The New York Times

April 5, 2009

OP-ED COLUMNIST

Even Rick Wagoner's Firing Got Lousy Mileage

By FRANK RICH

EVEN among pitchfork-bearing populists, there was scant satisfaction when the White House sent the C.E.O. of General Motors to the guillotine.

Sure, Rick Wagoner deserved his fate. He did too little too late to save an iconic American institution from devolving into a government charity case. He embraced the Hummer. G.M.'s share price fell from above $70 to under $3 on his watch. Yet few disputed the judgment of the Michigan governor, Jennifer Granholm, that Wagoner was a "sacrificial lamb," a symbolic concession to public rage ordered by a president who had to look tough after being blindsided by the A.I.G. bonuses. Detroit's chief executive had to be beheaded so that the masters of the universe at the top of Wall Street's bailed-out behemoths might survive.

On this point even the left and the right could agree. The union leader Andy Stern publicly wondered why the administration didn't also dethrone Ken Lewis of Bank of America. Thaddeus McCotter, a conservative Republican congressman from suburban Detroit, asked, "When will the Wall Street C.E.O.'s receiving TARP funds summon the honor to resign? Will this White House ever bother to raise the issue?"

When reporters did raise the issue of a double standard to the White House press secretary, Robert Gibbs, they got double talk: "I don't have anything specific on Bank of America."

But even as that unanswered question hangs in the air, a more revealing inquiry might be this: Why is there any sympathy whatsoever for a Detroit C.E.O. who helped wreck his company, ruined investors and cost thousands of hard-working underlings their jobs, when there is no mercy for those who did the same on Wall Street? Might we, too, have a double standard? Could we still be in denial of the reality that greed and irresponsibility were not an exclusive Wall Street franchise during our national bender?

Perhaps we're tempted to give Detroit a pass because it still summons nostalgic memories of "American Graffiti," "Little Deuce Coupe" and certain things we used to do in the back seat of a Chevy. Wall Street and bankers are the un-aphrodisiac: "Bonfire of the Vanities," Old Man Potter of "It's a Wonderful Life" and, of course, Gordon Gekko of Oliver Stone's "Wall Street."

Though Gekko's most famous line is "Greed is good," even more emblematic is his defiant summation of his brand of capitalism: "I create nothing. I own." At least Wagoner, unlike the sultans of finance, created cars, clunkers though they often were. The politically conservative Nashville star John Rich draws this moral distinction in his powerful new hit single "Shuttin' Detroit Down." Motor City is "the real world," he sings, unlike those big shots "living it up on Wall Street in that New York City town."

But this romantic view of the auto industry is a sentimental illusion. Some of Wall Street's exact failings also capsized G.M.: the hard sell of alluring but junky products, crony capitalism, reckless gambling, unregulated accounting sleights of hand. Only if we accept the full extent to which the bubble virus spread beyond that New York City town can we grasp the radical treatment President Obama must administer to restore the nation to health.

The parallels between G.M. and the likes of Citigroup are uncanny. Much as bloated financial institutions gorged on mortgage-backed derivatives even when the underlying fundamentals made no rational sense, so G.M. doubled down on sure-to-be obsolete S.U.V.'s and trucks to serve a market transitorily enthralled by them. Much as the housing boom's collapse left the get-rich-quick holders of AAA-rated mortgage derivatives with worthless paper, so the oil price spike left consumers trapped with self-indulgent, wealth-depleting gas guzzlers. In both instances, the customers were not entirely innocent.

As the banks peddled their risky financial products in countries like Iceland when the American market was saturated, so Wagoner looked to South America and Russia to gobble up the deficient vehicles Americans increasingly rejected. G.M. further emulated Wall Street by creatively finessing its balance sheets, moving its health care liabilities for retirees off its books (into a trust) to cosmetically enhance its appearance of fiscal health. It's no surprise that members of G.M.'s often-compliant board — also now slated for overhaul by the White House — served as well on boards at Morgan Stanley, Goldman Sachs and SunTrust Banks (another recipient of a multibillion-dollar government bailout).

