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Wall Street's Just Deserts

By Harold Meyerson
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At the risk of speaking ill of the dead, what good was Lehman Brothers, anyway? And if Merrill Lynch was so bullish on America, why is it that, despite the torrent of foreign investment that flowed in to Lehman, Merrill and their Wall Street peers over the past half-decade, so few jobs were created in America during that period of "recovery"?

During the late, lamented Wall Street boom, America's leading investment institutions were plenty bullish on China's economy, on exotic financial devices built atop millions of bad loans, and, above all -- judging by the unprecedented amount of wealth they showered on the Street -- on themselves. The last thing our financial community was bullish on was America -- that is, the America where the vast majority of Americans live and work.

Over the past eight years, the U.S. economy has created just 5 million new jobs, a number that is falling daily. The median income of American households has declined. Airports, bridges and roads are decaying. Rural wind-power facilities cannot light cities because our electrical grid has not been expanded. New Orleans has not been rebuilt. And as productive activity within the United States has ceased to be the prime target of investment, household consumption -- more commonly known as shopping -- has come to comprise more than 70 percent of our economy.

The banks' underinvestment in America was hardly due to a lack of capital. But even as petrodollars and China's dollars poured into Wall Street, the investment houses directed trillions into new and ever more dubious credit instruments, which yielded massive profits for Wall Streeters and their highflying investors, and put chump change into efforts to improve, to take just one example, American transportation.

It was not ever thus on Wall Street. In the late 19th and early 20th centuries, bankers such as August Belmont and J.P. Morgan invested European capital in American railroads and steel. Moreover, by the 1830s, a major political party, the Whigs, had arisen on a platform of "internal improvements" -- fast-forwarding the nation's development through a public commitment to building roads, rails and canals. Their successor party, the Republicans, continued these commitments, as Lincoln's support for the transcontinental railroad and land-grant colleges makes clear.

By the mid-20th century, the behemoths of American manufacturing reinvested their own resources to meet most of their capital needs, while New Deal-era and subsequent administrations (including that of Republican Dwight Eisenhower) invested heavily in the nation's infrastructure. Wall Street played a diminished role during the golden years of mass American prosperity but came roaring back beginning with the financial deregulation of the Reagan era.

Finance set the terms of corporate behavior over the past quarter-century, and not in ways that bolstered the economy. By its actions -- elevating shareholder value over the interests of other corporate stakeholders, focusing on short-term investments rather than patient capital, pressuring corporations to offshore jobs and cut wages and benefits -- Wall Street plainly preferred to fund production abroad and consumption at home.

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The internal investment strategy of 100 years ago was turned on its head. Where Morgan once funneled European capital into American production, for the past decade Morgan's successors have directed Asian capital into devices to enable Americans to take on more debt to buy Asian products.

Worse yet, as Wall Street turned its back on America, so did government. The Bush administration and congressional Republicans (John McCain among them) kept American incomes low by opposing hikes in the minimum wage; helping employers defeat unionization; and shunning policies to modernize infrastructure, make college more affordable, and boost spending on basic science and research.

Today, it's the Democrats who sound like Lincoln's Republicans. In recent months, the Obama campaign and liberal think tanks in particular have generated numerous proposals for heightened public commitment to infrastructure and education. Unlike tax cuts, which chiefly bolster our ability to consume imported goods and commodities, infrastructure investments make us more productive and have a multiplier effect that creates more jobs over and above those that the government funds directly. Congressional Democrats have included major infrastructure investments in their pending new stimulus bill, which Bush and GOP leaders oppose.

Someone needs to invest in the United States of America. For the past decade and, in a broader sense, for the entire duration of the Reagan era, both government and Wall Street have opted not to. Should Barack Obama win, the era of neglectful government will probably come to an end. No matter who wins, Wall Street is vanishing before our eyes. And by the measure of their contribution to America's economic strength and well being, both Reagan-age government and Wall Street's investment banks plainly deserve to die.

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