

BUILDING WEALTH IN CHANGING TIMES



The Solari Report

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Financial Transparency
with William Bergman





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C. AUSTIN FITTS: Ladies and gentlemen, it's my privilege to welcome to The Solari Report somebody who I think is very, very special and I know you will too after you hear from him. You know me; I always get mad when someone says, "Why is nobody doing anything?" William Bergman, who we call Bill, is someone who has done a tremendous amount in his life, and it's a perfect example of how many excellent, honest people there are out there doing the right thing.

Anyway, it's really a privilege. He is a very distinguished economist with a very deep resume. I'm going to get him to walk through it with us. He left the Federal Reserve all of a sudden over financial transparency issues. His final financial transparency issue was the Federal Reserve cash flows in and around 9/11, so we're going to talk about that today.

Bill, welcome to The Solari Report. I'm thrilled that you are able to join us.

BILL BERGMAN: Thanks for inviting me and for the kind introduction, Catherine. I'm happy to be talking to you. I've got a lot of respect for you and your career as well.

C. AUSTIN FITTS: As you know, I think there if we want to get to practical solutions, financial transparency – to me – is the area of the greatest opportunity. I think there is nothing more important. There is no richer source of real practical steps, including to improve the health of our personal business and assets, but we'll get to that.

I want to make sure that everybody really understands you and your background. Did you start off at the Fed?

BILL BERGMAN: I started off in 1959, but I don't know if you want to go that far back. My first job out of college was at the IPO desk at William Blair



Company in Chicago, working in the syndicated underwritings. I got a great education there reading prospectuses all day long and summarizing them for William Blair. That was a great education.

C. AUSTIN FITTS: That is a great education.

BILL BERGMAN: Yes. There is a lot to learn from those prospectuses if you pay attention and try to analyze them. That was great for getting a feel for how that underwriting process works. The sources of trust in financial markets and their role of regulation in the accounting and disclosure requirements – anyway, it was a great education.

I also worked briefly – for a year or so – in the analyst department. I had a chance to write a report for a company and recommend it. I don't know if I was good or lucky or both, but I picked a good one. I picked a company called Fastenal. It originated in Winona, Minnesota. At the time they had 60 different distribution points. This is a company that sold – and still sells – many nuts and bolts.

Over the next 20-30 years it became one of the best stocks in the whole stock market – a dispenser of nuts and bolts. The value added in intermediation in the nuts and bolts and fastener business. That was my first job out of college. I worked at an investment banking firm in Chicago.

C. AUSTIN FITTS: And you went to graduate school after that, right?

BILL BERGMAN: Yes, I was going to graduate school at night while I was at William Blair. When I left William Blair I finished up full-time at the University of Chicago with an MBA. I got another Masters in Public Policy at Chicago, and that was a great experience. There were great professors and I got the chance to take courses all over the place. Chicago was really a gift in hindsight.

When I finished up there, I was invited to teach economics at maybe one of the best economic departments in the country, maybe even the world. It was such an intense place that I kind of wanted to get out somehow



into the real world, and I landed at the Federal Reserve at that point in 1990.

C. AUSTIN FITTS: So you were there for thirteen years?

BILL BERGMAN: Yes.

C. AUSTIN FITTS: And see if you can just describe all the different areas you were involved in as a professional at the Fed.

BILL BERGMAN: Sure. For the first five years or so, I worked in the Regional Economics Department in the economics area in general. My responsibilities there included writing something the Federal Reserve produces every six weeks, even today, called the *Beige Book*. I was thrown into writing that right away when I was with the Fed. That was a good experience and a learning experience for writing quality.

It's taken a long time to learn how to write well, but I'm finally getting there after 20 years, and that *Beige Book* experience was a good one.

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The *Beige Book* is written as a way to supplement official government statistics. Speaking of transparency, we have a lot of statistics out there. Maybe we don't have enough, but we have many things that are out there that are subject to uncertainty. The ways in which our economic statistics are put together, that's a topic all by itself – or a long conversation.

The *Beige Book* is a way to supplement your understanding of the economy by talking to real people, talking to business people. Among other things, one of my favorite parts of that job was we had 60 Yellow Pages from all over the Midwest. I would pick out six every month at random and start calling people and asking them how business was going, for instance auto dealers or employment agencies or things like that.



It's not a perfect way to monitor the world, but it is helpful and you get some good insights doing that kind of anecdotal but judgmental feedback on how things are going in a timely way. I also wrote a few regional economic articles when I was in that department.

My last five years, though, were in a very interesting role. A fascinating area is underneath the system, the 'plumbing' is maybe the best way to put it. Underneath the financial system the inner bank relationships and the payment systems and how the money flows underneath the banking world, that was the area that I was in in a policy analysis role. What I was looking at, there was an organization called CHIPS, for instance. It's the Clearing House Interbank Payment Systems historically based out of New York with a New York Clearing House and the big, big banks.

It's fascinating. It's very dry on the surface, but underneath a very challenging and risky operation that has excellent risk managers working to ensure the safety of the system. A longer story there is understanding how that stuff works – the plumbing – and Fedwire, a very different type of payment system that is actually put together by the Federal Reserve.

With the Federal Reserve we think about monetary policy, and people are aware that supervision and regulation are a big part of the system, too, but not too many people know about this payment systems stuff.

C. AUSTIN FITTS: Oh, I do. Do you know why? After a couple of years at Dillon Read I was in corporate finance and they said, "We've got a big problem over in municipal finance. We're sending people over to clean up."

So I go over there and one of the first things I did was read a proposed bond resolution for the New York City subway system. Dillon Read put together this huge financial recapitalization for the entire New York transportation system, of which the transit system was a piece, but the transit system got so much coin that they couldn't deposit it in a bank. They had to deposit it directly into the Federal Reserve.

I had to trace all the coins coming out of the New York City subway



system through the Federal Reserve and into the banking system, etc.

It was a fascinating exploration as to the beginning of the nuts and bolts of the payment systems. I agree with you. It's the real plumbing, and it's where the real rubber meets the road in many ways. I think the data flowing out of it – that's why I've always said that the Federal Reserve is the greatest database on money in the world.

BILL BERGMAN: Oh yes. The Federal Reserve does do some good things. For instance, I don't know if you're familiar with the FRED database that the St. Louis Fed puts together. It's amazing.

C. AUSTIN FITTS: Yes.

BILL BERGMAN: It's a well-done database if you want to learn about the US economy and banking and financial markets.

The transit stuff, that raises another plumbing idea. Philosophers will try to define money for a long time, but it's fun to think about money at rest versus money in motion. That's what this plumbing stuff is about. How does it get from A to B? And you can look into the legal infrastructure allowing for that to take place and enabling or otherwise undermining the transfer of value. It's philosophical.

C. AUSTIN FITTS: It's funny because I deal with clients and subscribers who are tremendously angry – and rightfully so – with the shenanigans of the financial coup d'état, but one thing I always say is if you look at all the things that go right, it's quite amazing how many things do go right.

BILL BERGMAN: How many things get from A to B despite the issues. We struggle through them somehow as we talk about it. It's sad and cynical. The long-run and the optimism idea and addressing our issues.

C. AUSTIN FITTS: There are a lot of guts in the system that is good and that works and that was pretty hard to figure out and put together. It's good infrastructure; we shouldn't let it go to waste.



So you did the payment systems. What happened next?

