WE'RE ASKING THE WRONG GUYS TRYING TO SOLVE THE ECONOMIC CRISIS

Hank Paulson and Ben Bernanke are the wrong guys to solve this financial crisis.

I'm not talking, here, about Paulson's very obvious conflicts of interest, though those are troubling. Paulson, after all, was CEO of one of the companies that in 2004 got an exemption on leverage limits–one of the moves that led to this crisis. And Paulson's proposed bailout would disproportionally benefit his former company.

But I'm increasingly troubled by the ways in which Paulson and Bernanke are **functionally** inadequate to solve this problem–at least by themselves. By having Paulson and Bernanke solve this problem themselves, we guarantee that we'll primarily address this as a finance crisis, and not an underlying structural crises in our economy.

While both Paulson and Bernanke have responsibility for the overall economy of the country, that responsibility is focused closely on monetary policy of the US.

The Fed describes its role as follows:

> - Conducting the nation's monetary policy by influencing money and credit conditions in the economy in pursuit of full employment and stable prices
> - Supervising and regulating banking institutions to ensure the safety and

soundness of the nation's banking and financial system and to protect the credit rights of consumers

- Maintaining the stability of the financial system and containing systemic risk that may arise in financial markets
- Providing certain financial services to the U.S. government, to the public, to financial institutions, and to foreign official institutions, including playing a major role in operating the nation's payments systems

And Treasury describes its mission:

> The Treasury Department is the executive agency responsible for promoting economic prosperity and ensuring the financial security of the United States. The Department is responsible for a wide range of activities such as advising the President on economic and financial issues, encouraging sustainable economic growth, and fostering improved governance in financial institutions. The Department of the Treasury operates and maintains systems that are critical to the nation's financial infrastructure, such as the production of coin and currency, the disbursement of payments to the American public, revenue collection, and the borrowing of funds necessary to run the federal government. The Department works with other federal agencies, foreign governments, and international financial

> institutions to encourage global economic growth, raise standards of living, and to the extent possible, predict and prevent economic and financial crises.

The Fed talks about "full employment and stable prices." Treasury talks about "economic prosperity" and raising standards of living and "encouraging sustainable economic growth." But both entities envision doing so—as their missions reveal—primarily by ensuring the health of the financial system. That is, built into their current mission is the assumption that the finance industry is the privileged industry in this country from which all other economic success comes.

Consider what Kevin Phillips had to say about what got us into this problem:

> However, I would say that the two most important underpinnings of financialization lay in the rise of public and private debt as a mainstay of American culture and economics and the perpetual liquidity and bail-out support of the Federal Reserve Board under Alan Greenspan. During Greenspan's 1987-2005 tenure, the sum of public and private debt in the United States quadrupled from just over $10 trillion to $43 trillion. **Finance became the industry that was not allowed to fail but was permitted to enlarge and metastasize its behavior almost at will**. Regulation was minimal. Favoritism was omnipresent.
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> The result, alas, has been all over recent headlines. America's biggest ever housing bubble, with 57 varieties of exotic mortgages and home prices now plummeting at rates unseen since the 1930s. The United States turned Credit Card Nation, with a citzenry in thrall to plastic, 20% interest rates and late fees for just about everything. Huge

> banks like Citigroup feel no shame in paying billion-dollar fines for colluding with Enron's tax and accounting deceits. And since mid-2007, national and world credit markets have been panicked and paralyzed by hitherto obscure instruments — the stand-outs are collateralized debt obligations (CDOs) — that not even their designers and packagers can explain. [my emphasis]

We made a decision under Reagan to privilege our finance industry at the expense—especially—of manufacturing. And in doing so, set up the underlying permissiveness that got us into this crisis. Yet, by having Bernanke and Paulson lead the response to this crisis, we're guaranteeing that that underlying privilege of finance continues. Bernanke, especially, and Paulson to a large degree are justified in seeking to solve the financial crisis that threatens to undermine the rest of our economy. That's their job. But by letting them take the lead on this, we avoid taking a critical look at the overall structure of our economy.

There's a parallel that I keep thinking of. When David Petraeus, as the commanding General in Iraq, testified before Congress last September, members of Congress repeatedly asked him whether the surge troop levels were taxing the military more generally. Petraeus answered correctly, but in a way that exasperated those people who asked, that it wasn't his concern. Petraeus' job, after all, was doing everything he could to ensure the success of Iraq. Whether Afghanistan succeeded or failed wasn't his concern (until he took over CentComm recently, that is). Yet the guy Congress consulted about whether the surge was hurting our other military priorities was a guy whose job it was to focus exclusively on Iraq.

Now, I realize that Bernanke and Paulson would have to be significantly involved in solving this crisis. But we ought to be including the Secretaries of Commerce, Ag, HHS, and Labor (no, I don’t actually pretend that Elaine Chao is going to help here), to consider the ways that solving other structural problems in our economy ought to be part of our approach to solve this current fiscal crisis. For example, if we were addressing the reasons why most Americans’ incomes have been stagnant over the last decade–and as a result they have instead been coping with inflationary pressures by using their house as an ATM–we’d be more likely to devise a solution that would work over the long term.

Thing is, though, the person who should be ensuring we situate this crisis in our larger economic weakness–the President–is totally unqualified to do so. I’m frankly reasonably happy that he’s quivering in the White House weeping about his legacy. But that doesn’t mean we should forget the larger picture because we have a President who is incapable of seeing the larger picture.