

# McCain's Choice

Is there a third way?

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The McCain campaign is now trying to broker a deal between House Republicans, Treasury Secretary Paulson, and the Democrats. This will be tough--but it's worth a shot.

If it works, fine. If it fails, McCain will have, I think, three alternative paths:

1. Support Bush/Paulson/the Democrats. The rationale would be that the emergency is grave, the markets require action, and this is the only legislation that can pass. This is where most observers expect McCain to end up, it may well be where he has to end up, and it may be the right place to end up--IF the emergency is so grave and IF this is the only alternative that can pass. McCain could still stipulate he'll improve the plan when he becomes president, that Bush and the Democrats messed this up, etc., etc. This outcome becomes likely if the markets start to meltdown today. It's not particularly attractive substantively or politically, but....

2. Support House Republicans. Very dicey, obviously. For one thing, I'm not sure that their plan of letting banks buy insurance on mortgages they've written makes sense--isn't that in effect a buy back at par? But it's also politically risky: If the bailout legislation passes over McCain's (and House Republicans') opposition, and the markets (in the short term at least) like it, McCain hasn't been part of the solution. If nothing passes, McCain can be blamed--which isn't necessarily so bad if the markets don't melt down, but if they do....

3. Improve on both Paulson and House Republicans with a new offer. This, based on my admittedly imperfect understanding of all this (but McCain has access to people with really good understanding), might be a combination of Larry Lindsey's refinance-home-owners proposal and Lucian Bebchuk's (and others') proposal for direct bank recapitalization through Treasury security purchases and right offerings to shareholders. Introducing a new alternative at the eleventh hour might seem pretty bold and risky, but a) it's probably better policy than what's on the table now, b) who's to say it couldn't get a lot of support quickly, and c) there's something attractive about opposing Henry Paulson and Barney Frank at once (sort of like opposing both Donald Rumsfeld and Harry Reid on Iraq a couple of years ago), and proposing a better course. It might be worth at least trying this alternative today, rather than focusing exclusively on trying to broker a deal between warring parties both of whose ideas aren't great, or having to default to options 1 or 2.