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United States

Barack Obama: The change that didn't happen

- IV Online magazine - 2011 - IV439 - August 2011 -

Publication date: Thursday 4 August 2011

With the announcement of the candidacy of Barack Obama for President of the United States in 2012, the campaign trail has officially started. Contrary to what one might have expected two years ago, Obama faces a tough re-election challenge. Furthermore, a victory does not seem guaranteed. Despite the stabilization of the financial system, achieved through a massive handout of public resources without any type of restrictions to the same people responsible for generating the crisis, the real economy is still awaiting the arrival of a true economic recovery.

While 89% of the benefits of economic growth in the United States during the Obama administration have gone to the corporate sector, ordinary citizens continue to face a harsh situation characterized by high levels of unemployment, a reduction of income as well as record numbers of foreclosures across the nation. It is precisely the inability of the administration to provide answers and solutions to the pressing problems of the population that calls into question its ability to win the election, despite having an advertisement budget of more than a billion dollars available for this purpose.

However, this situation is not surprising if we take into consideration the decisions Obama has made since 2008. A large proportion of the millions of voters who supported him were expecting for the new elected president to appoint a team of progressive economists which would promote a modern version of the New Deal. A large proportion of the millions of voters who supported him were expecting for the new elected president to appoint a team of progressive economists which would promote a modern version of the New Deal, with the objective of reforming capitalism and starting a new era of regulation of the economy. As it happened, reality was quite different. Obama instead decided to chose the most conservative economists close to the Democrats. Those responsible of promoting the de-regulation of the financial system under President Bill Clinton. When we stop and observe three emblematic names, the coherence of his choice is revealing.

The first of these advisers is Robert Rubin, Secretary of the Treasury from 1995 to 1999, and previously co-chair and co-CEO of Goldman Scahs (1990-92). [1] Upon arrival to the Treasury, Rubin was faced with the first major failure of the neoliberal model in the nineties, the Tequila Crisis in Mexico. Afterwards he strongly supported, along the IMF, the implementation of harsh austerity measures that aggravated the financial crisis experienced by South East Asia countries in 1997-1998, shortly followed by the crisis in Russia and Latin America. Rubin has never doubted the benefits of liberalization and decisively contributed to impose policies on developing countries that undermined the living conditions of its population and greatly increased inequality. In the United States, exerted its powerful influence to secure the repeal of the Glass Steagall Act, enacted in 1933.

This law, among other things, made emphasis in the incompatibility of deposit and investment banking, creating a clear cut division among the two activities. Once Glass Steagall was abolished, the door was open for all sorts of greedy rentiers eager for maximum profits regardless of the risk, which ended up creating the conditions for the recent economic crisis. To close the loop, the repeal of the Glass Steagall Act allowed the merger of Citicorp with Travelers Group to form the banking giant Citigroup.

In 2000, Robert Rubin joined the leadership of Citigroup, which the U.S. government had to bailout in November 2008, guaranteeing more than 300 billion dollars in assets! Its important to point out that the services provided by Rubin as chairman of Citigroup's executive committee were generously rewarded. According to the Financial Times, Rubin received over 118 million dollars in salary plus bonuses and stock between 1999 and 2008. [2] However, it was during his participation of the Board of Directors when Citigroup plunged into an increasingly risky financial policy that led to the fiasco which ended up costing the U.S. Treasury the astronomical sum of 45 billion dollars. [3]

The second adviser on stage is Lawrence Summers, who inherited the post of director of the National Economic Council at the White House during the first half of the Obama administration. However, his career includes a number of stains which should be permanent. In December 1991, while he was chief economist of the World Bank, Summers dared to write in a memo: "Countries with small populations in Africa have a very low pollution. Air quality is uselessly higher than in Los Angeles or Mexico. It is necessary to encourage the movement of polluting industries to the LDCs. There must be some degree of pollution in countries where wages are lower. I think the economic logic which dictates that toxic waste should be directed where wages are lower is inexorable. [...] The concern [about the toxic agents] will obviously be higher in a country where people live many years and therefore more likely get cancer, than in a country where infant mortality in children under 5 years old, is 200 per thousand." [4] With Summers in charge, the productivist capitalism would enjoy a splendid future.