BILL BERGMAN: Well, among other things, within that payment system experience some of the projects got me into hot water on occasion. I was already in a little bit of hot water when I had my last episode. For instance, I did a paper on the role of credit ratings and capital regulation and Federal Reserve regulation and operations in general, recommending that we study how to reduce and/or eliminate our reliance on external credit ratings and regulating banks.

If anything was made crystal clear, I think in the financial crisis our system was over-leveraged and under-capitalized in part because of the ways in which the regulation was relying on these ratings.

I did an analysis of Fedwire. Did I mention the pricing side? Well, transparency is a word – if you can put the false accounting that was underlying the cost recovery of Fedwire.

Another project that was very interesting, although I wasn't necessarily in hot water, but in August of 2001 I was about 80% finished on a paper on what happens during national emergency of Presidentially declared national emergency or a time of war for the operation of the payment system and financial markets and even open market operations and Federal Reserve monetary policy.

This is an area of constitutional law that is emphasizing the President, if he so chooses and asserts in a public and compliant congress will let him, can assume an enormous amount of centralized power during a declared emergency or a time of war. I was exploring the implications of that for Federal Reserve's independence, which is a great subject all by itself. I got some great feedback back in August of 2001 from a fellow named Lou Fisher, a fabulous constitutional law scholar, asking me to beef up a couple of sections.

Anyway, I was updating that paper a couple of years later when I was told I was not going to be updating the paper at that point because I was touching on some issues about money in 9/11. I was told that I was



invited to work in the money laundering area of the Supervision and Regulation Department at the Federal Reserve Bank of Chicago.

By the way, this final episode here I'm speaking as Bill Bergman, as a citizen, not in my current role where I'm currently working. I have to say that.

My last job in there was a money laundering assignment, and unless you have any questions I can keep going. Among other things I was asked to try to develop a reference document for the Federal Reserve System if it was good. I didn't know a great deal about money laundering going into the project, so the first thing I tried to write was a primer for myself and anyone else. That was new to the theory. Because it was being emphasized, I thought it might be helpful to try to develop a primer and introduction to the history and the laws and the mechanisms of money laundering.

I wrote one up and asked a couple of questions that I didn't answer. I was asked to answer the questions, so I tried to answer them. After trying to answer them, my assignment was terminated and I was told that I committed an egregious breach of protocol.

About a month later my position at the Federal Reserve at the Bank of Chicago was eliminated. At that time I was told it had nothing to do with me personally and that it was an organization issue.

C. AUSTIN FITTS: One of the things I can assure you is institutions like the Federal Reserve who have invested that much time and effort in an experienced economist, you are one of the most prized employees at the Federal Reserve. They would never let go of such a person.

So the idea that they were just re-engineering you, to me it's directly connected.

I have to say now that we could talk all day about the strange financial

“Among other things I was asked to try to develop a reference document for the Federal Reserve System if it was good.”



patterns in and around 9/11. In some respects it was an enormously profitable covert operation. We could talk about it all day, but one of the things I have to compliment you on and one of the reasons I admire you so deeply is I have never once heard you whine about what happened.

BILL BERGMAN: Well, maybe you haven't been around me enough. I've done my share.

C. AUSTIN FITTS: I'm sure your wife has heard you whine.

BILL BERGMAN: I promise you.

C. AUSTIN FITTS: It's very hard for people who haven't been through it to understand what it is to be a highly successful, highly competent, highly respected professional and suddenly wake up and get booted out because you're just trying to do your job.

BILL BERGMAN: It hurt. It hurt, Catherine. I'm still injured. That's why I chew my pens.

C. AUSTIN FITTS: We're in an economy where it's happening to almost everybody. We all now know.

So when you left the Fed you went back into the private sector, right?

BILL BERGMAN: It depends on what you mean. I guess I was private sector technically. After doing a little soul searching, I had heard of a very wonderful person who I've gotten to know well in the last few years named Walker Todd, a former attorney at the Federal Reserve Bank of New York and the Federal Reserve Bank of Cleveland. He is a unique fellow who is a combination of an economist, lawyer, and historian in one package.

He was working at a think tank in Great Barrington, Massachusetts called The American Institute for Economic Research.

C. AUSTIN FITTS: Wonderful organization. We've had their President on and



their housing person, too. I'm a member.

BILL BERGMAN: That's a neat outfit with a great history. Ed Harwood, the son of one of the founders, is a great guy. I went to their summer session which is a gathering of students and economists for a summer fellowship program and I had a blast. I ended up trying to work there for a year, even though my wife and kids were back in Chicago. I did, and I became the director of that summer program the following summer, but I just couldn't swing it family-wise and I had to come back. That was my next job after the Fed.

From there I did a little more soul searching and ended up working at Morningstar here in Chicago as a financial analyst covering insurance companies and insurance brokerage firms.

C. AUSTIN FITTS: Another one of the greatest databases in the world on the financial markets.

BILL BERGMAN: Yes.

C. AUSTIN FITTS: You gravitate towards the world's greatest financial databases I can tell.

BILL BERGMAN: Yes, they have a good database and I had a great learning experience there. I was covering Berkshire Hathaway and learning about Warren Buffett. I wasn't a Warren Buffett-head before I started. I know he has got a loyal – almost cultish – following, but he grew on me after learning more about him and Charlie Munger. They are some pretty unique guys.

C. AUSTIN FITTS: They are remarkably astute investors who have come up the hard way. It's hard to find two investors who understand the economy better bottom-up than those two guys.

BILL BERGMAN: The economy and government and how things work.

C. AUSTIN FITTS: Yes.



BILL BERGMAN: I gave a talk about the financial crisis after leaving Morningstar and it went well. There was a guy sitting in the front row named Raoul Ciphey who sadly passed away with a heart attack unexpectedly a year and a half ago or two years ago. He was in the front row, and we hit it off after the talk.

He handed me his business card with a logo on it which is our logo, Truth in Accounting. I was not in love with him, but the idea of Truth in Accounting was central to my experience in financial markets and the Federal Reserve. One thing led to another, and I've been working here now for about three years.

C. AUSTIN FITTS: And you're the Director of Studies.

BILL BERGMAN: I'm the Director of Research formally with Truth in Accounting. It was an organization started by Sheila Weinberg, a CPA, in 2002. Her original concerns were with the federal government and the federal government's accounting, but she had some people tug on her elbow and say, "Hey, you should be taking a look at Illinois if you're concerned about the Feds."

Her work has been pretty Herculean. It's a massive amount of data work that she's done in getting together a total picture of state government and local government financial conditions in light of the accounting problems that our state and local governments have had historically, getting a true picture of the real debt that's out there on top of the citizens and the public in light of the pensions and the healthcare and the retirement plans and the fact that they were off the balance sheets. She did a lot of work getting them onto the balance sheet and coming up with truer estimates of state government financial conditions, and that has been our central product for five years but in the last year or two we've moved into the federal government area as well. That's going to be a growing area for us in the future.

C. AUSTIN FITTS: Let's start because I want to talk about the role of financial transparency in a couple of different sectors of the economy, and then we'll go into opportunities because it's important to bring this down to



what people can do and where the opportunity is to shift things in a positive way.

Let's start with the federal government. I think I've sent you the link, but I gave a speech last June at a conference in California called *The Secret Space Program* where I collected up all the things I've done over the years about all the shenanigans at the federal level and put it in one speech with a lot of videos of congress people, including the Fed IG saying, "You know, we're missing \$7 trillion... We're missing \$40 trillion... We're missing \$20 trillion..."

