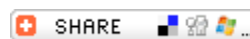




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Timothy P. Carney: Republicans pick Wall Street over free markets

By: [Timothy P. Carney](#)
Examiner Columnist
April 30, 2010

Republican leaders have proven the Democrats right: The GOP's teeth gnashing about "permanent bailouts" was cynical populist showmanship -- and Republicans can't pull off that act as well as President Obama.

By proposing a financial reform bill that is mostly identical to the one proposed by Sen. Chris Dodd, D-Conn., Republicans have passed up an opportunity to simultaneously appeal to their base, by returning to their alleged principles of limited government, and appeal to much of the middle, by waging a populist battle against Wall Street's corporate-welfare queens who panhandle on Capitol Hill.

Republicans favoring limited government over a "pro-Wall Street" policy would have been out of character, to be sure, but events were conspiring to make such a free-market populist stance possible. For one thing, the bankers had already abandoned the GOP.

Wall Street was even longer on the Democrats in 2008 and 2009 than it had been on mortgage-backed securities in 2005 and 2006. You wouldn't know this reading most newspapers, but Obama raised more money from Wall Street than any candidate in history, and more money from Goldman Sachs than every Republican running for president, House, and Senate, combined.

Wall Street gave 60 percent of its money in 2009 to Democrats according to the Center for Responsive Politics -- the most one-sided figure since the center began keeping records. The bankers had climbed into bed with Obama, Dodd, and Charles Schumer. Instead of showing some self-respect and walking out on them, Republicans are begging the bankers to come back.

Maybe Republicans bought into the myth -- useful for big government liberals such as Obama and repeated unceasingly by lazy journalists -- that Wall Street is the beating heart of the free market.

The bailouts of 2008 should have demolished that myth, but bailouts aren't the only way Wall Street depends on big government -- which brings us to the sort of financial reform Republicans should have proposed. Call it "letting Wall Street fend for itself."

Arnold Kling, an economist associated with the free-market Cato Institute, has laid out his own ideal financial reform, and anyone who believes in free markets and wants to protect taxpayers from bailouts

should listen to Kling.

First, eliminate the corporate welfare that powered our current mess: Abolish Fannie Mae, Freddie Mac, and the Federal Housing Authority. Sunset the tax deduction for mortgage interest.

Next, get the government out the business of dictating capital requirements and thus declaring who is safe and unsafe -- leave that up to credit markets. As Kling puts it: "Put senior creditors in line to lose money a default. Let them discipline the risk-taking of financial institutions."

Then there's a not-quite free-market fix that Republicans should embrace because it's less intrusive than its alternatives and more likely to prevent future bailouts: Break up the big banks. Right now, liberal Democrats are the only ones talking about breaking up the banks, but conservative Republicans should join them.

Kling argues that big banks inherently have too much political power, and that they will inevitably use that power to guarantee bailouts. I'll add that a blunt "dumb" measure like size is not as prone to financial and political gaming as the "smarter" plans that rely on regulators and politicians deciding what's best for us.

Republicans could go further, though. Why should the Federal Reserve have a "discount window" that lends to banks? Why not end the Troubled Asset Relief Program and claw back outstanding TARP money? Let's look for a real way to end bailouts -- it might take a constitutional amendment.

Republican fealty to Wall Street probably isn't mostly about campaign cash -- it's a lack of imagination. Wall Street is profitable and it has driven economic growth. So most Republicans conclude Wall Street should be preserved.

But we've let the steel industry nearly die in the name of free markets. Buggy-whip makers were a legitimate industry, but we didn't save them. Maybe Wall Street's heyday has come and gone.

Republicans have a choice today: free-market populism or pinstripe protectionism.

Timothy P. Carney is the Washington Examiner's lobbying editor. His K Street column appears on Wednesdays.

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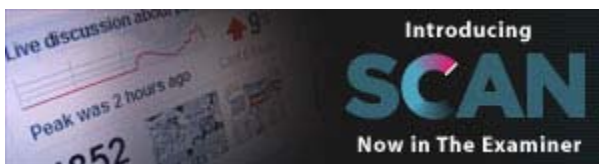
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