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The Debate over “Nationalization” as a “Solution” to the Financial Crisis

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“… the word “nationalization” scares the hell out of people. And so the debate has been opened up now, and that’s good. Let’s talk about it.” Rep. Maxine Waters (D-California)

As Wall Street deludes itself into thinking that the economy has finally “turned the corner,” the more intelligent economists continue sounding the alarm bells, pleading for a fundamental change in government policy to avoid a devastating, systemic collapse.

These “radical” economists are not what you might expect. They are well connected members of the political establishment, having worked in some cases for the International Monetary Fund (I.M.F.), Harvard, The New York Times, the Federal Reserve, etc.

As the economic crisis emerged, a few establishment notables came out strongly in favor for nationalizing the troubled banks, a sentiment now shared by many as the crisis deepens. To date, this thinking has not found a solid reflection in the policies of the Obama administration.

In fact, Obama, like his predecessor, has avoided “real” nationalization like the plague, meaning, that even in cases where the government owns a controlling stake in a major institution — A.I.G. for instance — the old shareholders and management remain in their places, a practice now referred to as “de-facto nationalization.”

Obama’s failed strategy has funneled a never-ending amount of taxpayer money — with little or no strings attached — to financial institutions in the hopes that everything will work out in the end. This utterly ineffective approach is forcing establishment thinkers to say things out loud which were previously uttered in private cigar rooms. The most notable establishment opposition to Obama’s plan is Nobel Prize winning economist Paul Krugman, quoted here in Newsweek:

“It’s as if the president were determined to confirm the growing perception that he and his economic team are out of touch, that their economic vision is clouded by excessively close ties to Wall Street.” (March 28, 2009)

In the same article we read: “Krugman portrays Treasury Secretary Tim Geithner and other top officials as, in effect, tools of Wall Street.”

Krugman is not alone. Simon Johnson, former chief economist for the I.M.F., wrote a scathing article in the May edition of The Atlantic, called The Quiet Coup. In it he compares the current economic situation in the U.S. to the destroyed economies he helped “restructure” while at the I.M.F. Thus, he claims, the U.S. economy is in need of serious measures:

“If you hid the name of the country [the U.S.] and just showed them the numbers, there is no doubt what old I.M.F. hands would say: nationalize troubled banks and break them up as necessary.”

What Krugman, Johnson, and the rest of the establishment “oppositionists” worry most about is that, under the Obama plan, the banking system will continue to receive life support while nothing is done to address the fundamental weakness of the banks, leaving open the possibility that things may get worse. Johnson explains:

“The Treasury is trying to negotiate bailouts bank by bank, and behaving as if the banks hold all the cards — contorting the terms of each deal to minimize government ownership while forswearing government influence over bank strategy or operations. Under these conditions, cleaning up bank balance sheets is impossible…only decisive government action — exposing the full extent of the financial rot and restoring some set of banks to publicly verifiable health — can cure the financial sector as a whole.”

Shockingly, Johnson goes even further, into linguistic territory rarely ventured by the establishment thinker:

“The second problem the U.S. faces — the power of the oligarchy — is just as important as the immediate crisis of lending. And the advice from the I.M.F. on this front would again be simple: break the oligarchy.”

Johnson details in length the rising power of the U.S. financial oligarchy, showing how they eventually monopolized political power. He concludes that, if any progress is to be made towards an economic recovery, this group must be “broken.”

However, Johnson quickly re-establishes his establishment roots by paraphrasing deceased economist Joseph Schumpeter: “Everyone has elites; the important thing is to change them from time to time.”

This “solution” inspires no one, minus Johnson’s colleagues.

Another un-inspiring idea shared unanimously by the oppositionists is the notion that, once a troubled bank is nationalized, it must quickly be resold to the private investor, where it will be put back to use making private profit.

But even this drastic yet now-popular idea comes with hidden risks, elaborated here by David Sanger in The New York Times:

“…Mr. Obama’s advisers say they are acutely aware that if the government is perceived as running the banks, the administration would come under enormous political pressure to halt foreclosures or lend money to ailing projects in cities or states with powerful constituencies…” (January 25, 2009)

In essence, this means that if the taxpayer owns the banks, they might demand that the banks be put to their use.

There are in fact two types of nationalizations. The first is the above mentioned tactic advocated by the establishment: the temporary seizure of failed institutions, a quick restructuring, and immediate sell-off to private investors. This is viewed as an extreme but necessary measure to keep the status-quo (capitalism) in place; otherwise members of the establishment would never recommend such an action be taken.

The second type of nationalization is what the establishment equates with Armageddon: the state seizing control over key institutions and running them to the benefit of the majority of the population. Of course, such a nationalization would likely never occur under the kind of state structure that is currently in place. It could only happen as the result of a mass movement demanding its implementation.

Such an action would be the first step towards laying the foundation for a real and lasting social change. Society cannot produce for human needs if financial institutions and industry are owned by tiny groups only interested in accumulating wealth and chasing profit, which is exactly what precipitated the current devastating economic crisis.

Also, most people are not interested in "breaking" a particular oligarchy, but all oligarchies, since the very existence of such a group implies a deep social disease.

It is to everyone's benefit that the establishment has opened the debate over nationalization. But nationalization itself must benefit more than a tiny group of rich investors. Hidden in the debate is the potential to change the world for the better.

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