When you see them all sparse together you begin to realize that whatever this system is, the reality is so far apart from the official reality. We've reached a point of ludicrousness.

BILL BERGMAN: We have – the debt ceiling.

Go ahead and get started. I apologize. Go ahead.

C. AUSTIN FITTS: There are many things we could talk about, but I think it's fair to say that if you look at the framework for the federal government, we have an annual appropriation process. That annual appropriation process under the Constitution requires that any spending by any part of government be envisioned in an appropriation bill which is passed by both houses of the Congress and signed by the President.

BILL BERGMAN: They have a clause which is at the foundation of the need for financial transparency in my head. We can talk about that later. Sorry. Go ahead.

C. AUSTIN FITTS: So every year you have a budget and then you have financial statements that come out sometime after that. One of the challenges is to date the federal government has never produced audited financial statements as required by law.

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BILL BERGMAN: That's a fact. The GAO was audited under the current regime – or tried to audit the federal government's financial statements since 1998. They have issued a disclaimer of opinion every year of their inability to come to a conclusion whether or not these statements – our federal government has flunked its annual audit for 16 years now.

C. AUSTIN FITTS: In fact, I've told this story on The Solari Report many times, so I won't do it again today. I came to believe that the first time the GAO said they couldn't audit HUD's books, at the time I think the outstanding mortgage insurance in force was about \$400 or \$500 billion, but in fact, if you try to identify all the mortgage insurance floating around the world, there was probably another trillion off balance sheet that had never gotten recorded.

It took me many years of going through my squabble with the federal government and doing research to come to the point that I realized what is on the balance sheet versus what is floating around in the securities markets globally are two very different numbers. I don't know if you remember it, but Paul O'Neill had to leave Secretary of Treasury right after he hired two guys to do a study about standing debt liabilities.

They put it up on the web and it came down two days later and he was out. Then Larry Lindsey was out.

BILL BERGMAN: Wow!

C. AUSTIN FITTS: One of the things I said is it's always dangerous to be near the wrong financial database because they have a tendency to blow up. If you look at the databases that blew up in Oklahoma City or 9/11, they were some pretty serious financial databases that kind of blew up on government securities, which gets us back to the difference between what is floating out in the market and what is not.

That's one of the problems. So one of the problems is both budget and finances. The disclosure doesn't match reality, and the financial management practices – if you go deeper into the audit, it's not just that you can't get audited financial statements, but the governmental



management practices dictated by the legislation that governs financial management, a lot of the agencies are not in compliance. That's another problem.

BILL BERGMAN: We have a rule of law in theory in the United States, and whether or not or how well it functions. Along these lines, I don't know if you know this fellow or not but I recommend checking him out if you want to have an interesting video that's out there. There's a fellow named Joseph Marren. He's a Fordham Law grad and the head of an investment firm in New York who has an argument that the federal government's accounting falls so far short of what it is supposed to do that it is unconstitutional.

C. AUSTIN FITTS: Oh, it is.

BILL BERGMAN: The Statement and Account Clause is not being followed by our federal government, and that's his take on it. There is a video of him giving testimony to the federal Accounting Standards Advisory Board that the accounting standards for the federal government, telling them that this is unconstitutional.

C. AUSTIN FITTS: Right. It's clearly outside of the constitution. Now let me just say one thing, though. Under national security law, there is a lot of law that allows a very large amount of money to be outside of the Constitution. We have the 47 and 49 act, which is the national security, and then the CIA act. Those allow you to claw money out of the different agencies to fund intelligence agencies and secret projects. Then you create an executive order under the first Bush that allows you to use that for private contracts.

You can claw money out of all the different agencies and secretly give that money to a private corporation to do covert things. Now we have an executive order under the second Bush that says that we can waive the SEC regulation so that corporations don't have to comply with laws related to financial disclosure.

So now you've got the federal government, who for reasons related to



our global military position, we can issue an infinite amount of debt without accountability and channel that money into secret contracts with private corporations who then don't have to obey their financial disclosure laws. That's all legal behind national security – or at least it's never been adjudicated at the Supreme Court.

BILL BERGMAN: That's the rub. We have laws, right? Law is "supporting" this, but whether or not those laws are lawful in their operating is another question.

C. AUSTIN FITTS: I would argue they are not. I would argue that it's gone way too far, and I would also throw into the pot that I think that includes the exchange stabilization fund.

Here's the thing to understand about the federal government. The important thing to understand – and this is a story I've told many times. I'll tell it one more time. In about 2000 I went to see the Chief of Staff to the senator who at the time ran the HUD appropriations committee, or the committee that included the HUD appropriations. It was somebody I didn't know so I was trying to be discreet. I was just trying to get my company paid. We had just won part of the litigation, and I was just trying to get paid.

The staff person said to me, "What do you think is going on at HUD?"

I was trying to be discreet. There had been a series of articles about very significant amounts of money disappearing from HUD. At that point it was about \$100 billion.

I said, "I don't know. What do you think is going on?"

They looked me dead in the eye and they said, "HUD is being run as a criminal enterprise."

Here's the interesting thing. I said to them, "I don't disagree." At the time, HUD was run by the big New York banks – the New York fed, the treasury, the Department of Justice. It was very much a matrix structure.



Jennie Mae and Fannie Mae and FHA and the relationship with Fannie and Freddie was all deeply dependent on the big New York banks.

If you're going to run HUD as a criminal enterprise, you can't do it without them intentionally and proactively running it as a criminal enterprise. That includes Lockheed Martin and the big defense contractors running all the information and payment systems, which brings us back to your nuts and bolts background.

So this can't just be a few people. You're talking about a system which is organized to run this way. I think that, for me, was always the challenge because we say 'the government' but there were very few government employees who had a clue what was going on – in my experience at HUD at least.

Anyway, the federal government first and foremost the national security law is way outside the constitutional law, and that issue has never been really sorted out and dealt with.

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BILL BERGMAN: The US history there with Richardson, that case is a very interesting case. The Supreme Court never reached the merits of that issue. They found that the taxpayer who was challenging the law because he wanted to see the CIA budget and the Supreme Court said they weren't going to take the case because as a taxpayer along with everybody else, you don't have a standing. They never reached that question.

C. AUSTIN FITTS: Right. They were scared. They ducked it.

BILL BERGMAN: It's been unsettled since then.

C. AUSTIN FITTS: Here's why I beat this drum a lot. America breaks down to 3,100 counties. So the way I got into a squabble with the federal government was one of the things I did was I built a database. We basically were just sucking up the data – the publicly available database – from all the different agencies and putting it into a software tool called



Community Wizard.

Relational databases had just been developed, and that gave us the ability to look at your federal budget by zip code or county. You've done a lot with the consolidated reports, so you know some of what's available by place.

BILL BERGMAN: Right.

C. AUSTIN FITTS: What we discovered, Bill, and this was the magic – the big secret that has kept me an optimist all these years – was that the government if you look at the economy in terms of total optimization and equity optimization, which is where my passion lies, what you discover is a deep negative return on an investment by government was supporting positive returns by all sorts of corporations, and the net result was negative.

You had a total economic return that was negative. It was positive for the companies getting the contracts or the purchases, but it was deeply negative for the taxpayer. The economy was sinking as a whole, but the corporations were making more and more money as the taxpayer lost greater and greater and greater and households lost greater and greater.

