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Slow Rise for a New Era

By Harold Meyerson
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We are, just now, stuck between eras. The old order -- the Reagan-age institutions built on the premise that the market can do no wrong and the government no right -- is dying. A new order, in which Wall Street plays a diminished role and Washington a larger one, is aborning, but the process is painful and protracted.

It shuddered to a halt on Monday, when House Republicans, by 2 to 1, declined to support the administration's bailout plan. To lay the blame on Speaker Nancy Pelosi's speech (in which she even noted the work of House GOP leaders in crafting the compromise) is to miss the larger picture: The proposal asked Republicans to acknowledge the failure of the market and the capacity of government to set things right. It asked them to repudiate their worldview, to go against the beliefs that impelled many of them to enter politics in the first place.

So as America experienced a financial crisis, House Republicans experienced a crisis of faith. And on Monday, most of them opted to stick to their faith, whatever the financial consequences for the nation.

Many of the Republicans' counterproposals to the bailout bill were so wide of the mark that they can be understood only as faith-based solutions to empirical problems. Banks and investment houses are toppling like so many dominos, and, to solve this crisis of capital evaporation, House Republicans suggested reducing the capital gains tax. Are we to believe that more investors didn't rush to rescue LehmanBearAIGWaMuWachoviaEtc because they calculated that the tax on the capital gains they'd realize was too high?

Then again, the bill that the Republicans opposed was itself a transitional document -- to some extent ushering in a new order, though designed chiefly to prop up the old. The bailout plan's political travails can be traced to its conception -- a three-page proposal for the Treasury secretary, who is the immediate past CEO of Wall Street's most successful investment bank, to buy up financial institutions' bad loans at prices he would set, with no oversight and no aid to anybody else. End of story. The bill that went to the House floor Monday had been significantly improved: It created the possibility that the public would gain a limited equity interest in some banks in return for the public's largess; it restricted Wall Street CEO pay; it allowed for a stock-transaction tax to cover any public losses if such still existed after five years. But it had been stamped at birth as a bailout for Wall Street, by a Treasury Department that didn't see the glaringly obvious political problems that created.

It's possible that with a few cosmetic changes, the bill can be passed by the House tomorrow. Or it may be that the prospect of bailing out Wall Street with public funds offends so many House members at both ends of the political spectrum that it goes down to defeat again.

If that happens, the next move would be for Democrats to craft a solution more in the spirit of FDR: Save American capitalism by fundamentally reshaping it. They could direct the government to raise the amount of depositors' money it insures, to compel the banks to write down their losses, to recapitalize the banks by taking a significant equity interest in them, and to refinance beleaguered homeowners directly.

Already, it's clear that we will emerge from this crisis with fewer but bigger banks. As a result of the recent government-arranged consolidations and fire sales, three banks -- JP Morgan Chase, Bank of America and Citigroup -- will control roughly one-third of all deposits. They will be too big to fail. They will also be so big that they'll be able to set the price for money when Americans come borrowing.

As such, they will require tighter regulation than we've imposed on banks before. And that's hardly the only arena in which government will have to do more. With financial institutions de-leveraging and lending less, it will fall upon the government to invest more in the American economy -- to diminish the effects of the recession that is coming down the tracks and to build the kind of infrastructure that will enhance American competitiveness in a global economy.

It's not just investment banks that have fallen by the wayside in the recent carnage; it's the ideology of unregulated capitalism -- of Reaganism. And if Republicans cannot find a way to disenthrall themselves from their faith in their old gods, they may ensure that the GOP itself becomes one more casualty in the collapse of laissez faire.

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