Having been named Secretary of the Treasury under President Clinton in 1999, Summers put pressure on the World Bank president, James Wolfensohn, to get rid of Joseph Stiglitz who had succeeded him in the post of chief economist of the Bank. Stiglitz was very critical of neoliberal policies that Summers and Rubin pursued in all parts of the world where financial crisis took place.

After the arrival of George W. Bush, Summers continued his career by becoming president of Harvard University in 2001. He came back to the spotlight in February 2005, when he won the enmity of the entire university community after a discussion at the National Bureau of Economic Research (NBER). [5] Asking himself questions about the reasons why there are few women in prominent positions in science, Summers pointed out that women are less equipped than men for science, ruling out any other possible explanation such as social or family background or tendencies towards discrimination. This statement caused great controversy, both inside and outside the university. [6] Despite of apologizing for his remarks, the protests of a majority of teachers and students of Harvard forced him to resign in 2006.

His biography, which is available on the website of Harvard University at the time of his presidency, stated that he "led the effort implementation of most important financial deregulation of the past 60 years". You could not be clearer! Lawrence Summers resigned in September 2010 to his post in the National Economic Council at the White House.

The third adviser in question is Paul Volcker, who as chairman of the Federal Reserve dramatically increased interest rates in the United States in October of 1979. This interest rate hike became the main trigger of the public debt crisis in both South and the North of the planet, in the early 80's. [7]

The fourth adviser chosen by Obama, Timothy Geithner, has been named Secretary of the Treasury. Before his appointment in the cabinet, Geithner was the President of the New York Federal Reserve. He was deputy Secretary of the Treasury for International Relations between 1998 and 2001, working under the supervision of Rubin and Summers, and active in Brazil, Mexico, Indonesia, South Korea and Thailand. All these countries which suffered severe crisis during that period and became symbols of the disasters brought by neoliberalism.

The policies promoted by the aforementioned group of economists displaced the burden of the cost of the financial crisis upon the back of the population of the countries affected. Rubin and Summers are Geithner mentors. In February 2009, Geithner was about to lose his appointment because the press revealed that he had defrauded the Treasury by hiding a payment received from the IMF. The loss for the Treasury due to uncollected taxes amounted to 34.000 dollars. [8] Finally, to secure his nomination, Geithner repaid his debt to the Treasury. With Obama, Geithner continues to defend the major private financial institutions, deaf to the fundamental human rights, ridiculed in the U.S. and everywhere because of the economic policies he vehemently defends.

Barack Obama's decision was not trivial. He was in a position to change the terms of the policy discussion by appointing advisors with a Keynesian background. Economists like Joseph Stiglitz, Paul Krugman, Nouriel Roubini and James K. Galbraith were willing to take on this responsibility. Nevertheless, Obama chose some economists responsible for the deregulation of the financial sector in the 90âEurosÜs. In other words, friends or agents of Wall Street.

The economic policies that Barack Obama and his team enacted in 2009 are far from those proposed in 1933 by Franklin D. Roosevelt's in the first 100 days of his administration.

The Change That Was Not

Despite being elected on the premise of hope and change, 2 years in power have shown that Obama is more than happy to fulfill the role of a mere guardian of the status quo. Contrary to the expectations of certain sectors, the Obama administration stayed on the course set by the Bush administration in key issues on foreign and economic policy. The difference between the two governments has been then more a matter of style than substance.

The lack of concrete actions to address the social crisis that originated in the economic and financial collapse of 2008, have eroded the liberal base which initially supported the Obama administration. To date, 14.4 million families have lost their homes since the beginning of the crisis and about 25 million people are in a situation of unemployment or precarious employment. The policies implemented so far, have been designed to support and ensure the survival of financial institutions responsible for the economic crisis instead of addressing the urgent needs of a large segment of the U.S. population.

Given the composition of the Obama administration's economic team the path followed should not have represented any surprises. People directly responsible for the excesses of financial institutions in their capacity as regulators of the system, such as Timothy Geithner or Ben Bernanke, faced from the beginning serious conflicts of interest. Their interest rest squarely on concealing their responsibility rather than on promoting the implementation of measures aimed at overcoming the economic crisis. Losing sight of this element of individual responsibility, on political and legal terms, would prevent understanding how on the face of allegations of abuse by financial institutions in the eviction of families from their homes or speculation with the bailout funds provided by the government, The White House has defended the interests of Wall Street over and over again.

