Gordon does Good

Has Gordon Brown, the British prime minister, saved the world financial system?

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A selection of front pages of British newspapers is pictured in London on October 13, 2008. Britain's government is to invest up to 37 billion pounds (47 billion euros, 64 billion US dollars) in ailing British banks Royal Bank of Scotland (RBS), HBoS and Lloyds TSB. Photo: AFP

O.K., the question is premature -- we still don't know the exact shape of the planned financial rescues in Europe or for that matter the United States, let alone whether they'll really work. What we do know, however, is that Mr. Brown and Alistair Darling, the chancellor of the Exchequer (equivalent to our Treasury secretary), have defined the character of the worldwide rescue effort, with other wealthy nations playing catch-up.

This is an unexpected turn of events. The British government is, after all, very much a junior partner when it comes to world economic affairs. It's true that London is one of the world's great financial centres, but the British economy is far smaller than the U.S. economy, and the Bank of England doesn't have anything like the influence either of the Federal Reserve or of the European Central Bank. So you don't expect to see Britain playing a leadership role.

But the Brown government has shown itself willing to think clearly about the financial crisis, and act quickly on its conclusions. And this combination of clarity and decisiveness hasn't been matched by any other Western government, least of all our own.

What is the nature of the crisis? The details can be insanely complex, but the basics are fairly simple. The bursting of the housing bubble has led to large losses for anyone who bought assets backed by mortgage payments; these losses have left many financial institutions with too much debt and too little capital to provide the credit the economy needs; troubled financial institutions have tried to meet their debts and increase their capital by selling assets, but this has driven asset prices down, reducing their capital even further.

What can be done to stem the crisis? Aid to homeowners, though desirable, can't prevent large losses on bad loans, and in any case will take effect too slowly to help in the current panic. The natural thing to do, then and the solution adopted in many previous financial crises is to