You had this negative return on investment that was papered over by government money being invisible, including by place.

BILL BERGMAN: I'm sorry to interrupt, but I just have to interject for a moment. As cynical as we get about our powers that be in the accounting world, the Governmental Accounting Standards Board has a proposal out that they're taking comment letters for today on tax abatements and 'corporate welfare' as people call it. They're proposing to beef up the disclosure at the state and local level on tax abatements and corporate subsidies like you're talking about. That's alive right now, and, in fact, they're taking comment letters until tomorrow. That's the last day for comment.

C. AUSTIN FITTS: There was a brilliant guy at OMB who went to Kauffman



Foundation. I think he's back now at Brookings. It's Bob Litan.

BILL BERGMAN: Oh yes.

C. AUSTIN FITTS: We used to take our numbers over to Bob. I'll never forget I showed him, "Look, if we reengineer the flows within a place..." We did two things. We took it to OMB, and we had a group of private pension fund guys who we were working with who were fabulous.

We took an analysis of the whole Philadelphia area and we basically said, "Look, if you turn this to a positive return on investment, you can create a fortune in capital gains on the real estate and a lot of the economic activities." Part of it is you're securitizing small business, and the pension funds can make a fortune.

We were trying to set it up for the pension funds to jump the curve on their boomer obligations, and I'll never forget the President of CalPERS looked at me and he said, "You don't understand. This was Saul Alinsky's model, and they got him."

I was naïve. I said, "That was before you had the internet and the software tools. You can get the learning metabolism up."

Anyway, the opportunity was there to be done, and it still is. I think now that we've shifted enormous amounts of capital out with the bailouts and other things, the question is: Now that there's no more juice to be harvested, are people ready to start to make the turn? I don't know the answer to the question, but that's the opportunity.

Before we get onto that, let's just go back because I felt it was very difficult. I saw many, many great government employees and political appointees try very hard to get good financial transparency in government and run into all the things that you ran into at the fed or I ran into at the Department of Housing and Urban Development.

Where this always broke down was the military and intelligence guys needed money for secret projects, and no one wanted to risk that cash



flow, let alone all the private companies who were making a lot of profit from that cash flow. Nobody wanted to deal with that so the system kept going on and on.

The challenge was, if you look at how much money was being wasted to protect that flow, it had reached a level of enormous dysfunction and it was destroying productivity and trust on a much wider basis. I used to always say, “Can’t we find a way to go into the invention room, and we’ll call it Harry? We’ll just budget a dollar out of every ten for Harry, and just pretend we have to give it for Harry and we won’t ask any questions about Harry. Then we can optimize the other nine dollars instead of losing eight of them to dysfunction.”

BILL BERGMAN: You’re sparking another opportunity for me to interrupt you.

C. AUSTIN FITTS: Okay. Go, go, go.

BILL BERGMAN: This idea about defense budgeting and transparency, I don’t know if you’re familiar with a guy named Robert Higgs – Bob Higgs.

C. AUSTIN FITTS: No.

BILL BERGMAN: There is a classic book called *Crisis in Leviathan*, and it’s about how crisis happen in part because of government, but it’s also an opportunity for special interest groups and others to ratchet up – not down – government and the economy. That’s a classic book, but his work on the defense area is very interesting.

The bottom line of his work is defense spending is much bigger than the defense budget.

C. AUSTIN FITTS: Oh, much bigger.

BILL BERGMAN: The amount of defense-related spending that is going on very simply, for instance, in the Department of Homeland Security, or even other places is really defense spending. It’s far in excess. As big as



our defense department numbers are – and they’re massive, and there’s a longer store there – but the real defense spending is much higher than even that.

C. AUSTIN FITTS: One of the many problems is we now have at the federal government an enormous corporate infrastructure and related investors which could include all of our pension funds and all of our IRAs and all of our municipalities and everybody else, it’s all of us who are dependent on doing things which are unnecessary and unproductive. They can be reengineered, they can be done more efficiently, but you’ve developed this huge unproductive blob.

I don’t know if you saw the *Washington Post* report a couple of years ago called Top Secret America. The blob is really out of control from a financial standpoint.

BILL BERGMAN: What was it called again?

C. AUSTIN FITTS: Top Secret America. The *Washington Post* did a huge study on the explosion after 9/11 of appropriations and contracts in this area.

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It reminds me. I was once invited to have dinner at the Department of Defense when I was on Wall Street. It was a briefing by Secretary Caspar Weinberger of the defense budget. All it was was corporate chieftains. I left terrified because I realized it was all the big auto companies that were there. I realized all these companies are dependent on defense contractors to keep their earnings up.

They’re basically taking their stock and trying to position themselves globally, but the thing that’s keeping them afloat to do that and giving them the high multiple is all these rigged government contracts. It’s terrible.

Anyway, federal government. I think it’s fair to say that the federal



government is way outside of the law and way outside of productivity. If a way could be found to reverse that, there is enormous wealth to be had that could help us solve problems.

BILL BERGMAN: It's as cynical and/or depressing as the topic can be. If we can solve the problems of the unleashed energy, and that brings me back to Warren Buffett back in 2008. As the crisis was intensifying and the stocks were falling like rocks, Warren Buffett had an op-ed in the *New York Times*, "Buy American. I am."

His unmistakable faith in the long run – growth in the US economy – underneath all the problems we had, so far he's been right as rain. That's just one story, but more fundamentally, good leadership can unleash a great deal of productive potential in our economy. There is so much strength underneath the system, and this transparency stuff that we've been working on is part of that equation.

C. AUSTIN FITTS: It's true. The wealth is there. I agree that the wealth is there, and theoretically it is possible, but I've never yet seen a pathway.

If you look at how Buffett, in fact, is positioning his investments, he is positioning his investments as though he thinks bottom-up placed optimization can happen. As I've watched him do it I've always thought, "I hope he has inside information that they're planning on doing this because I don't see how it's going to work otherwise."

Well, let's get to state and local government because that's where the rubber meets the road. I think if anything is going to get done...

Before we go there, Federal Reserve. One of the challenges of balancing the budget at the federal government is as long as you can print money – whether with treasury securities or with monetary policy – you don't have to have accountability. You can keep spending more than you have.

BILL BERGMAN: Until you can't, but we don't know when that day arrives.

C. AUSTIN FITTS: Right.



BILL BERGMAN: But there is something out there. It's not pretty, but that is a constraint. I'm sorry. Go ahead.

C. AUSTIN FITTS: I've always said it's a military question, not an economic question. So I won't put it to you, but it is a military question.

BILL BERGMAN: There is a sentence or two in the financial report of the US government that is very interesting in this regard. It introduces the assets on a balance sheet, and then at the end of the paragraph that talks about the government's assets there is a sentence that reads, "There are, however, other resources of the government outside of the assets that we have on this balance sheet. They include the sovereign powers to tax and to set monetary policy."

C. AUSTIN FITTS: To base you to replenish us.

BILL BERGMAN: Not to overthink this, but there is a possessive on it. The government's sovereign powers to tax – are the financial report writers telling American citizens that the government has and possesses the sovereign power to tax? Who is the sovereign in the United States? In my head it's you and I. It's we the people who are protected by the Constitution, not the government. The government is assuming it is.

