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In Defense of Bankers

One obvious point being lost: the vast majority of toilers in the financial vineyards had nothing to do with the meltdown.

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Not long ago, American culture abhorred lawyers, mistrusted journalists and envied bankers. Today we ignore lawyers, pity journalists and despise those who are connected to Wall Street—for undermining their own companies, trashing the global economy and being insanely overpaid. Public sentiment has judged the lot of them guilty as hell and sentenced them indefinitely to a mid-six-figure stockade.

This reaction is understandable, but hardly rational. While our financial system as a whole has been revealed to be deeply flawed, most bankers deserve the new loathing no more than they did the old fawning.

One obvious point is being lost in the rush to flagellate Wall Street: the vast majority of toilers in the financial vineyards had nothing to do with the meltdown. Most are themselves victims of poor judgments they didn't make, didn't know about—and would not have understood if they *had* known about them. The current crisis came about through a toxic cocktail of reckless lending into a government-subsidized real-estate bubble and misjudgments about the risk of complex financial instruments. There were other factors, too. But only a small fraction of people employed on Wall Street worked in areas connected to the big failures. Even within the units that helped to blow up big firms, the damage was done by a minority within the minority.

As an illustration, take the insurance behemoth AIG, which was saved from extinction by an \$85 billion government credit line and is now effectively nationalized. On his TV program "Mad Money," Jim Cramer said of AIG's employees (before later apologizing): "We should hound them in the supermarket. We should hound them in the ballpark. We should hound them everywhere they are. We should make fun of them and we should point fingers at them and we should tell them that you have no shame."

If you want to turn purple with rage at the people who wrecked your retirement, you might start with Cramer himself, the most prolific dispenser of bad advice to the investing public. But if you're looking at someone in the securities industry, you'd be justified in directing your anger at Joseph Cassano, who ran the London-based AIG Financial Products subsidiary. This 377-employee unit issued \$500 billion in credit default swaps. Losses on these once wildly profitable instruments undermined AIG's credit rating and thereby threatened the global financial system so seriously that the Fed had to step in. But even if you assume that every one of those 377 employees in that London office—the receptionists, the HR specialists, the IT guys—share Cassano's responsibility for downing AIG (and throw in the firm's top management and board of directors to boot), you're talking about less than 1 percent of the firm's 116,000 employees spread among 130 countries.

A week after the bailout, Congress caught wind of AIG's spending \$440,000 on a retreat for top insurance agents and reacted as if Bernie Madoff were throwing a ball for Charles Ponzi at Versailles. But as AIG executives not unreasonably pointed out, their ordinary insurance

business was profitable, and the people who were making the money for them had no connection to the derivatives madness in London. If the company is going to return to profitability, it's going to have to carry on with its normal business. Like it or not, that business rewards successful salespeople in ways that most jobs do not.

The same point goes for bonuses and salaries. On the larger point, that the gap between executive pay and the pay of working people is a moral scandal, President Obama is surely correct. Financial firms have failed in part because they rewarded people in ways that encouraged them to serve their own interests at the expense of shareholders. Moreover, grotesque rewards for banking jobs are themselves an illustration of how the market can misallocate resources, sending too many intelligent people away from more economically productive (and stimulating and fulfilling) pursuits. But even under a different system, we will need an energetic and creative financial class. Shooting the wounded now won't help us get one back.

The current peasant revolt blurs indignation at the underlying inequities with the search for culprits in the catastrophe. Let's say you work for a bank in the more prosaic areas of consumer banking, corporate underwriting or trading. You worked hard, managed risk effectively and earned money for your firm—which was wiped out by losses in esoteric forms of finance. It may be reasonable to deny you a bonus, but it's malicious to suggest you deserve a scarlet letter. Government-mandated salary caps risk institutionalizing failure; creating new, perverse incentives; and deterring talent when it is most needed. A CEO who can turn around Citigroup—which could save tens of billions in taxpayer funds—is worth a lot more than \$500,000.

If punishing all for the sins of a few is unfair, it is also likely to prove counter-productive. The economy will grow again only with a revival of what Keynes called the "animal spirits" of financiers and capitalists. Bankers have to be willing to lend money and take risks again. If we want them back in the game, we'd best not humiliate them at the supermarket.

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