

## The Road to Recovery

**Is Obamanomics a boon or a bane? A debate over the president's policies.**

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Whatever else they may do in office, presidents are largely judged—by the voters, if not historians—on their handling of the economy. So with unemployment edging into double digits, last week's Intelligence Squared US debate topic—"Obama's Economic Policies Are Working Effectively"—attracted the largest audience in the history of the series, and the closest margin of victory ever for one side. It also attracted some notable debaters, including New York's former governor Eliot Spitzer, who is reemerging into public life, 18 months after his resignation. Like many in the audience, Spitzer, who before his election as governor was known for investigating Wall Street banks as New York's attorney general, seemingly had a hard time making up his mind: just before the debate, he threw the organizers into turmoil by switching positions—to join, it turned out, the losing side.

The debaters for the motion were Lawrence Mishel, president of the Economic Policy Institute; Steve Rattner, former deputy chairman of Lazard Freres and the former head of the administration's auto-industry bailout; and Mark Zandi, chief economist of Moody's Economy.com.

Speaking against the motion were Spitzer; James K. Galbraith, an economist and professor of government at the University of Texas at Austin; and Allan H. Meltzer, professor of political economy at Carnegie Mellon.



Edited excerpts from the debate:

**Zandi:** The most important things [the government did] to shore up the financial system were the bank stress tests, early this year. They were the modern-day equivalent of what FDR did when he closed all the banks, on a Friday, and he said on Monday to his Treasury secretary, "Open all of 'em except a couple of hundred." And the Treasury secretary said, "Which ones should I open?" And FDR said, "It really doesn't matter, because the ones you open, everyone will think are safe." In fact it worked, it restored confidence, and the stress test did that, too.

The second response was to shore up the two weakest parts of our economy, the housing market and the auto market: the first-time homebuyer tax credit, which was very important in stabilizing housing values, the loan modification plan to help homeowners facing foreclosure, and efforts to provide more credit to the residential mortgage market. Ninety percent of all residential mortgage loans today are being made by the federal government.

And the third response, the fiscal stimulus, much maligned but ultimately very successful. In the last three months we lost 200,000 jobs a month. That's a lot, but the trend lines are moving in the right direction, and my view is by early next year we will have a stable job market.

**Galbraith:** The stimulus did some good, it helped forestall the complete collapse of state and local government budgets, it created some construction jobs. The question is, was it enough? And I think it's pretty clear that it was not. It was based on a forecast that unemployment would not rise past about 8 percent by the middle of this year and would decline after, which was wildly optimistic. We think the housing crisis is important, the collapse of small business is important, we think 10 percent unemployment as far as the eye can see is a disaster. Better than nothing is not good enough.

What would a working program look like? It would dissolve rather than coddle the toxic banks. It would stop the displacement of people from their homes, not just slow it ... and it would fund a lot of new green jobs all across the country, providing every American who wants it a chance to work.

**Mishel:** The question is, are you going to judge the Obama policy ineffective because it hasn't corrected 30 years of generating inequality, of silly deregulation and worshiping of markets, that got us into this darn mess? We calculate that the Recovery Act has actually created 1.1 to 1.5 million jobs by the end of September. I'm very worried that unemployment is going to be high for years to come, but I don't blame that on President Obama, I blame that on the bums that put us in this mess.

I think they got the policy right. Has it solved all our problems? [No, but] I'm not sure how much could have been done economically. I can darn well tell you that politically, there was not much more they could have gotten.

**Meltzer:** The policy has had a mixed result. There's some small positive effect. But the forecast was that the maximum unemployment rate would be 8 percent; it's now 10.2 percent and rising. If the policy had succeeded, the administration would not be talking about another stimulus program. That talk recognizes that their policies have so far been very weak.

The administration invented something called "jobs saved." You can search economic textbooks to the end of time, you will not find "jobs saved." The composition of the stimulus was decided by Congress, which was much more interested in redistributing wealth than seeing the economy improve. One third of the stimulus went to state and local governments. That may be good or bad

policy, but it has very little stimulus. Sure, if we paid the states, they didn't have to fire quite so many teachers. But it simply transfers the deficit from one place to another.

And the program is slow off the block. Do you remember shovel-ready projects? Only 25 percent of the dollars for the infrastructure have been spent. So that part of the program is hardly a success.

The problem for the United States for the future is a huge debt, a large part of it owed to foreigners. The way we're gonna pay for that is to export, and the way to export more would be to invest more, and earn our way out of that problem. What the administration is doing is trying to build up consumption. Fortunately, it isn't working.

**Rattner:** Let me talk about autos. It's one of the few areas where the president actually did have authority, without going to Congress. We had TARP money, we didn't have to deal with the Federal Reserve. And when we showed up we had a bunch of people from one side of the aisle saying, "You've gotta let these companies fail, you've gotta let the market work."

I hope the people who said that know what it would have meant: that Chrysler and GM would have shut down by the end of March. Hundreds of suppliers would go out of business, and Ford would have stopped making cars because their suppliers would have shut down. And you would have had 3 million people out of work, mostly in the industrial Midwest.

We achieved unprecedented sacrifices from all the stakeholders. The lenders, the UAW, the suppliers, the dealers, with a fair amount of muscle from the administration, all participated. And the result was that today General Motors announced their earnings. They're still losing money, but their performance was wildly better than anybody would have guessed.

**Spitzer:** The Obama administration's economic policies, in my view, stand for continuity you can believe in. We are still giving away vast sums to the same people, with the same result, so bank profits are way up, unemployment is up ...c and we are not seeing the transformation of our economy this crisis calls for. The administration did not push for legislation to give judges the power to reform mortgages in a bankruptcy. How could they not do this? It is fundamental, it is right, it would help the middle class that we supposedly care about.

Small and medium-sized business cannot borrow, even though we have given trillions of dollars to the megabanks that came crawling to Washington to say, "Please, please, we can't pay our bonuses."

Steve, you're right, GM had better numbers today. In the third quarter they only lost \$1.12 billion. Congratulations! We're on the road to recovery! Do you know where they saw improvement? In their China subsidiaries, sales are up 20, 30, 40 percent. Sales in the U.S. are down. They will not survive. Chrysler will probably go over the cliff as well. They're going to be selling Fiats. It won't

work. Let's be real about this. We have lost a third of our manufacturing jobs in the last decade. That is the core of our economy. We cannot all be lawyers and investment bankers. We need clients.

The fundamental error of this administration is they have embraced the Bush view that if you solve the problem of big banks everything else flows from that. They are wrong. Too big to fail is still too big.

As in all IQ2 debates, the audience voted twice, once before the debate and again at the end. In the first round, the vote was 32 percent in favor of Obama's economic policies, 29 against and 39 undecided. After the debate, it was 46 in favor, 42 against, and 12 percent undecided. The victor is the team that switched the most votes to its side, so the side in favor won, 14 to 13.

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