C. AUSTIN FITTS: I'm going to squabble about that with you because in my experience the government is not controlled by the government officials. Operationally at this point, so much of the data systems and information systems and payment systems are run by private corporations outside of the influence and control of the government officials.

Both when I worked at HUD and then when my company was a contractor at HUD, the defense contractor that ran the information systems for Section 8 refused to give me data. I could not get data on the programs that I was legally responsible to manage because the contractor refused to give it to me.

BILL BERGMAN: Very, very interesting. It's a symptom of a much broader problem, I think, in government.



C. AUSTIN FITTS: Right.

BILL BERGMAN: Having said that, I'm using a word 'government' and I don't mean to imply that I'm narrow. My favorite single course at Chicago was a course on the economics of regulation taught by Sam Peltzman and being introduced to a fellow named George Stigler and his ideas about the economics of regulation.

Stigler was kind of a leader or giant in the idea of capture theory where governments don't hate regulation. In fact, many businesses love regulation because they control it and they control government.

The purse strings and the government regulations are being manipulated by people who have strong special interests and vested interests in controlling them. So our government in a broader sense has been all corrupted by these types of influences because government officials have a duty to the common person, the common man, the average Joe, and the public good, not to the people who get them in power in the first place.

C. AUSTIN FITTS: For government to be sovereign you have to have financial sovereignty and you have to have information sovereignty.

If a variety of private parties can listen to your conversations and access your private communications and you are financially dependent on private parties and banks – both operationally and financially – you're not sovereign.

BILL BERGMAN: Right, but I'm saying that government in this report is claiming this sovereignty that it may not have.

C. AUSTIN FITTS: Right.

BILL BERGMAN: Those folks shouldn't be 'sovereign' either. The government is a tool for all of us, not for the powerful people who are controlling it. They come from a variety of different walks of life, not just 'evil corporations' or something. It's special interest groups in a variety of



arenas.

C. AUSTIN FITTS: What I have found, and that's why I'm so delighted that you're here because I think you can help teach people the power of financial transparency. I've seen transparency implement change that you thought could never happen because the interesting things about government officials is they will not stand up and say, "No, I know we can do this for \$100,000 but we're going to spend \$1 million to do it because... I can't tell you why."

BILL BERGMAN: "Trust us. It's for your own good."

C. AUSTIN FITTS: Right. You can't do that, and that's why if you can bring things down to a per person or a per county cost and show a significant improvement by doing it in another way, because of all of the body of financial management and law and regulation a government official can't say no. They can't say, "No, we want to spend twice what we need to spend to do this for reasons we can't reveal."

It's a framework of accountability...

BILL BERGMAN: Accountability is the word. This is our mission at Truth in Accounting, more or less.

C. AUSTIN FITTS: Right.

BILL BERGMAN: It's empowering citizens with financial information that enables them to defend themselves and hold government accountable. That's our goal, and truthful financial reporting is a key element of that.

C. AUSTIN FITTS: Right. State and local government. Give us an overview of what you think the biggest issues are right now in terms of state and local

"You can't do that, and that's why if you can bring things down to a per person or a per county cost and show a significant improvement by doing it in another way, because of all of the body of financial management and law and regulation a government official can't say no."



financial transparency.

BILL BERGMAN: The two biggest would be – and we’re addressing this now and the Governmental Accounting Standards Board is addressing this and moving into a world where the cost of government has been basically sealed by untruthful accounting. That’s the basic bottom line that we believe here has been a function of untruthful financial reporting and untruthful budgeting going into the system.

The ways in which state and local governments historically – very simply here in Chicago and Illinois – there is a long story about how government court balances the budget under a court-balanced budget requirement in the state constitution.

Unfortunately every year except for one in the last eight years, the state of Illinois spent more money than it took in, even in a gap basis, despite the fact that the governors are always telling us they balanced their budget. The same thing happens in the city of Chicago where Rahm Emanuel every year delivers a budget and tells people, “We’ve balanced the budget again,” and yet every year the city of Chicago spends more money than it takes in.

C. AUSTIN FITTS: Has the bond market continued to finance Chicago and Illinois despite this?

BILL BERGMAN: Yes, but at a higher rate. Down the road in terms of the way to optimistically look at this, perhaps the bond market is respectful of that optimistic view that once we address these issues – and, in fact, Illinois appears to be moving perhaps a little bit in that direction. I’m not a Republican, but Mr. Rauner has said some very good things.

C. AUSTIN FITTS: That’s the new governor?

BILL BERGMAN: Yes. He’s going after corruption in the system, and we just can’t continue like this. If we can’t, we won’t. There is going to be some pushback. Maybe the bond market is respectful that this process can grow, but it certainly looks pretty bleak as things currently stand. It



doesn't just look bleak; there are real economic implications.

Illinois has had significant net outmigration in recent years, in large part due to the interrelated problems with this lack of transparency, and false financial reporting has been sadly affecting the trust and safety of the state government. Illinois, I think, came in first in a Gallup poll last year in the 50 states. They had the lowest trust in their state government of any of the 50 states.

Coincidentally or not, a lot of people in Illinois are leaving because of that loss of trust and/or more fundamentally the financial implications and the tax burden that's facing current and future citizens in light of the debt that's been accumulated, despite the fact that we've had this balanced budget requirement. That was the intent of these balanced budget requirements – in theory – as our way to discipline government and not spend more than government costs, but they've been able to do that.

C. AUSTIN FITTS: Do you think it's possible that Chicago or Illinois could end up in bankruptcy?

BILL BERGMAN: Illinois is a tougher nut to crack there because of constitutional grounds of whether or not states can go bankrupt.

C. AUSTIN FITTS: Right.

BILL BERGMAN: For Chicago it's possible. In fact, it could be considered as a possible tool with which to deal with the mess of problems that are facing Chicago taxpayers.

C. AUSTIN FITTS: How much of that problem is really pension obligations?

BILL BERGMAN: Pension and healthcare together are more than half of the problem.

C. AUSTIN FITTS: Right.



BILL BERGMAN: We want to respect our government employees. I don't want to undermine them, and sometimes you can make an argument that perhaps they are undercompensated, not overcompensated because the opportunity for side payments is the sad part of the equation. Having said that, in Illinois and Chicago historically, and in a 'city that works' as Chicago has been called, the patronage system has been part of the machine with the pension.

The pension problem and the retirement healthcare problem is a way to really effectively compensate people over time for service without spending money today, but as they do that and as that system grew, the debt that has been accumulated – which are real, legal obligations that are being tested in court today with some very interesting arguments being put forth by, for instance, the state attorney general in Illinois. He has said, "Granted, yes, we have a contract with you and all these employees, but we also have other constitutional obligations in Illinois. The constitution of Illinois tells us to educate students."

The push has been coming to shove so dramatically that the threat to Illinois' governmental ability to provide services under its constitution may be one way to challenge the legal status of those pension obligations. That's one thing that is being played out in court right now.

C. AUSTIN FITTS: One of the things I find is that there is, particularly at the state and local level, a tremendous wealth of both budgets and financial statements and financial disclosure and economic disclosure, particularly for anybody who enters the capital markets. They provide enormous amounts of disclosure.

You have states who have full-time departments and teams that just provide disclosure. That's their business is doing all the state disclosure. But citizens don't know how to access it and rarely do.

BILL BERGMAN: We try to fill that gap at Truth in Accounting.

