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Disaster and Denial

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When I first began writing for The Times, I was naïve about many things. But my biggest misconception was this: I actually believed that influential people could be moved by evidence, that they would change their views if events completely refuted their beliefs.

And to be fair, it does happen now and then. I've been highly critical of Alan Greenspan over the years (since long before it was fashionable), but give the former Fed chairman credit: he has admitted that he was wrong about the ability of financial markets to police themselves.

But he's a rare case. Just how rare was demonstrated by what happened last Friday in the House of Representatives, when — with the meltdown caused by a runaway financial system still fresh in our minds, and the mass unemployment that meltdown caused still very much in evidence — every single Republican and 27 Democrats voted against a quite modest effort to rein in Wall Street excesses.

Let's recall how we got into our current mess.

America emerged from the Great Depression with a tightly regulated banking system. The regulations worked: the nation was spared major financial crises for almost four decades after World War II. But as the memory of the Depression faded, bankers began to chafe at the restrictions they faced. And politicians, increasingly under the influence of free-market ideology, showed a growing willingness to give bankers what they wanted.

The first big wave of deregulation took place under Ronald Reagan — and quickly led to disaster, in the form of the savings-and-loan crisis of the 1980s. Taxpayers ended up paying more than 2 percent of G.D.P., the equivalent of around $300 billion today, to clean up the mess.

But the proponents of deregulation were undaunted, and in the decade leading up to the current crisis politicians in both parties bought into the notion that New Deal-era restrictions on bankers were nothing but pointless red tape. In a memorable 2003 incident, top bank regulators staged a photo-op in which they used garden shears and a chainsaw to cut up stacks of paper representing regulations.

And the bankers — liberated both by legislation that removed traditional restrictions and by the hands-off attitude of regulators who didn't believe in regulation — responded by dramatically loosening lending standards. The result was a credit boom and a monstrous real estate bubble, followed by the worst economic slump since the Great Depression. Ironically, the effort to contain the crisis required government intervention on a much larger scale than would have been needed to prevent the crisis in the first place:

government rescues of troubled institutions, large-scale lending by the Federal Reserve to the private sector, and so on.

Given this history, you might have expected the emergence of a national consensus in favor of restoring more-effective financial regulation, so as to avoid a repeat performance. But you would have been wrong.

Talk to conservatives about the financial crisis and you enter an alternative, bizarro universe in which government bureaucrats, not greedy bankers, caused the meltdown. It's a universe in which government-sponsored lending agencies triggered the crisis, even though private lenders actually made the vast majority of subprime loans. It's a universe in which regulators coerced bankers into making loans to unqualified borrowers, even though only one of the top 25 subprime lenders was subject to the regulations in question.

Oh, and conservatives simply ignore the catastrophe in commercial real estate: in their universe the only bad loans were those made to poor people and members of minority groups, because bad loans to developers of shopping malls and office towers don't fit the narrative.

In part, the prevalence of this narrative reflects the principle enunciated by Upton Sinclair: "It is difficult to get a man to understand something when his salary depends on his not understanding it." As Democrats have pointed out, three days before the House vote on banking reform Republican leaders met with more than 100 financial-industry lobbyists to coordinate strategies. But it also reflects the extent to which the modern Republican Party is committed to a bankrupt ideology, one that won't let it face up to the reality of what happened to the U.S. economy.

So it's up to the Democrats — and more specifically, since the House has passed its bill, it's up to "centrist" Democrats in the Senate. Are they willing to learn something from the disaster that has overtaken the U.S. economy, and get behind financial reform?

Let's hope so. For one thing is clear: if politicians refuse to learn from the history of the recent financial crisis, they will condemn all of us to repeat it.