The Washington Post

The Nationalization Option

By Harold Meyerson
Wednesday, March 18, 2009; A13

You might think that having anted up $173 billion of our own money, we taxpayers would have some leverage at AIG, now that we own 80 percent of the shares. You might think that when chief executive Edward Liddy, a holdover appointee of Hank Paulson's, told Treasury Secretary Tim Geithner that he had just mailed $165 million of our money as bonuses to the geniuses at the firm's financial products unit -- who probably did more on a per-banker basis to destroy global capitalism than any other kindred group -- that Geithner, upon hearing this news, would have responded, "Liddy, you're fired."

But Geithner's indulgence of bankers' indulgences is fast becoming the Obama administration's Achilles' heel. The AIG debacle is the latest in a series of bewildering Geithner decisions that threaten to undermine the administration's efforts to restart the economy. So long as it's Be Kind to Bankers Week at Treasury -- and we've had eight straight such weeks since the president was inaugurated -- American banking, and the economy it is supposed to serve, will remain paralyzed. The Geithner plan to restart the banks provides huge taxpayer subsidies to hedge funds, investment banks and private equity companies to buy the banks' toxic assets without really having to assume the risk. That's right -- the same Wall Street wizards who got us into this mess, using the same securitization techniques that built mountains of debt within a shadow financial system that remains unregulated, are the saviors whom Geithner has anointed to extricate us -- with our capital, not theirs -- from the mess that they created.

A more plausible solution would be for the government to assume control of those banks that are insolvent, as it routinely does when banks go under. It could then install new management, wipe out the shareholders, take the devalued assets off the banks' books, restart lending and restore the banks to private control at a modest profit for the taxpayers. There may be reasons that Geithner's plan makes more sense than this one, but if they exist, Geithner has failed to explain them.

It's certainly not because Americans are dead set against bank nationalization: A Newsweek poll this month found that 56 percent of respondents supported it. Hell, Alan Greenspan supports it. But Geithner seems unable to imagine a banking system not run by its current leaders or owned by its current shareholders or engaged in the same arcane securitization practices that led to its collapse. An administration that is busily creating alternatives to our health-care system and our energy policies is being dragged down by a Treasury secretary who cannot conceive of an alternative to our catastrophic system of banking.

Fortunately, Geithner is not the only public servant grappling with banking's daily outrages. In the Senate, Vermont's Bernie Sanders, joined by Illinois' Dick Durbin, has introduced a bill to cap the interest rates on credit cards. Even as banks are borrowing funds from the Fed interest-free and are counting on taxpayer largess to keep them from going bust, they are still charging usurious rates of interest. In 2007, the Demos Foundation found that one-third of credit card holders were paying rates in excess of 20 percent, in some cases as high as 41 percent, and the rates have not dropped notably since then.

Once, states were able to regulate their banks' rates, but in 1978 the Supreme Court ruled that banks operating nationwide could charge whatever they wished if they moved their operations to states that had no usury laws, such as South Dakota. Shortly thereafter, Citigroup moved its credit card headquarters to South Dakota, and, as we know, Americans began funneling more and more of their money to the banks. Sanders's bill would cap interest rates at 15 percent, which is the same rate cap that Congress set 30 years ago for federal credit unions.

In 1991, New York Republican Alphonse D'Amato authored a bill to cap credit card rates at 14 percent. It passed the Senate 74 to 19, but died in the House. Today, as populist rage at the banks rises, Congress and the administration should be racing to pass the Sanders bill.

Sanders and Durbin have two things that Tim Geithner sorely lacks: a capacity to envision a less predatory, more salutary form of banking and a determination to enact such reforms. No one expects Tim Geithner to become a born-again populist, but is it asking too much of him that he come up with a plan that doesn't throw our money at the same bankers engaged in the same old practices that brought us to this pass? Is it too much to ask that he nationalize the insolvent banks and stop shoring up a bankrupt system?

meyersonh@washpost.com