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# Springtime for Bankers

By PAUL KRUGMAN

Last year the G.O.P. pulled off two spectacular examples of bait-and-switch campaigning. Medicare, where the same people who screamed about death panels are now trying to dismantle the whole program, was the most obvious. But the same thing happened with regard to financial reform.

As you may recall, Republicans ran hard against bank bailouts. Among other things, they managed to convince a plurality of voters that the deeply unpopular bailout legislation proposed and passed by the Bush administration was enacted on President Obama's watch.

And now they're doing everything they can to ensure that there will be even bigger bailouts in years to come.

What does it take to limit future bailouts? Declaring that we'll never do it again is no answer: when financial turmoil strikes, standing aside while banks fall like dominoes isn't an option. After all, that's what policy makers did in 1931, and the resulting banking crisis turned a mere recession into the Great Depression.

And let's not forget that markets went into free fall when the Bush administration let Lehman Brothers go into liquidation. Only quick action — including passage of the much-hated bailout — prevented a full replay of 1931.

So what's the solution? The answer is regulation that limits the frequency and size of financial crises, combined with rules that let the government strike a good deal when bailouts become necessary.

Remember, from the 1930s until the 1980s the United States managed to avoid large bailouts of financial institutions. The modern era of bailouts only began in the Reagan years, when politicians started dismantling 1930s-vintage regulation.

Moreover, regulation wasn't updated as the financial system evolved. The institutions that were rescued in 2008-9 weren't old-fashioned banks; they were complex financial empires, many of whose activities were effectively unregulated — and it was these unregulated

activities that brought the U.S. economy to its knees.

Worse yet, officials lacked clear authority to seize these failing empires the way the F.D.I.C. can seize a conventional bank when it goes bust. That's one reason the bailout looked so much like a giveaway: officials felt they lacked the legal tools to save the financial system without letting the people who created the crisis off the hook.

Last year Congressional Democrats enacted a financial reform bill that sought to close these gaps. The bill extended regulation in a number of ways: consumer protection, higher capital standards for major institutions, greater transparency for complex financial instruments. And it created new powers — “resolution authority” — to help officials drive a harder bargain in future crises.

There are many criticisms one can make of this legislation, which is arguably much too weak. And the Obama administration has frustrated many people with its too-lenient attitude toward Wall Street — exemplified by last week's decision to exempt foreign-exchange swaps, a major source of dislocation in 2008, from regulation.

But Republicans are trying to undermine the whole thing.

Back in February G.O.P. legislators admitted frankly that they were trying to cripple financial reform by cutting off funding. And the recent House budget proposal, which calls for privatizing and voucherizing Medicare, also calls for eliminating resolution authority, in effect setting things up so that the bankers will get as good a deal in the next crisis as they got in 2008.

Of course, that's not how Republicans put it. They claim that their goal is to “end the cycle of future bailouts,” under the general rubric of “ending corporate welfare.”

But as we've already seen, future bailouts will happen whatever today's politicians say — and they'll be bigger, more frequent and more expensive without effective regulation.

To see what's really going on, follow the money. Wall Street used to favor Democrats, perhaps because financiers tend to be liberal on social issues. But greed trumps gay rights, and financial industry contributions swung sharply toward the Republicans in the 2010 elections. Apparently Wall Street, unlike the voters, had no trouble divining the party's real intentions.

And one more thing: by standing in the way of regulations that would limit future financial crises, Republicans are giving further evidence that they don't really care about budget deficits.

For our current deficit is overwhelmingly the result of the 2008 financial crisis, which devastated revenue and increased the cost of programs like unemployment insurance. And while we managed to avoid large direct bailout costs (a fact not appreciated in public debate), we might not be lucky next time.

More and bigger crises; more and bigger bailouts; more and bigger deficits. If you like that prospect, you should love what the G.O.P. is doing to financial reform.