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OP-ED COLUMNIST

## The Establishment Lives!

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Once, there was a financial elite in this country. During the first two-thirds of the 20th century, middle-aged men with names like Mellon and McCloy led Wall Street firms, corporate boards and white-shoe law firms and occasionally emerged to serve in government.

Starting in the 1960s, that cohesive elite began to fall apart. Liberal interest groups took control of Democratic economic policy. Supply-side think tankers and Southern conservatives dominated the GOP.

In the 1980s, the old power structures frayed, even on Wall Street. Corporate raiders took on the old business elite. Math geeks created complicated financial instruments that the top executives couldn't control or understand. (The market for credit-default swaps alone has exploded to \$45.5 trillion, up from \$900 billion in 2001.)

Year followed year, and the idea of a cohesive financial establishment seemed increasingly like a thing of the past.

No more. Over the past week, Treasury Secretary Henry Paulson, Federal Reserve Chairman Ben Bernanke and Tim Geithner of the New York Fed have nearly revived it. At its base, the turmoil wracking the world financial markets is a crisis of confidence. What Paulson, et al. have tried to do is reassert authority — the sort that used to be wielded by the Mellons and Rockefellers and other rich men in private clubs.

Inspired in part by Paul Volcker, Nicholas Brady and Eugene Ludwig, and announced last week, the Paulson plan is a pure establishment play. It would assign nearly unlimited authority to a small coterie of policy makers. It does not rely on any system of checks and balances, but on the wisdom and public spiritedness of those in charge. It offers succor to the investment banks that contributed to this mess and will burn through large piles of taxpayer money. But in exchange, it promises to restore confidence. Somebody, amid all the turmoil, will occupy the commanding heights. Somebody will have the power to absorb debt and establish stability.

Liberals and conservatives generally dislike the plan. William Greider of *The Nation* writes: "If Wall Street gets away with this, it will represent an historic swindle of the American public — all sugar for the villains, lasting pain and damage for the victims."

He approvingly quotes the conservative economist Christopher Whalen of Institutional Risk Analytics: "The joyous reception from Congressional Democrats to Paulson's latest massive bailout proposal smells an awful lot like yet another corporatist love fest between Washington's one-party government and the Sell Side investment banks."

Thanks to their criticism, the plan will be pinned back. Oversight will be put in place. But the plan will probably not be stopped. The markets would tank. There is a hunger for stability, which only the Treasury and the Fed can provide.

So we have arrived at one of those moments. The global financial turmoil has pulled nearly everybody out of their normal ideological categories. The pressure of reality has compelled new thinking about the relationship between government and the economy. And lo and behold, a new center and a new establishment is emerging.

The Paulson rescue plan is one chapter. But there will be others. Over the next few years, the U.S. will have to climb out from under mountainous piles of debt. Many predict a long, gray recession. The country will not turn to free-market supply-siders. Nor will it turn to left-wing populists. It will turn to the safe heads from the investment banks. For Republicans, people like Paulson. For Democrats, the guiding lights will be those establishment figures who advised Barack Obama last week — including Volcker, Robert Rubin and Warren Buffett.

These time-tested advisers, or more precisely, their acolytes, are going to make the health and survival of the financial markets their first order of business, because without that stability, the entire economy will be in danger. Beyond that, they will embrace a certain sort of governing approach.

The government will be much more active in economic management (pleasing a certain sort of establishment Democrat). Government activism will provide support to corporations, banks and business and will be used to shore up the stable conditions they need to thrive (pleasing a certain sort of establishment Republican). Tax revenues from business activities will pay for progressive but business-friendly causes — investments in green technology, health care reform, infrastructure spending, education reform and scientific research.

If you wanted to devise a name for this approach, you might pick the phrase economist Arnold Kling has used: Progressive Corporatism. We're not entering a phase in which government stands back and lets the chips fall. We're not entering an era when the government pounds the powerful on behalf of the people. We're entering an era of the educated establishment, in which government acts to create a stable — and often oligarchic — framework for capitalist endeavor.

After a liberal era and then a conservative era, we're getting a glimpse of what comes next.

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