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**Op-Ed Columnist**

## **The Banks Are Not All Right**

By **PAUL KRUGMAN**

It was the best of times, it was the worst of times. O.K., maybe not literally the worst, but definitely bad. And the contrast between the immense good fortune of a few and the continuing suffering of all too many boded ill for the future.

I'm talking, of course, about the state of the banks.

The lucky few garnered most of the headlines, as many reacted with fury to the spectacle of Goldman Sachs making record profits and paying huge bonuses even as the rest of America, the victim of a slump made on Wall Street, continues to bleed jobs.

But it's not a simple case of flourishing banks versus ailing workers: banks that are actually in the business of lending, as opposed to trading, are still in trouble. Most notably, Citigroup and Bank of America, which silenced talk of nationalization earlier this year by claiming that they had returned to profitability, are now — you guessed it — back to reporting losses.

Ask the people at Goldman, and they'll tell you that it's nobody's business but their own how much they earn. But as one critic recently put it: "There is no financial institution that exists today that is not the direct or indirect beneficiary of trillions of dollars of taxpayer support for the financial system." Indeed: Goldman has made a lot of money in its trading operations, but

it was only able to stay in that game thanks to policies that put vast amounts of public money at risk, from the bailout of A.I.G. to the guarantees extended to many of Goldman's bonds.

So who was this thundering bank critic? None other than Lawrence Summers, the Obama administration's chief economist — and one of the architects of the administration's bank policy, which up until now has been to go easy on financial institutions and hope that they mend themselves.

Why the change in tone? Administration officials are furious at the way the financial industry, just months after receiving a gigantic taxpayer bailout, is lobbying fiercely against serious reform. But you have to wonder what they expected to happen. They followed a softly, softly policy, providing aid with few strings, back when all of Wall Street was on the ropes; this left them with very little leverage over firms like Goldman that are now, once again, making a lot of money.

But there's an even bigger problem: while the wheeler-dealer side of the financial industry, aka trading operations, is highly profitable again, the part of banking that really matters — lending, which fuels investment and job creation — is not. Key banks remain financially weak, and their weakness is hurting the economy as a whole.

You may recall that earlier this year there was a big debate about how to get the banks lending again. Some analysts, myself included, argued that at least some major banks needed a large injection of capital from taxpayers, and that the only way to do this was to temporarily nationalize the most troubled banks. The debate faded out, however, after Citigroup and Bank of America, the banking system's weakest links, announced surprise profits. All was well, we were told, now that the banks were profitable again.

**But a funny thing happened on the way back to a sound banking system: last week both Citi and BofA announced losses in the third quarter. What happened?**

**Part of the answer is that those earlier profits were in part a figment of the accountants' imaginations. More broadly, however, we're looking at payback from the real economy. In the first phase of the crisis, Main Street was punished for Wall Street's misdeeds; now broad economic distress, especially persistent high unemployment, is leading to big losses on mortgage loans and credit cards.**

**And here's the thing: The continuing weakness of many banks is helping to perpetuate that economic distress. Banks remain reluctant to lend, and tight credit, especially for small businesses, stands in the way of the strong recovery we need.**

**So now what? Mr. Summers still insists that the administration did the right thing: more government provision of capital, he says, would not "have been an availing strategy for solving problems." Whatever. In any case, as a political matter the moment for radical action on banks has clearly passed.**

**The main thing for the time being is probably to do as much as possible to support job growth. With luck, this will produce a virtuous circle in which an improving economy strengthens the banks, which then become more willing to lend.**

**Beyond that, we desperately need to pass effective financial reform. For if we don't, bankers will soon be taking even bigger risks than they did in the run-up to this crisis. After all, the lesson from the last few months has been very clear: When bankers gamble with other people's money, it's heads they win, tails the rest of us lose.**

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