C. AUSTIN FITTS: Yes. You're trying to make it accessible and interesting and fun.



BILL BERGMAN: Yes, that's our goal. Maybe people don't feel so powerless once they have some information.

C. AUSTIN FITTS: Tell me, if we come into your website, where is the data that we can access? Can we get the consolidated reports or find the consolidated reports for our areas?

BILL BERGMAN: Well, Google is probably the best tool there.

C. AUSTIN FITTS: Right.

BILL BERGMAN: Just Google your city and the acronym CAFR. Your CAFR is going to come up. The governments do a pretty responsible job of maintaining websites with not just the current CAFR, but say the last eight years of CAFRs. They're out there, and you can find them. They're not that hard.

That doesn't mean that all of a sudden you've got the truth at your fingertips.

C. AUSTIN FITTS: Exactly.

BILL BERGMAN: The accounting standards and, in turn, the density of these things. You've certainly worked at the Dillon Read financial markets, and those prospectuses are pretty massive things, and so are these CAFRs. They are very complicated and difficult documents to work with for average citizens. Our State Data Lab database that's what we try to do. We try to get to a bottom line metric, looking at the real debt per taxpayer, for instance.

Our State Data Lab database has two websites: www.TruthInAccounting.org and www.StateDataLab.org. The latter website has tools, and it's been a very hardworking effort trying to get all that data into one place but we've done that. Our taxpayer burden metric that's on that database is a good one to watch.

“You’ve certainly worked at the Dillon Read financial markets, and those prospectuses are pretty massive things, and so are these CAFRs.”



C. AUSTIN FITTS: What I always try to do with Community Wizard is organize the data around what would show opportunity to local businesspeople to reengineer things. So with 3,100 counties, if you look at the federal contract budget, one of my big bugaboos is we need complete disclosure of the entire federal contract budget by contractor and by agency and by function and by place because we're paying federal contractors \$100 - \$150 an hour to do something that somebody in a neighborhood for \$15 plus healthcare would love to do.

BILL BERGMAN: That's an opportunity.

C. AUSTIN FITTS: Oh, reengineering the federal contracting budget on a place by place budget is unbelievable.

BILL BERGMAN: I have a recommendation for someone for you to talk to or look up.

C. AUSTIN FITTS: Talk away.

BILL BERGMAN: Open the Books. Do you know those folks?

C. AUSTIN FITTS: No.

BILL BERGMAN: They're in Illinois. Adam Andrzejewski in Open the Books is pursuing the avenue that you're talking about. I'd take a peek at what he's doing as a recommendation.

C. AUSTIN FITTS: The whole point was pension funds take up position in the equity, and then you do a series of things that make the economy improve that lower government expense but increase the local equity, whether the real estate in the business is pension funds make a lot of money at capital gains. That was kind of the idea, and neighborhoods get safer. It's kind of a win-win-win.

BILL BERGMAN: That's the Popsicle Index?

C. AUSTIN FITTS: Yes, it's basically pension funds getting rich on a rising



Popsicle Index. To have a rising Popsicle Index you needed more employment, more income flow, and more both on households and small business, but you had to do that in a way that saved the government money because the government was spending way too much.

It's interesting. As computers came out and corporations reengineered, you would see examples where corporations would take a function and what cost \$100 cost \$1 when they were through. Well, I did an estimate when I went into HUD and discovered that when a lot of the HUD programs started, on a dollar \$0.70 on the dollar went into the neighborhood. By the time I got there it was \$0.27.

In fact, nobody reengineered anything. They just made it more and more expensive because you had a federal, state, and local layer, and everybody had all these corporations. There were a lot of not-for-profits, too, but you just had this huge load. It had gotten more and more unbearable.

The famous story is what I discovered was Chicago was one of the places. It was Chicago, New Orleans, and there was one other place. HUD was spending \$250,000 to rehab or build public housing when \$50,000 would buy and rehab a single family home contiguous.

I took it to the woman who was the assistant to the guy who ran that program in public housing. I said, "Look, we can get four homes for the price of one."

She looked at me dead in the face and said, "But how could we generate fees for our friends?"

BILL BERGMAN: That's very transparent.

C. AUSTIN FITTS: I love an honest woman! What can I tell you!

BILL BERGMAN: That's credible, I guess.

C. AUSTIN FITTS: I think after that she went on the board of the federal home



loan bank in Chicago.

BILL BERGMAN: That's how to get ahead in life, using that kind of attitude.

C. AUSTIN FITTS: Especially in Chicago.

BILL BERGMAN: Nobody senses the line around Chicago.

C. AUSTIN FITTS: Here's the thing. The other one you know, which crossed the state and local lines, is the food stamp program. If you study the food stamp program, you are paying – just the data servicing – people in India to do data servicing that people here who you're paying unemployment compensation and food stamps to, to do the jobs that they could do, and JP Morgan Chase is getting a mark-up on it.

BILL BERGMAN: Wow!

C. AUSTIN FITTS: It's like lose-lose-lose.

BILL BERGMAN: Again, thinking about the inherent strength in the underlying, the inner city in Chicago – it's so sad – the underlying strength of the young people in the city, you can just see it.

C. AUSTIN FITTS: It's enormous.

BILL BERGMAN: It's amazing the amount of potential that we could have in harnessing that and leading that energy. It's genuine and it's very strong, and it's out there for us. We have to be optimistic for the future.

C. AUSTIN FITTS: I have to bring up one issue in Chicago. In Latin America when things got really bad, they collapsed in the early 2000's. There was a group in Porto Alegre that got together. The citizens came in and said, "We're doing the budgeting." It was called participatory budgeting, and they just started going through and figuring out all the budget questions because you had to do a lot more with a lot less.

There have been various efforts to do participatory budgeting and apply



it in the United States. Of course, one of the force fields that has to be broken is helping citizens get interested in looking at the details on the financial data because it's a complex system. It's not simple. You've got to be willing to dive in and learn and be patient and find the opportunities.

Anyway, there was a group – I think it was the Watson Institute at Princeton – who decided to do participatory budgeting. Normally you would have thought I would be very nice, but I was spitting mad because one of the people it was funded by was one of my old partners from Dillon Read.

I said, “Oh, great! You take the money from your prison profits and go off and look good.” I just had a hissy fit! But put that aside, and it is a very good idea. I wanted to ask you if you've ever run into any of the participatory budgeting efforts that have happened in Chicago.

“Normally you would have thought I would be very nice, but I was spitting mad because one of the people it was funded by was one of my old partners from Dillon Read.”

BILL BERGMAN: No, and I haven't seen that all that visible, perhaps because of my own lack of inquiry and/or media. You don't see a lot of visibility for those efforts. There are people who are strongly and intensely interested in the budget process, and the budgeting process is an annual shindig for the media, but as a broader citizen-based cooperative process I don't sense a lot of that compared to what could be the case.

C. AUSTIN FITTS: Tell me. Who comes in and uses your website? How do we bust through this force field of getting people interested in getting into the fundamental financial data?

I worked on Wall Street, Bill, and everybody just wanted more financial data because they wanted to troll it for opportunities. How do we get the general population who are not financial people to want to do that?

BILL BERGMAN: There are so many interesting stories in the database. Telling stories and working with the data in areas that get people interested is a



way to introduce them – not just to the stories but to the government financial information in general.

I'm just punching up State Data Lab now and going to the data download button. We have four different section: demographic, economic, our proprietary Truth in Accounting measures of state financial conditions, and state reported financial data. Those are our four areas.

