Recovery Without a Reckoning

How can you have a recovery if the party that caused the crash refuses rehab?

The economy is like traffic: It moves along fine if all the moving parts adhere to the rules of the road. But introduce a speedster, driven only by his "animal spirits" and his own set of rules—by definition, ethics-free rules, heedless of others—and calamity occurs. This in jargon-free essence is what happened a year ago, when the speedsters of Wall Street caused a financial collapse that led to loss and ruin, here and across the globe.

And now, after a year of whiplash borne mainly by Main Street, "recovery" is underway, or so we're told: The Dow climbs back toward 10,000 points—the mythical number affirming health; some banks are lending again; and productivity, consumer spending, and house purchases are creeping up for the first time since last year's crash.

Yet without a key development—an ethical reckoning on Wall Street—this tenuous recovery will be dashed. Not only that, but a Wall Street that continues unrestrained could break the entire globalized system again—for all of us, including Wall Street—thus, not incidentally, destroying America's chance to redeem itself for causing the current global meltdown that we, or more to the point Wall Street, started.

The ethical reckoning yet to occur is the kind best expressed by President Franklin D. Roosevelt in his Second Inaugural Address, in 1937. Reflecting hard elemental truths refined from the nation's suffering in the depths of the Great Depression, he concluded:

> *"We have always known that heedless self-interest was bad morals; we know now that it is bad economics."*

At present, this knowledge—about the destructiveness of excessive self-interest—appears confined to Main Street, passed on to us by parents who never forgot it (though some offspring did forget and, indulging in irresponsible consumption, piled up debt that helped break the system). Wall Street, though, remains untutored, also even more dangerous: After a year of bailouts and collapses, the institutions "too big to fail" are fewer now and even bigger.

Wall Street likes to tout its "talent"—its titans and traders "skilled" at the high-stakes risk-taking and deal-making deployed in pursuit of the gold. In truth, it's a dubious and not a Nobel kind of talent—the spinning of paper, no-product deals—and it delivered us to the brink of chaos last fall.

Yet, spurning ethical rehab, Wall Street sends fleets of lobbyists to Capitol Hill to block formation of a Consumer Financial Protection Agency, that is, a watchdog to protect us from its predations. And, unbelievably, it is again trading in, and fighting regulation of, derivatives—the very financial instruments that sparked last year's collapse (and whose complexity, and legitimacy, not even the "talent" can explain).

Most egregiously, after being rescued by hundreds of billions of hard-earned taxpayer dollars—wages have remained stagnant nearly 20 years—and in the televised face of mounting hardship on Main Street in lost jobs, foreclosures, and heart-in-throat anxiety, this "talent"—unwisely, not smart—proposes giving itself multimillion-dollar bonuses, bigger even than in 2007, the last high-rolling year before the collapse. Ethically, this is—no other word for it—obscene.

And for Wall Street and the media to caricature Main Street's anger over this ethical breach as "pitchfork populism" is itself unethical: Fair play and fair reward are bedrock American values, and this is not fair, but wrong, what FDR called "bad morals."

How can Wall Street be so deaf to the ethical injustice of its actions? It takes a "tin ear," as *The New York Times'* Andrew Ross Sorkin puts it. Sorkin describes a mentality that perceives itself as "survivors," who escaped disaster by their own intrepidity, their talent if you will; and having saved themselves they don't acknowledge, much less feel obliged to, the taxpayer—who performed the real rescue. Indeed, scan Sorkin's new book *Too Big to Fail*, scan any remark from Wall Street, and you'll find self-reference only—to "the bank," "the company," "the market"—and rare reference to "the nation" and none at all to "the commonweal." The "animal spirits" surge more ferociously than ever.

Of course, in historical context what we're seeing, in real-time, is the struggle between the two classic forces powering the great American experiment—Capitalism and Democracy. The story of how the dollar wins out over the commonweal, and how the unethical mentality pursues profit no matter social cost, has been told and retold by the great visionary novelists, like Upton Sinclair in *The Jungle*, Frank Norris in *The Octopus*, Theodore Dreiser in *The Financier*, Edith Wharton in *The Custom of the Country*—all written in the early 20th century and all tragedies. Will we in the 21st century write a new ending? Capitalism, powered by self-interest—of the financier, entrepreneur, worker alike—is no doubt the most productive economic system yet devised. The problem has always been, as FDR noted, excessive self-interest. Can we now contain that excess?

With Wall Street failing again in that regard, we look for reform to the political sphere. In his time FDR, characterizing monopoly, speculation, and reckless banking as "the enemies of peace," harnessed the public's anger and, acting as its tribune, forced reform on Wall Street, famously declaring of the monied interests, "I welcome their hatred."

President Obama has chosen a less dramatic path—moral suasion—calling the outsized bonuses "shameful" and going several times to Wall Street to appeal for change. It may be that this chess master's method is first to try the carrot, and if that fails, the stick. Pragmatism, though unstirring, may yet be transformational; final verdicts, thick in the air, are far too premature. I do believe the former community organizer's ethic is with the community. But Main Street increasingly doubts Mr. Obama's closest economic advisors, formerly of Wall Street, and their allegiance to the public's interest. And many wonder why those responsible for the collapse aren't in jail.

In Congress, legislation to regulate the financial system inches its way forward. Perhaps Wall Street's lobbyists can be resisted, sufficient to produce real reform, parallel to the sausage-making process that looks likely to yield real reform in healthcare, despite the obstructions of health-industry lobbyists. Yet Main Street wonders (and I quote): "Why can't Congress just blow off the lobbyists—wasn't that the deal?"

Which is why economist James Galbraith calls this a "dangerous time": If the public doesn't see constructive change, they may take destructive action. For me, the great peril if President Obama and the Congress fail is this: If the net yield of all their efforts is little reform and Wall Street is left to carry on its irresponsible, unethical ways, the responsible and ethical citizen will have to wonder: *Why by responsible, why be ethical?*

And that would damage badly the commonweal—not that Wall Street cares, though it should.

In truth, however, legislative reform touches only behavior, not mentality. Not even FDR reformed the mentality of the moneyed interests. An ethical mentality is best activated when self-activated. Wall Street will reform its ethics when it sees it is in its self-interest.

So, instead of an appeal to principle, here is a prompt for the utility case for ethics: Unreformed, Wall Street could break, not just the commonweal, but the American brand. Unreformed, Wall Street could cause yet another global meltdown—and think what that would do for American business. Unreformed, the nation's counting-house could very well zero itself, and the nation, out.

Some further prompts: Titans, visualize yourself as "the Savior of Wall Street," learn probity, expand your horizons beyond the self to the nation. Board trustees, raise tougher questions about excessive risk and executive bonuses. (It amazes Main Street that apparently no board understands such bonuses might seem unseemly.) And trust-fund babies, read Sinclair, Norris, Dreiser, Wharton; read Balzac, who wrote that behind every great fortune lies a crime; and convene a family discussion on the topic, How much is enough? Rebel for a cause—the commonweal.

Only when Wall Street reforms itself, when it understands all of us—Main Street and Wall Street—are in the same boat together and vows not to capsize us again, can trust return to the system. Remember trust, the loss of which was lamented so ardently a year ago when the crash was crashing? In all the discussion about the present recovery, there's been no sighting yet of trust.

Trust, ethics, Main Street: Ultimately, they're too important to destroy.

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