However, it is clear that the biggest capitulation to the financial sector was the Frank-Dodd Financial Reform Act. Missing on the opportunity to restrain the excesses of financial sector that was presented with the crisis, the Obama administration carried out the implementation of a reform that completely fails to impose controls on critical areas of operation of finance. Adopted in 2010, this law not only allows the use of dubious accounting practices which allow to hide losses in the balance sheets of financial institutions, but also strengthens the prerogatives of the institutions deemed "too big to fail". It also completely brushes aside the regulation of financial derivatives. It is this lenient attitude towards the financial sector by the Obama administration which allows to understand how not a single executive of the sector has been prosecuted for a financial collapse, that as early as 2004 the FBI had characterized as an epidemic of mortgage fraud.

On the face of this situation is not surprising that the American people has turned their backs to the Democratic Party in the Congress and Senate elections that were held in November 2010. With an ultra-conservative discourse, and taking advantage of the uncertainty and anxiety cause by the economic crisis, the Republican Party regained control of Congress and threatens to take control of the Senate in 2012. In response to the loss of Congress, Obama ordered some changes in its economic team, with the departure of prominent members, such as Lawrence Summers, Cristina Roehmer and Paul Volcker. However, the name of the replacements indicate that the changes are merely cosmetic in nature. These include Gene Sperling, another former Clinton administration advisor which strongly advocates in favor of tax cuts and William Daley, the former Mid-Western chair of JP Morgan, running the Chicago office.

Since taking control of the Congress in of November 2010, the Republicans have consistently blocked all of the initiatives brought forward by the Obama administration, taking full advantage of the control that the Congress has over the government budget and the debt ceiling. The Republican strategy of systematically blocking government efforts, thus decreasing the chances of its reelection, has reached its clearest expression with the ongoing battle to raise the Federal debt ceiling. A prerogative of the Congress of the United States, the debt ceiling sets a maximum amount of debt that can be issued by the Federal Government and was created as a mechanism to exercise control by the legislative branch of the government over the executive power. Historically, the increases of the debt ceiling have been carried out as an afterthought of the political process. However in the current situation, and as it was the case in 1995, the Republicans have used their control of Congress to force the government to make cuts in social spending at the risk of refusing to raise the debt limit. The 2nd of August, Obama gave in to their demands.

If we can learn from recent history, the most affected by cuts in public spendings will be the unemployed and poor of the American society, while bankers and speculators will continue to be protected by the Obama administration. This definitely was not the change that the American people had in mind when they voted for Obama in 2008.

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[1] The section on Robert Rubin, Lawrence Summers, Paul Volcker and Timothy Geithner has been written in collaboration with Damien Millet.

[2] "Mr. Rubin, who remained in the board of directors of Citigroup, had received more than 118 million dollars (80 million euros) in salary, bonus and base compensation since he joined the U.S. financial corporation in 1999 as executive committee chairman." Financial Times, August 26, 2008.

[3] The Treasury gave 45 billion to Citigroup in 2008. This is compounded by a government guarantee of their assets amounting to 306,000 million dollars. An unprecedented bailout to a private financial institution. See: http://www.nytimes.com/2009/01/04/opinion/04lewiseinhornb.html?pagewanted=print As a consequence of this "rescue" the American government is a shareholder of Citigroup (34%).

[4] Extracts have been published in The Economist, (8 February 1992) and in Financial Times (10 February, 1992) with the title "Preserve the planet from the economists."

[5] Financial Times, 26-27 February 2005.

[6] The controversy was also fueled by the disapproval of Summers remarks against Cornel West, a black and progressive university professor of Religion and African American Studies at Princeton University. Summers, pro-Zionist, denounced West as an anti-Semitic because of his support to the the students' action demanding a boycott of Israel while the Israeli government continues to refuse to acknowledge the rights of the Palestinians. See Financial Times, 26-27 February 2005. Currently Cornel West, who has enthusiastically supported Obama, was surprised that the president is surrounded by Summers and Rubin. See: www.democracynow.org/2008/11/19/cornel_west_on_the_election_of

[7] In the case of the debt crisis of developing countries that erupted in 1982, we must add a second trigger: the sharp fall in commodity prices which resulted in a drastic reduction in export earnings which governments use to pay public debt.

[8] See http://www.npr.org/templates/story/story.php?storyId=99319593 and http://www.npr.org/documents/2009/jan/geithner.pdf