Can Trust be Restored?

When the financial crisis exploded last fall and the Bush administration began to scramble with emergency moves to try to head off a downward spiral to a depression, a frequent comment from treasury officials and many economists alike went something like this: we must first try to stop the flow of blood and then we’ll try to correct the problems that caused the crisis. That meant shoring up banks and investment companies with huge infusions of public funds and guarantees, cutting interest rates rapidly, nearly nationalizing Fannie Mae and Freddie Mac, and more.

Yet, as the economy continues to deteriorate the question keeps coming up: what will it take to restore confidence so people will be willing to spend again as well as save and gain confidence that their investments are safe and that employment will recover? The answer to that question has not yet arrived and part of the reason is that the initial response of “stop the bleeding” has not proved satisfying. As Wolfgang Munchau writes, “Several hundred billion dollars later the financial sector is still in the same precarious position, as governments [around the world] are afraid of tackling the industry’s deeper structural problems” (Financial Times, 2/9/09). Many American businesspeople as well as ordinary citizens are not yet convinced that government’s emergency delivery of trillions of dollars will work. In part, that’s because they aren’t convinced that government will go to the roots of injustice that generated the crisis and may cause more problems in the future.

Let me put it more bluntly. People are not just angry about bankers’ big bonuses and auto company CEOs’ private jets; they are angry that they got taken by “the system”—by banks, by mortgage companies, by investment advisers, and by the government that aided and abetted and gave no warning of the coming collapse. As in a stagecoach robbery, writes Janet Tavakoli, “Wall Street bankers made off with the loot without firing a shot. They were enabled by Washington overseers and financial regulators who—when not beneficiaries of the good times—behaved like ostriches. Meanwhile, news of the fact that no one in the US has been brought to justice has not escaped notice” (Financial Times, 2/5/09). The authorities oversaw and even encouraged the increasing leveraging of debt until the whole country was overextended, leading to the crash. One of the biggest culprits, according to John Kay, was the “diversified financial conglomerates” created after Washington abolished the Glass-Steagall Act that separated commercial and investment banking. The conglomerates, says Kay, “are riddled with conflicts of interest” and their growth “served only the ambitions of the greedy men who ran them and the financial interests of traders, who were allowed to
play with sums of money that should never have come into their hands” (Financial Times, 2/11/09). With government having not yet done much to change the system and after several months of trying to prop up all kinds of financial services companies, the hole is getting deeper. Even two months ago, Niall Ferguson could write, the Fed itself “increasingly resembles a public hedge fund, leveraged at more than 50:1” (Financial Times, 12/19/08).

So how can we trust that government will ever get around to tackling “deeper structural problems” and restoring justice when, for now, it keeps working with the same institutions, the same corporate executives, and many of the same public officials that contributed to the economy’s downfall? Where is the justice in continuing to pour taxpayer money into banks that are weaker now than when the infusions began? Where is the justice in government giving aid to the relatively few who face immediate foreclosure on their homes but not helping those who are struggling but who are still keeping up with their mortgage payments? Where is the justice in helping big auto companies try to survive but not backing up trustworthy small businesses that are going broke? In anticipation of the G20 summit in London on April 2, French finance minister Christine Lagarde commented that “the US and UK were so focused on propping up their financial systems and reviving their economies that they no longer regarded bolstering supervisory standards . . . as a top priority” (Financial Times, 2/13/09). If the G20 doesn’t “lay down fresh regulations, she added, ‘we are curing the symptoms and not necessarily the illness itself.’”

There is clear evidence that the world is continuing to slide into an even deeper recession, and if part of the reason is that people have lost trust in “the system,” then continuing to apply bandages while putting off fundamental reforms may only aggravate the crisis rather than help to solve it.

What we are witnessing, I believe, is growing distrust of the American political and economic system, a distrust that arises from a profound, even if inarticulate, sense of injustice and lack of fairness. It is one thing to see a major company go bankrupt or a mismanaged bank go under. But it is quite another thing to see most of the parties in the system—banks, investment companies, the Security and Exchange Commission, multiple rating agencies, mortgage companies, and departments of government—all going haywire at the same time and not shooting straight with us.

If the president really wants to help restore confidence and not continue along the Bush administration’s path, he needs to recognize that his first priority should be to address the structural failures and injustices of the system, bringing to light the bad laws, faulty regulatory system, negligent oversight, and the errant patterns of finance and governance in order to correct them. He should announce very soon that henceforth, on a monthly basis, he will announce the steps he has taken and the steps that are still to be taken to make sure that openness, justice, and fairness will rule. If he does this, then people may begin to trust his administration’s short-term efforts as well. But only if first things come first can trust be restored.

James W. Skillen, President
Center for Public Justice