For instance, under our demographic data there is a lot of fun stuff in here.

C. AUSTIN FITTS: Yes, there is.

BILL BERGMAN: Not to talk too much about this, but one of my favorite variables in the database – a very interesting one – is lawyers per 10,000 residents. You can look at how intensive a state is relative to other states and how many lawyers are working in the state.

With a much longer story there about the relationship between the law and economic growth and special interest group forces, there are stories underneath so much of this data.

C. AUSTIN FITTS: It's really funny. I wrote an editorial commentary last week on the blog. I said that step one was that we needed to get our lawyer per capita down to the global average, and we needed to become number one in terms of engineers per capita.

BILL BERGMAN: And the states are laboratories. That's why we call it State Data Lab. In Illinois the lab rats are leaving, but you don't want to get too hung up on that.

C. AUSTIN FITTS: What are the states that have the most lawyers per capita? I'm assuming Washington, DC and New York are near number one.

BILL BERGMAN: Connecticut, Illinois, New Jersey, Massachusetts, and coincidentally, those states are also the states with the highest financial



difficulty these days.

C. AUSTIN FITTS: Right.

BILL BERGMAN: Having said that, you've always got to be careful. Individual lawyers are great things, and lawyers are critical for transactions and a flow of commerce. They're not bad things per se, but that Mancur Olson, a very interesting fellow, a public choice economist.

C. AUSTIN FITTS: Oh, he was fabulous!

BILL BERGMAN: He was the greatest. His book was *The Rise and Decline of Nations*. He also wrote stuff about lawyers and economic growth, and that was his point. Individual lawyers per se are not bad things. However, when you see lots of them it's a symptom of things that aren't very good for you economically or financially.

With that data, I play with that variable and other ones and talk about, for instance, the shift of public sector workers who are covered by collective bargaining agreements or the share of the people on Medicaid within the total population, and all these different relationships between state governments and financial conditions are available for anybody to take a look at this stuff.

C. AUSTIN FITTS: I was in last night, trolling around and looking at Tennessee. It was fascinating.

Remember, when you go there you can just dive right into your state and find a lot of great information. It's very good.

BILL BERGMAN: You're in a relatively healthy state, too.

C. AUSTIN FITTS: That's why.

BILL BERGMAN: Tennessee offers lessons for even close neighbors.

C. AUSTIN FITTS: I've worked with a fair amount of states, both when I was



at the federal government and when I was at Wall Street. I would say that Tennessee is the single best managed state in terms of state and local government that I know of.

BILL BERGMAN: In my view of the world, I feel the same way just looking at the data that we have here. It feels like a healthy environment relative to other places.

C. AUSTIN FITTS: I don't know North Dakota very well, but I've been very impressed with what I know about North Dakota. They have a legislature that is part-time, and they only meet once every two years. Then they have to go home and work.

I think it limits the opportunities for the lobbyists.

BILL BERGMAN: It also reduces government size. The trough isn't deep enough, and that's the killer. That was Olson's argument, that the special interest group forces over time accumulate and act like termites, and they hurt things.

C. AUSTIN FITTS: That's where transparency helps. The question is: If you're a government official, how do you say no? I'll give you an example.

One of the institutions we innovated at Hamilton Securities Group was we hired AT&T Bell Laboratories to calculate optimization on mortgage portfolio auctions.

BILL BERGMAN: Bell Labs folks are brilliant.

C. AUSTIN FITTS: They were brilliant, but the guys they worked for were criminals in my opinion. That's a whole different story.

Anyway, we required them when they calculated the winning bids for every mortgage, if we had just done a side deal for political reasons on that mortgage, we said, "Okay, let's just do a side deal and then re-optimize the whole portfolio around that. Show me the incremental loss."



I could show up at a congressman's office, and if he wanted a side deal I could say, "You need to appropriate \$1,432.85 to hold us even." So I could define for them what the cost of corruption was.

BILL BERGMAN: In fact, that is an important inquiry. I'm so sad that we've gotten to the point where we are at the state, local, and federal levels on that corruption stuff. That's why I mentioned to you that Harvard study that recently came out of the Safra Center talking about corruption – both legal and illegal.

In Illinois we have a strong history of illegal corruption and people being put in jail, but that's not the only leg of the stool in the corruption stuff. The legal lobbying/broader realm of corruption is also important, and it's not healthy for many reasons. It's healthy for special interest groups to not necessarily buy off but to otherwise influence the powers that be and manipulate things in our favor, but that's the flavor of this Harvard study.

"In Illinois we have a strong history of illegal corruption and people being put in jail, but that's not the only leg of the stool in the corruption stuff."

In turn, I took a peek at that and there were seven states that ranked high both on legal and illegal corruption, Illinois being one of them. You see very unhealthy outcomes over the last 20 years for these areas relative to other states.

C. AUSTIN FITTS: That's where if it's done with contingent spending like credit guarantees, like insurance, like pension fund or healthcare obligations, it can accumulate before people feel pain, and then it comes around.

There is a whole area of private sector that I would love to talk to you about, but we just don't have the capacity to talk about it today. I'm going to get you back to do it, so I just want to put a placeholder for that.

Let's go to privacy because I think in the balance of power one of the



challenges we now have is government has highly invasive powerful data on all of us. The data that we're supposed to have as citizens we're not getting. Or, if we're getting it, it's too overwhelming to grapple with because of the format that it's in.

Government is being paid enormous amounts of money to track and collect private data on us in ways that are highly invasive, and that is part of the balance of power problem.

BILL BERGMAN: Interesting. That's the flip side of transparency here. We're very transparent in the relationship that we have with our government – through the IRS, through Google, and perhaps through other places – and with national security being offered as the justification for much of that stuff which in turn, whether or not we're really more secure or less secure because of national security. There are so many ways you can look at government 'solutions' that are offered as solutions. Oftentimes the solutions are the source of the problem that are being advertised to be solved.

For instance, in financial markets with the safety net for the largest financial institutions, does that stabilize the system? Maybe not in the long run because of the moral hazard problems. The same questions arise with this data stuff and transparency. Are we really more secure as citizens because of the ability of our government to track everybody? Maybe we're less secure, not more secure.

C. AUSTIN FITTS: I love financial transparency, but I think it is essential for markets to work that private organizations and private people have certain standards of privacy maintained.

BILL BERGMAN: Personal property is a difficult legal area. In markets there is a price for secrecy, and there is an exchange of information with willing parties. When we get into government, you've got force involved and fiat sorts of decisions. We theoretically have a lever at the voting booth, but how effectively that is serving as a check of abuses in this area is another question.



C. AUSTIN FITTS: Actually, Bill, I think if we had place-based data that was very easily accessible for federal, state, and local together for taxpayers I think the polling booth could be much more relevant.

BILL BERGMAN: That's what we're trying to do.

C. AUSTIN FITTS: I know! You're doing it. I used to do it, but you're doing it now – not me.

One question I want to bring up because you know I love Robert Axelrod's book *The Evolution of Cooperation*. In it one of the things Axelrod points out is the importance of transparency to hold individual leaders accountable.

One of the things I go nuts about – and *The Economist* just had a great editorial saying, "Can't you do better than having a son of a former President and the brother of a former President run against the wife of a former President? I mean, is that all you can do?"

BILL BERGMAN: This is so pathetic! It's unbelievable.

