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America the Tarnished

By [PAUL KRUGMAN](#)

Ten years ago the cover of Time magazine featured Robert Rubin, then Treasury secretary, Alan Greenspan, then chairman of the Federal Reserve, and Lawrence Summers, then deputy Treasury secretary. Time dubbed the three “the committee to save the world,” crediting them with leading the global financial system through a crisis that seemed terrifying at the time, although it was a small blip compared with what we’re going through now.

All the men on that cover were Americans, but nobody considered that odd. After all, in 1999 the United States was the unquestioned leader of the global crisis response. That leadership role was only partly based on American wealth; it also, to an important degree, reflected America’s stature as a role model. The United States, everyone thought, was the country that knew how to do finance right.

How times have changed.

Never mind the fact that two members of the committee have since succumbed to the magazine cover curse, the plunge in reputation that so often follows lionization in the media. (Mr. Summers, now the head of the National Economic Council, is still going strong.) Far more important is the extent to which our claims of financial soundness — claims often invoked as we lectured other countries on the need to change their ways — have proved hollow.

Indeed, these days America is looking like the Bernie Madoff of economies: for many years it was held in respect, even awe, but it turns out to have been a fraud all along.

It’s painful now to read a lecture that Mr. Summers gave in early 2000, as the economic crisis of the 1990s was winding down. Discussing the causes of that crisis, Mr. Summers pointed to things that the crisis countries lacked — and that, by implication, the United States had. These things included “well-capitalized and supervised banks” and reliable, transparent corporate accounting. Oh well.

One of the analysts Mr. Summers cited in that lecture, by the way, was the economist Simon Johnson. In an article in the current issue of *The Atlantic*, Mr. Johnson, who served as the chief economist at the I.M.F. and is now a professor at M.I.T., declares that America’s current difficulties are “shockingly reminiscent” of crises in places like Russia and Argentina — including the key role played by crony capitalists.

In America as in the third world, he writes, “elite business interests — financiers, in the case of the U.S. — played a central role in creating the crisis, making ever-larger gambles, with the implicit backing of the government, until the inevitable collapse. More alarming, they are now using their influence to prevent precisely the sorts of reforms that are needed, and fast, to pull the economy out of its nosedive.”

It’s no wonder, then, that an article in yesterday’s *Times* about the response President Obama will receive in Europe was titled “English-Speaking Capitalism on Trial.”

Now, in fairness we have to say that the United States was far from being the only nation in which banks ran wild. Many European leaders are still in denial about the continent’s economic and financial troubles,

which arguably run as deep as our own — although their nations' much stronger social safety nets mean that we're likely to experience far more human suffering. Still, it's a fact that the crisis has cost America much of its credibility, and with it much of its ability to lead.

And that's a very bad thing.

Like many other economists, I've been revisiting the Great Depression, looking for lessons that might help us avoid a repeat performance. And one thing that stands out from the history of the early 1930s is the extent to which the world's response to crisis was crippled by the inability of the world's major economies to cooperate.

The details of our current crisis are very different, but the need for cooperation is no less. President Obama got it exactly right last week when he declared: "All of us are going to have to take steps in order to lift the economy. We don't want a situation in which some countries are making extraordinary efforts and other countries aren't."

Yet that is exactly the situation we're in. I don't believe that even America's economic efforts are adequate, but they're far more than most other wealthy countries have been willing to undertake. And by rights this week's G-20 summit ought to be an occasion for Mr. Obama to chide and chivy European leaders, in particular, into pulling their weight.

But these days foreign leaders are in no mood to be lectured by American officials, even when — as in this case — the Americans are right.

The financial crisis has had many costs. And one of those costs is the damage to America's reputation, an asset we've lost just when we, and the world, need it most.

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