

Tuesday, September 30, 2008

## Blame both parties for bailout failure

Democrats and Republicans are still squabbling over who deserves the blame for the bailout plan's failure in the House. But commentator and economist Justin Wolfers says politicians from both parties took their eyes off the ball.

*TEXT OF COMMENTARY*

**KAI RYSSDAL:** If you happened to Google the words "bailout" and "blame" today, as I did just because I was curious, you got 2.4 million responses. That wasn't scientific enough for ABC News and The Washington Post. So they commissioned a poll on the topic last night. Who is to blame for the bailout plan going down. Forty-four percent said they hold Congressional Republicans responsible; 21 percent said the Democrats on the hill are to blame. Commentator and economist Justin Wolfers says politicians from both parties took their eye off the ball.



Justin Wolfers (Wharton School, Univ of Pennsylvania)

**JUSTIN WOLFERS:** Like you, I'm angry about the mess in our financial markets. I'm dismayed that Wall Street's incompetent, overpaid so-called Masters of the Universe have put us in such a tough spot.

But we can't let our anger blind us to the bigger picture. The financial system does something pretty amazing: It converts your savings into productive capital. It's a bridge between borrowers and lenders. When it works, it's a beautiful thing: Your savings are redirected to help young couples buy houses, entrepreneurs turn ideas into innovations and employers invest in their workers.

The "capital" in "capitalist" economies comes from financial markets. Sure, their inherent instability is their Achilles heel. Even so, modern finance has been a steady engine for job growth and higher incomes.

Today's problem is that the bridge between borrowers and lenders has washed away. Lenders won't lend, because they fear that borrowers cannot repay.

Think of the bailout as infrastructure investment. We need to rebuild that bridge.

The original Paulson plan was clearly imperfect. Fortunately, political horse-trading over the last week had gotten rid of its worst excesses. A good compromise leaves no-one happy, and by that metric, the revised plan is a success.

But there's an election in five weeks time, and our Congressional reps are more concerned with protecting their own jobs than with protecting yours. In fact, the single factor best explaining whether a rep voted against the bailout is whether he's in a close re-election race.

It's easy to oppose a policy, but true leadership requires constructive thinking. To those who oppose an unpopular measure, let's ask them a harder question: How would you resolve today's financial mess? Our two presidential candidates understand this dilemma, and despite some false starts, they're going to be part of the solution. We need Congress to be equally responsible.

Here's how to do it: Any policy called a bank bailout will fail. So let's call it what it is: an investment in our nation's economic infrastructure. And let's rebuild those broken bridges.

**KAI RYSSDAL:** Justin Wolfers is an associate professor at the Wharton School of Business.