Op-Ed Columnist

**Bailouts for Bunglers**

By [PAUL KRUGMAN](http://topics.nytimes.com/top/opinion/editorialsandoped/oped/columnists/paulkrugman/index.html?inline=nyt-per)

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Question: what happens if you lose vast amounts of other people’s money? Answer: you get a big gift from the federal government — but the president says some very harsh things about you before forking over the cash.

Am I being unfair? I hope so. But right now that’s what seems to be happening.

Just to be clear, I’m not talking about the Obama administration’s plan to support jobs and output with a large, temporary rise in federal spending, which is very much the right thing to do. I’m talking, instead, about the administration’s plans for a banking system rescue — plans that are shaping up as a classic exercise in “lemon socialism”: taxpayers bear the cost if things go wrong, but stockholders and executives get the benefits if things go right.

When I read recent remarks on financial policy by top Obama administration officials, I feel as if I’ve entered a time warp — as if it’s still 2005, Alan Greenspan is still the Maestro, and bankers are still heroes of capitalism.

“We have a financial system that is run by private shareholders, managed by private institutions, and we’d like to do our best to preserve that system,” says Timothy Geithner, the Treasury secretary — as he prepares to put taxpayers on the hook for that system’s immense losses.

Meanwhile, a Washington Post report based on administration sources says that Mr. Geithner and Lawrence Summers, President Obama’s top economic adviser, “think governments make poor bank managers” — as opposed, presumably, to the private-sector geniuses who managed to lose more than a trillion dollars in the space of a few years.

And this prejudice in favor of private control, even when the government is putting up all the money, seems to be warping the administration’s response to the financial crisis.

Now, something must be done to shore up the financial system. The chaos after Lehman Brothers failed showed that letting major financial institutions collapse can be very bad for the economy’s health. And a number of major institutions are dangerously close to the edge.

So banks need more capital. In normal times, banks raise capital by selling stock to private investors, who receive a share in the bank’s ownership in return. You might think, then, that if banks currently can’t or won’t raise enough capital from private investors, the government should do what a private investor would: provide capital in return for partial ownership.

But bank stocks are worth so little these days — Citigroup and Bank of America have a combined market value of only $52 billion — that the ownership wouldn’t be partial: pumping in enough taxpayer money to make the banks sound would, in effect, turn them into publicly owned enterprises.

My response to this prospect is: so? If taxpayers are footing the bill for rescuing the banks, why shouldn’t they get ownership, at least until private buyers can be found? But the Obama administration appears to be tying itself in knots to avoid this outcome.

If news reports are right, the bank rescue plan will contain two main elements: government purchases of some troubled bank assets and guarantees against losses on other assets. The guarantees would represent a big gift to bank stockholders; the purchases might not, if the price was fair — but prices would, The Financial Times reports, probably be based on “valuation models” rather than market prices, suggesting that the government would be making a big gift here, too.

And in return for what is likely to be a huge subsidy to stockholders, taxpayers will get, well, nothing.

Will there at least be limits on executive compensation, to prevent more of the rip-offs that have enraged the public? President Obama denounced Wall Street bonuses in his latest weekly address — but according to The Washington Post, “the administration is likely to refrain from imposing tougher restrictions on executive compensation at most firms receiving government aid” because “harsh limits could discourage some firms from asking for aid.” This suggests that Mr. Obama’s tough talk is just for show.

Meanwhile, Wall Street’s culture of excess seems to have been barely dented by the crisis. “Say I’m a banker and I created $30 million. I should get a part of that,” one banker told The New York Times. And if you’re a banker and you destroyed $30 billion? Uncle Sam to the rescue!

There’s more at stake here than fairness, although that matters too. Saving the economy is going to be very expensive: that $800 billion stimulus plan is probably just a down payment, and rescuing the financial system, even if it’s done right, is going to cost hundreds of billions more. We can’t afford to squander money giving huge windfalls to banks and their executives, merely to preserve the illusion of private ownership.