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OP-ED COLUMNIST

Money for Nothing

By PAUL KRUGMAN

On July 15, 2007, The New York Times published an article with the headline "The Richest of the Rich, Proud of a New Gilded Age." The most prominently featured of the "new titans" was Sanford Weill, the former chairman of Citigroup, who insisted that he and his peers in the financial sector had earned their immense wealth through their contributions to society.

Soon after that article was printed, the financial edifice Mr. Weill took credit for helping to build collapsed, inflicting immense collateral damage in the process. Even if we manage to avoid a repeat of the Great Depression, the world economy will take years to recover from this crisis.

All of which explains why we should be disturbed by an article in Sunday's Times reporting that pay at investment banks, after dipping last year, is soaring again — right back up to 2007 levels.

Why is this disturbing? Let me count the ways.

First, there's no longer any reason to believe that the wizards of Wall Street actually contribute anything positive to society, let alone enough to justify those humongous paychecks.

Remember that the gilded Wall Street of 2007 was a fairly new phenomenon. From the 1930s until around 1980 banking was a staid, rather boring business that paid no better, on average, than other industries, yet kept the economy's wheels turning.

So why did some bankers suddenly begin making vast fortunes? It was, we were told, a reward for their creativity — for financial innovation. At this point, however, it's hard to think of any major recent financial innovations that actually aided society, as opposed to being new, improved ways to blow bubbles, evade regulations and implement de facto Ponzi schemes.

Consider a recent speech by Ben Bernanke, the Federal Reserve chairman, in which he tried to defend financial innovation. His examples of "good" financial innovations were (1) credit cards — not exactly a new idea; (2) overdraft protection; and (3) subprime mortgages. (I am not making this up.) These were the things for which bankers got paid the big bucks?

Still, you might argue that we have a free-market economy, and it's up to the private sector to decide how much its employees are worth. But this brings me to my second point: Wall Street is no longer, in any real sense, part of the private sector. It's a ward of the state, every bit as dependent on government aid as recipients of Temporary Assistance for Needy Families, a k a "welfare."

I’m not just talking about the $600 billion or so already committed under the TARP. There are also the huge credit lines extended by the Federal Reserve; large-scale lending by Federal Home Loan Banks; the taxpayer-financed payoffs of A.I.G. contracts; the vast expansion of F.D.I.C. guarantees; and, more broadly, the implicit backing provided to every financial firm considered too big, or too strategic, to fail.

One can argue that it’s necessary to rescue Wall Street to protect the economy as a whole — and in fact I agree. But given all that taxpayer money on the line, financial firms should be acting like public utilities, not returning to the practices and paychecks of 2007.

Furthermore, paying vast sums to wheeler-dealers isn’t just outrageous; it’s dangerous. Why, after all, did bankers take such huge risks? Because success — or even the temporary appearance of success — offered such gigantic rewards: even executives who blew up their companies could and did walk away with hundreds of millions. Now we’re seeing similar rewards offered to people who can play their risky games with federal backing.

So what’s going on here? Why are paychecks heading for the stratosphere again? Claims that firms have to pay these salaries to retain their best people aren’t plausible: with employment in the financial sector plunging, where are those people going to go?

No, the real reason financial firms are paying big again is simply because they can. They’re making money again (although not as much as they claim), and why not? After all, they can borrow cheaply, thanks to all those federal guarantees, and lend at much higher rates. So it’s eat, drink and be merry, for tomorrow you may be regulated.

Or maybe not. There’s a palpable sense in the financial press that the storm has passed: stocks are up, the economy’s nose-dive may be leveling off, and the Obama administration will probably let the bankers off with nothing more than a few stern speeches. Rightly or wrongly, the bankers seem to believe that a return to business as usual is just around the corner.

We can only hope that our leaders prove them wrong, and carry through with real reform. In 2008, overpaid bankers taking big risks with other people’s money brought the world economy to its knees. The last thing we need is to give them a chance to do it all over again.

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