

Nicole Gelinas

Arguing the Economy

A recent debate highlights the weaknesses of Obamanomics.

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“Obama’s economic policies are working effectively.” That was the motion that Intelligence Squared US put to its New York audience Monday night for a vote. One three-man team defended the president’s policies; another denounced them. Though the “anti” team ultimately lost the vote, it made the more compelling argument: the president’s economic-recovery policies are costly efforts to maintain a failed status quo, and the administration’s blueprint for financial-regulatory reform will only fund the same failed policies until that status quo collapses again.

The pro-Obama side did have a superficial appeal, making the point that we’re not in total financial meltdown any longer. But even if you think that extraordinary government action was the key here, it was President Bush who began to halt the meltdown by putting government guarantees behind the financial industry. President Obama has shown no financial-policy change from his predecessor; he’s retained the people who devised the Bush bailouts, including Federal Reserve Chairman Ben Bernanke and Tim Geithner, who’s now the treasury secretary.

Obama’s defenders also commended the president’s various efforts to restore the economy to the way it was three years ago, while cautioning any impatient observers that any such efforts would take time. Economist Mark Zandi, from Moody’s Economy.com, praised the “amazing totality of the policy response” from the administration, specifically mentioning the new \$8,000 tax credit for first-time homebuyers as well as Cash for Clunkers, which offered a smaller credit to people buying cars. Lawrence Mishel of the Economic Policy Institute praised the stimulus, especially its “influx of money to state governments. . . . When you give them the money, they don’t cut the programs.”

But former New York governor Eliot Spitzer, on the anti-side, summarized the Obama administration’s approach—from the bank bailouts to the stimulus bill—more bluntly: “The easy decision . . . is to spend a lot of money.” And the question is, what are taxpayers getting in return for all that money—a finite amount of borrowed money? A futile attempt to recreate the past, what Spitzer derisively called “continuity you can believe in.” Allan Meltzer, a conservative Carnegie Mellon economics professor and onetime adviser to Presidents Kennedy and Reagan, teamed up surprisingly well with Spitzer. “We have to use our resources more wisely,” he said, so that we can repay our foreign debt. To help the private sector increase exports so that the nation could start earning more money than it was spending, “the right program” would have been “an investment program, not a consumption program, not a bailout program,” Meltzer added. “That was a mistake.”

The Obama administration hasn't tried to correct our dangerous dependence on borrowed money; instead, it has borrowed more money to give to people who want to keep consuming houses and cars, and to state and local governments that want to keep spending on outdated public-employee costs. The third member of the anti-Obama side, economist James Galbraith, objected that the president wasn't doing *enough* general spending. But his teammates' objection was more substantive: that the administration's spending priorities prevent it from investing in a healthier economy, either through permanent tax cuts (Meltzer's prescription) or through infrastructure spending (Spitzer's).

The administration's biggest failure of all is its failure to fix the flaw underlying our untenable system: "too big to fail" finance. "Capitalism without failure is like religion without sin," Meltzer sharply observed. Obama officials "refuse to cross that threshold" of ending "too big to fail," Spitzer said, "pretending the problem was a lack of power" when in fact it's a lack of will. "Until they . . . negotiate for the fundamental change . . . [it's] a regulatory charade." Obama's supporters proved feeble here. When Zandi and Steve Rattner, a banker who led the White House's auto bailouts this year, praised Obama's efforts to rearrange the organization charts at regulatory agencies, they earned a stern rebuke from Meltzer, who called the administration's proposals "laughable" and said that "what they're doing is putting [the system] back where it was. . . . The bankers make the profits and you, the citizen, take the losses."

The Obama side also seemed to argue that the "too big to fail" problem wasn't as severe as Meltzer and Spitzer claimed. Taxpayers might make money from their forced investments in financial firms, they said. Not all companies got rescued by the government; Lehman Brothers was the biggest example. Employees lost their jobs. "To say that nobody in the financial system has suffered any pain, you should ask the people who worked at Lehman Brothers, . . . at Citigroup, . . . at Wachovia," said Rattner. The problem with this line of reasoning is that when a financial company goes bust, investors need to expect that the failure will proceed in a consistent, predictable way that's removed from politics, not hold their breaths and see whether the government will step in. Random losses for investors and workers and random profits for taxpayers are no substitute for the reasonable and consistent rule of law.

The pro-Obama faction narrowly won the debate, 46–42, but 12 percent of audience members remained uncommitted. Despite the trillions of dollars spent to pretend that there's nothing wrong, and despite the debate's location in the city that has reaped the most short-term gains from Washington's "too big to fail" policies, a majority of people remain, at best, uncertain. They're right to worry.

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