Perhaps the most illuminating Detroit/Wall Street parallel of all is GMAC, the G.M. financial affiliate whose phantom profits were used to help hedge the parent company's losses when its share of the car market plummeted. GMAC was yet another outfit that placed risky bets on the housing bubble until it burst, taking G.M.'s bottom line down with it.

As if to confirm that much of our so-called legitimate financial world has been six degrees of separation from Bernie Madoff, GMAC's chairman was none other than J. Ezra Merkin. In addition to presiding over losses of nearly $8 billion at GMAC, Merkin had a separate investment management business that threw away another $2 billion by feeding other people's money (including the endowments at N.Y.U. and Yeshiva University) into Madoff's Ponzi scheme.

Nice as it might be to believe that Wagoner was done in only by his unreconstructed retro faith in antiquated cars and his lethargic management of the various G.M. restructurings, he was part of this larger financial culture. And like bailed-out Wall Street executives, he walked away with a sizable reward for his failure: $23 million. It may not match the takes accrued by non-Detroit tycoons who pocketed profits from the illusory bubble before shareholders and employees were wiped out — Charles Prince and Robert Rubin of Citi, Joseph Cassano of A.I.G., Angelo Mozilo of Countrywide, Stanley O'Neal of Merrill Lynch — but only by that measure is he less culpable than they are.

Those on Wall Street who took the money and ran are beyond the reach of the guillotine. Most of their successors are too new to their jobs to merit beheading; executives like Edward Liddy of A.I.G. and Vikram Pandit of Citi, whatever their previous performance, have been in their current positions only since disaster struck. (This does not apply to Lewis of Bank of America, whose eight-year tenure nearly matches

Wagoner's nine years at the top of G.M.)

But facts matter little when set against the public anger at corporate America in general and banks in particular. The latest ABC News/Washington Post poll found that 80 percent of the country blames banks for the financial crisis — a percentage even larger than that blaming George W. Bush (70 percent). To be less popular than our departed president is a Herculean feat heretofore achieved only by Dick Cheney.

The cheering news in this poll is that Barack Obama remains hugely popular, with a 66 percent approval rating that has surely gone up since, boosted last week by his and Michelle Obama's beguiling representation of America abroad. It doesn't hurt that the president's political opponents back home are laughable. Last month Republicans in Congress offered a budget plan with no numbers. Then they belatedly fleshed it out by calling for a nonsensical spending freeze at a time when desperate Americans need every last federal safety net they can grab.

The only group more out of touch remains bailed-out Wall Streeters. "The era of this high living, this is over now," said Ben Bernanke on "60 Minutes" last month. For whom? Witness the former A.I.G. executive who recently complained on the Times Op-Ed page about being unfairly tarred for corporate outrages he didn't commit. He didn't seem to understand that his (to his mind) unfairly maligned bonus — $742,006.40 (net) — would have amounted to $0 had American taxpayers not ponied up more than $170 billion to keep A.I.G. from dying.

Such tone-deaf antics by entitled Wall Streeters will keep coming. As we hope Obama learned from his narrow escape from the A.I.G. bonus firestorm, it's imperative he stays clear of these conflagrations. Timothy Geithner's latest bank-rescue plan has not remotely addressed fears that the fix is in for the same well-connected banking crowd that created the mess. The plan's transparency — let alone its effectiveness — will be essential to deflecting those suspicions.

But in the unsatisfying aftermath of Rick Wagoner's demise, we must rid ourselves of the illusion that there's a rigid separation between Wall Street and what John Rich calls "the real world." Any citizen or business that overspent or overborrowed in the bubble subscribed to its reckless culture. That culture has crumbled everywhere now, and a new economic order will have to rise from its ruins.

This is what Obama is talking about when he insists on pushing for change simultaneously on so many fronts — green jobs, health care, education, new financial regulation, infrastructure spending and all the rest. As has been true since he promised "a new foundation for growth" at his inauguration, the most important question is not whether he will try to do too much at once but whether he will and can do enough. Change is hard. Change is traumatic. Sending a juicy C.E.O. — or six — to the gallows is at most a crowd-pleasing opening act to the heavy lifting of reform and rebuilding we still await.