates, then "deliberately", or so it was thought, creating the depression so they could get all the land back whilst bankrupting the people ...'

After the real estate collapse of 1837

'So bad was the downturn, every state was prepared at least to attempt some banking reform to avoid another panic. Some thought forbidding the issue of small-denomination notes might help, by forcing the use of gold and silver coins which ought not to depreciate. Others introduced legislation to control banks' reserve ratios, compelling them to maintain a certain level of specie to support the notes issued. Some states went so far as to control the banks through state (public) ownership. There were even suggestions to do away with banks completely as those distraught by what they saw as an utterly corrupt system took a fervent, almost religious, stand. Some states, like New York, went for ‘free-banking’.

After the real estate collapse of 1857

‘The dual problems of free banking and how to pay for the Civil War led to the creation of a new banking system, the result of the National Banking Act of 1864’

After the real estate collapse of 1873

The 1873 downturn lasted four years; the bankers weathered the storm better than the workers: "As a result of the panic of 1873, a bitter antagonism developed between workers and the leaders of banking, railroads and industry. Labour unrest, with mass strikes, was the general rule for several decades. On occasions federal troops were brought in to break the strikes. A land and rail monopoly (and banking) was acceptable; striking workers were not.

After the 1890's real estate collapse, (followed by a currency crisis):

"A desire was developing amongst the wealthier bankers and financiers for a central bank to moderate the effects of downturns, especially runs on banks that couldn’t pay out." The panic of 1907 sealed the decision of course, from which we have the Fed.

The one thing we learn from history is that we don’t learn from history.

The recent Global Financial Crisis is, at its heart, a land problem, not a banking issue. It is a bank’s job to create credit. This they will continue to do, regardless of any new laws to restrict it, in order to maximise profits for shareholders. Shareholders will demand it.

We all know the 1930’s regulatory changes; even more support had to be drawn up after the **1974 real estate led collapse**:

“.., at the bottom of the market in 1974, the Real Estate Investment Trust’s (REIT’s) had lost on average 80 per cent of their stock price, with over half of all mortgages in default. The Fed gave support to the REITs and encouraged other banks to do the same. This meant that the distressed property of the REITs did not have to be put on the market in a disorderly fashion but could instead, because of the additional bank support, be held back to await recovery and higher prices. 'The business of unloading and buying distressed properties is being conducted in the most discreet way possible. Like a family which refuses to admit that one of its members has died and keeps the corpse embalmed in the living room rouged by a make-up specialist, so the trusts and the banks who are unloading their properties are pretending that nothing out of the way is happening…' Dana L. Thomas, Lords of the Land, p.289. *Secret Life of Real Estate and banking*, (2008) page 270.

We forget just how serious that 1970's banking collapse was. Federal Reserve Board Chairman Arthur Burns was asked by a *Newsday* reporter in late 1974 how it was that we averted a world-wide banking crisis after the collapse of the Franklin National Bank: 'Luck, more than anything,' replied Burns. 'We were sitting on a volcano. People were concerned in this country', Burns continued, 'but they were really scared abroad. We can't let it happen again, because we might not be so lucky the next time.'

Again 18 years later, **after the 1991 real estate led collapse**:

"Swiftly, Congress sought a bailout of the bankrupt institutions with the help of Joe the Taxpayer, raising $50bn over three years through the sale of government bonds to be paid back over the next forty. After the Columbia failure, it looked like the cost of the bailout might approach half a trillion dollars if interest was added to the bill... The orderly sell-off of the troubled real estate, and the recapitalising of the banks (effectively nationalising the failed institutions and 'socializing the losses'), helped ameliorate the nasty side-effects of the property collapse....

...In order to facilitate the smooth selling of all the assets of the failed (and yet to fail) thrifts, the Resolution Trust Corporation (RTC) was created as a further provision of the 1989 bill. The RTC discovered it was now the proud owner of billions of dollars worth of all kinds of real estate and other assets, including objects d'art, yachts, planes, windmill farms, mushroom farms, golf courses, shopping malls, junk bonds and even a sperm bank. The RTC became the nation's largest employer of property managers, appraisers, accountants, lawyers and real estate agents as it engaged people to sell off what it had recently acquired. 'The biggest liquidation in the history of the world,' noted the FDIC chief." (*Secret Life of Real Estate and Banking*, pp 293-295.)

The cycle goes like clockwork:
http://www.businesscycles.biz/business24.htm

And will continue to repeat. It is certain. Recent Fed and presidential actions guarantee the 21st century yet more awesome real estate bubbles, then further catastrophic busts. Yet another real estate cycle is inevitable, because the existence of the cycle is disregarded by policy-makers and economists.