

latimes.com/news/opinion/la-ed-lehman15-2009sep15,0,4441499.story

latimes.com

Editorial

A rebuilt Wall Street

Taxpayer money -- lots of it -- saved Wall Street. Now it's time for the government to rethink its roll.

September 15, 2009

When Lehman Bros. collapsed in bankruptcy a year ago, many bailout-weary observers ([including this page](#)) welcomed the unhappy ending for one of Wall Street's most powerful firms. It was a good reminder for the financial industry that the government wouldn't mop up after every messy mistake -- especially in light of Washington's frantic efforts to help Bear Stearns, Merrill Lynch, Fannie Mae and Freddie Mac. As it turned out, however, the reaction to Lehman's default was well-nigh apocalyptic.

The global financial industry went into seizure, with [credit evaporating, stock markets plummeting](#) and depositors fleeing even [low-risk money-market funds](#). Washington responded with a series of even larger governmental interventions in the economy, including the \$700-billion Troubled Asset Relief Program. It's hard to measure how much those actions helped, just as it's hard to deny that things would have been considerably worse had Congress, the Treasury Department and the Federal Reserve not gone to extraordinary lengths to restore the credit markets. One thing is certain, though: By acting as Wall Street's backstop, the federal government has dangerously blurred the lines between the public and private sectors. It has to make them clear again.

The taxpayers continue to hold sizable interests in banks (including behemoths Citibank and Bank of America), Fannie Mae, Freddie Mac, American International Group and GMAC (not to mention General Motors and Chrysler). They're also on the hook for [hundreds of billions of dollars](#) in potential losses at troubled financial institutions whose investments were guaranteed by Washington. Some of the aid programs are due to expire soon, but the liabilities Washington has taken on will linger long after the feds stop offering loans or making new guarantees.

Now that the economy appears to be rebounding, it's time for the administration and the Federal Reserve to lay out a strategy for pulling the government out of the financial industry. President Obama observed the anniversary of Wall Street's meltdown Monday by [focusing on something else](#): his administration's proposal for [new banking rules](#) to guard against the risks posed by companies as large and interconnected as Lehman. [We agree](#) that Congress should toughen the safeguards against banks, investment firms and insurance companies threatening the entire economy. But the administration should also leave no doubt that as regulators increase their scrutiny, the government will decrease its presence on the financial industry's balance sheets.



Copyright © 2009, [The Los Angeles Times](#)