Wise man or wiseguy?

by the St. Louis Post-Dispatch

As the nation looks back nostalgically on the economic boom years of the 1990s, no one is remembered more fondly than Robert E. Rubin.

As President Bill Clinton's economic policy adviser and as treasury secretary, Rubin had - and still has - rock star status on Wall Street. He was one of them, the co-chairman of Goldman, Sachs before he went to Washington. Tall, smart and unflappable, he played a key role in defusing huge world economic crises - including the near financial collapse of Mexico and major disruptions in the Russian, Asian and Latin American financial markets.

In matters economic, he was Clinton's brain. The president called him "the greatest secretary of the Treasury since Alexander Hamilton."

If that's the case, now that the economy has gone south, it's fair to wonder why such a financial genius didn't notice the arrogant neglect of credit markets by federal regulators and the suicidal greed of Wall Street investors in the home mortgage lending market.

In late March, with his customary confidence, Rubin, now a director and chairman of the executive committee of Citigroup, told National Public Radio:

"There were a goodly number of observers who felt over the last three, four, five years that excesses may well have been developing in the financial markets .... But I don't know of anybody who foresaw the combination of circumstances that has occurred here."

Rubin repeated this more recently to The New York Times, saying, "Clearly, there were things wrong. But I don't know of anyone who foresaw a perfect storm, and that's what we've had here."

The claim is not credible.

Rubin's successor as treasury secretary, Lawrence Summers, convened a joint task force with the Department of Housing and Urban Development in 2000 to investigate the subprime mortgage market. It focused on the lending market's abuse of consumers. But it also clearly delineated the recklessness in underwriting practices that characterize the current catastrophe. Specifically, the Treasury-HUD task force observed that "the three most costly depository institution failures of 1999 (with loss rates over 50 percent) all involved subprime lending to some degree" and that subprime lenders "constitute one percent of FDIC-insured institutions, but make up some 21 percent of problem institutions."

The task force discussed how federal regulators were flying blind when it came to subprime mortgages and failed to require the routine disclosure of data that would have revealed the lending practices that caused the foreclosure epidemic and credit collapse.

While nobody foresaw the precise chain of events that produced the current crisis, the stench from Wall Street has been burning people's eyes since before Rubin's departure from Washington.

The financial services industry appears to have learned little from the tens of billions of dollars (and counting) that it has lost. It appears to care less about the human misery it has caused. For more than a decade, it has used all of its lobbying might to resist the kinds of reforms that would have prevented the credit debacle - and continues to do so.

Rubin's sketchy memory gives them comfort. He makes it seem that what happened was a fluke. The reality is that Rubin should have known. He could have helped prevent the current crisis.

Whatever he knew, he knows better now - and rather than making excuses, he should throw his considerable influence behind tough regulatory reforms that will prevent future financial recklessness.

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