C. AUSTIN FITTS: So when *The Economist* is yelling at you, you know you're really in trouble! They said our aristocracy was calcifying.

There's kind of a non-accountability in the system because crime pays. The worse somebody behaves, the higher they go and they stay there.

I can't tell you. I used to have a very dear friend who I totally loved and she would say, "I love Hillary! She's so wonderful." There was no association with all the things she said she hated about what was going on in government.

There's a connection between actions and brand that has been broken in terms of the leadership. Maybe if you could just say a little bit about how we can get a feedback loop between what everybody says they hate. Everybody says they hate the financial coup d'etat but they love the people who now have the money.



BILL BERGMAN: Well, sometimes there are things you can't break, and that's the money that binds people to their opinions. In economics we assume that people are rational in the sense that they pursue their self-interests. That is the fundamental assumption in economics.

C. AUSTIN FITTS: Bad assumption.

BILL BERGMAN: There are ways to do that both by baking bread for your neighbor and getting paid for it or by lobbying your government. When the government enables people to make money by lobbying it, there is a role to government to grow and feed that beast in ways that bind people to those opinions that you're talking about.

C. AUSTIN FITTS: Right.

BILL BERGMAN: To what extent we can highlight the importance of financial transparency being a key element of it and the importance of understanding these types of corrupt influences is maybe one way to enable that voting booth to work.

C. AUSTIN FITTS: To me, the single greatest capital gains opportunity in America is to buy real estate or take a position in the venture capital or business equity in a place, and then get the Popsicle Index to go back to 100%. It is the single biggest capital gains opportunity. The problem is that it requires facing reality.

As long as we can print money and make everybody else take it, it seems more politically attractive to do that than face reality.

Bill, I just think you and Truth in Accounting are doing everything you can to get people to face reality. I just can't tell you how much I appreciate it.

There is one other thing that I want to bring up, and that is you are doing something else, too. You're teaching the young people. Tell us about that, too.



BILL BERGMAN: It's a blast frankly. It's the labor of love. I love teaching the young people, and I love teaching economics and finance courses at Loyola in Chicago. It's a great place with some very interesting folks in their finance and economics departments. The professors there, one of whom was a consultant at the Federal Reserve Bank of Chicago, George Kauffman, a great guy with a great history.

The Loyola finance and economics course that I'm currently teaching is Money and Banking and the Fundamentals of Money and Banking. That has just been a blast.

This semester I've got two students interested in doing independent study projects with me. I hope you can help out with one of them. That would be great. One is doing a project on covert operations historically and the financing of covert operations. That is part of his independent study project. Getting him in touch with you would be fabulous if you could.

“The professors there, one of whom was a consultant at the Federal Reserve Bank of Chicago, George Kauffman, a great guy with a great history.”

C. AUSTIN FITTS: I'm there to help. I think in one sense, I don't know when we're going to be forced to face reality, but at some point printing paper is not going to work. We're going to have to reengineer the place-based economics. If you look at people like Buffett, they've positioned themselves to take advantage of it clearly.

The question is: How is it going to happen? One way to have it happen is you just unleash the kids on it because they have the long view sufficient to see the opportunity and not be overwhelmed by the details.

BILL BERGMAN: You know what incentive they have today – these young folks? They're the ones who are taking the brunt of the problem compared to older people. The older people are on their way out of the system, but the intergenerational issues here – and that's what I tell young folks. I tell them they have a challenge looking ahead of them in the financing of the problems that our government has gotten us into



with the younger people bearing most of that compared to older people so far. We'll see how it plays out. Hopefully in the optimistic vein we have this unleashed productive potential that can solve the problem in the long run.

C. AUSTIN FITTS: The number one source of political contribution is capital gains, so at some point we're going to have to do the arbitrage because it's going to be the only one available. That's what I think.

BILL BERGMAN: Because it is, it will be found. That's the optimistic way to look at it. Push has to come to shove and it will. There is so much goodness out there that can solve problems like this, but we have to know of the problem. That's what transparency is important for in order to solve it, and we can do it.

C. AUSTIN FITTS: I'm a believer. So give us the websites again, Bill, and how we find you and follow your work. You've got an email, too, that I've been getting that we can sign up for. Explain how we do that, too.

BILL BERGMAN: The Morning Call has actually grown and is doing well. People like that morning email. It's called The Morning Call and you can sign up for it at our website at www.TruthInAccounting.org. Our other website is www.StateDataLab.org.

Speaking of your Popsicle Index, I'm going to point out one other fun piece of data on that database. It's called the Zombie Index.

C. AUSTIN FITTS: Oh, I love that!

BILL BERGMAN: In honor of Ed Kane, a great professor of finance at Boston College. Ed was the one who coined the phrase 'zombie' for zombie banks back in the S&L crisis. His concerns were driven by accounting and transparency issues, the fact that regulatory accounting principals were obfuscating and hiding the truth of the problems the S&Ls had gotten into. It enabled them to try to 'gamble for resurrection' – in his terms – to get out from behind the eight ball, and then ended up trebling the cost of the S&L crisis.



Those types of incentives are out there right now for our government at the state and local levels in the same way. I built an index based on a few metrics that helped to capture how much a state might or might not be a zombie. Tennessee does well on that score, by the way, but Illinois does not. It ranks high on the zombie scale.

That's the other thing. On transparency we need more frequent reporting. I'm afraid on our investment derivative positions in our state and local government we need things like this right now.

C. AUSTIN FITTS: Absolutely.

BILL BERGMAN: Annual reports don't cut the mustard. We need to be on top of how much risk they're taking on these portfolios – us citizens – in my opinion.

C. AUSTIN FITTS: Right. If you look at the pools of capital – and I go back to when we were talking about flows and pools – there are huge piles of pools. It's not just the pension funds but all sorts of reserve funds and all sorts of escrow funds. If you look at all the pools of capital, there are also a lot of ways that not only can you take risk but money can be siphoned out the back door. That's never really been watched by the accounting process the way I think it could.

Well, Bill, I always say that one of the benefits of corruption is people like us can get access to people like you. If it wasn't for the corruption you would still be at the fed and we couldn't get you. That's one of the positives.

Anyway, I really appreciate you taking the time to do this. I really encourage everybody to go check out Truth in Accounting and the State Data Lab. There is a lot of rich material.

Bill, we look forward to being in cahoots with you. As I said, it's the biggest capital gains opportunity in America and we wouldn't want to miss out, would we?



BILL BERGMAN: No, and we're looking forward to working with you down the road here, too, Catherine.

C. AUSTIN FITTS: Yes.

BILL BERGMAN: That section of your website 'Beyond the Fiscal Cliff' is a lot of fun.

C. AUSTIN FITTS: Just when you thought you knew every terrible thing there was to know about the federal budget, there's more!

BILL BERGMAN: There are 22 challenges for you to fix. Good luck!

C. AUSTIN FITTS: You know, I got tired of having to explain it, so I said, "I'm just going to write it down once." There it is.

Listen, you have a great day and we'll be in touch.

BILL BERGMAN: Good. We'll talk to you later. Have a good one.

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Nothing on The Solari Report should be taken as individual investment advice. Anyone seeking investment advice for his or her personal financial situation is advised to seek out a qualified advisor or advisors and provide as much information as possible to the advisor in order that such advisor can take into account all relevant circumstances, objectives, and risks before rendering an opinion as to the appropriate investment strategy.