

—trumpeted on the editorial pages of *The Wall Street Journal* and on the floor of Congress.

From this confluence of campaign finance, personal connections, and ideology there flowed, in just the past decade, a river of deregulatory policies that is, in hindsight, astonishing:

- insistence on free movement of capital across borders;
- the repeal of Depression-era regulations separating commercial and investment banking;
- a congressional ban on the regulation of credit-default swaps;
- major increases in the amount of leverage allowed to investment banks;
- a light (dare I say *invisible*?) hand at the Securities and Exchange Commission in its regulatory enforcement;
- an international agreement to allow banks to measure their own riskiness;
- and an intentional failure to update regulations so as to keep up with the tremendous pace of financial innovation.

The mood that accompanied these measures in Washington seemed to swing between nonchalance and outright celebration: finance unleashed, it was thought, would continue to propel the economy to greater heights.

AMERICA'S OLIGARCHS AND THE FINANCIAL CRISIS

The oligarchy and the government policies that aided it did not alone cause the financial crisis that exploded last year. Many other factors contributed, including excessive borrowing by households and lax lending standards out on the fringes of the financial world. But major commercial and investment banks—and the hedge funds that ran alongside them—were the big beneficiaries of the twin housing and equity-market bubbles of this decade, their profits fed by an ever-increasing volume of transactions founded on a relatively small base of actual physical assets. Each time a loan was sold, packaged, securitized, and resold, banks took their transaction fees, and the hedge funds buying those securities reaped ever-larger fees as their holdings grew.

Because everyone was getting richer, and the health of the national economy depended so heavily on growth in real estate and finance, no one in Washington had any incentive to question what was going on. Instead, Fed Chairman Greenspan and President Bush insisted metronomically that the economy was fundamentally sound and that the tremendous growth in complex securities and credit-default swaps was evidence of a healthy economy where risk was distributed safely.

In the summer of 2007, signs of strain started appearing. The boom had produced so much debt that even a small economic stumble could cause major problems, and rising delinquencies in subprime mortgages proved the stumbling block. Ever since, the financial sector and the federal government have been behaving exactly the way one would expect them to, in light of past emerging-market crises.

By now, the princes of the financial world have of course been stripped naked as leaders and strategists—at least in the eyes of most Americans. But as the months have rolled by, financial elites have continued to assume that their position as the economy's favored children is safe, despite the wreckage they have caused.