

Closing Remarks of James Galbraith at the ADA Education Fund symposium, 11/20/10

Thanks for the opportunity to make these closing remarks. I want to use my time this afternoon to raise a hard question—a question on which the people in this room today, I believe, are divided and I'm sure the people who are watching and listening via webcast and podcast are also divided. It is a question which has been raised obliquely in some of today's interactions, but not one which has been discussed in full or thoroughly. It seems to me though we will get nowhere unless we realize where we are, what has actually happened, and what the future most likely holds.

Recovery begins with realism and there is nothing to be gained by kidding ourselves. On the topics that I know most about, the administration is beyond being a disappointment. It's beyond inept, unprepared, weak, and ineffective. Four and again two years ago, the people demanded change. As a candidate, the President promised change. In foreign policy and the core economic policies, he delivered continuity instead. That was true on Afghanistan and it was and is true in economic policy, especially in respect to the banks. What we got was George W. Bush's policies without Bush's toughness, without his in-your-face refusal to compromise prematurely, without what he himself calls his understanding that you do not negotiate with yourself.

It's a measure of where we are, I think, that at a meeting of Americans for Democratic Action, you find me comparing President Obama unfavorably to President George W. Bush.

In economic policy it was said earlier we have a lack of narrative. This afternoon Gregory King asked why the people didn't know that the Republican Party is uniformly and massively opposed to job programs, to state and local assistance, and to every legislative measure that might aid and promote economic recovery from the worst crisis and recession in modern times. Why is that that they didn't know? Could it have anything to do with the fact that the White House didn't tell them?

And why was that?

The president deprived himself of any chance to develop a narrative from the beginning by surrounding himself with holdover appointments from the Bush and even the Clinton administrations: Secretary Geithner, Chairman Bernanke, and, since we're here at Harvard I'll call him by his highest title, President Summers. These men have no commitment to the base, no commitment to the Democratic Party as a whole, no particular commitment to Barack Obama, and none to the broad objective of national economic recovery that can be detected from their actions.

With this team the President also chose to cover up economic crime. Not only has the greatest wave of financial fraud in our history gone largely uninvestigated and unpunished, the government and this administration with its stress tests (which were fakes), its relaxation of accounting standards which permitted banks to hold toxic assets on their books at far higher prices than any investor would pay, with its failure to make

criminal referrals where these were clearly warranted, with its continuation in office—sometimes in acting capacities — of some of the leading non-regulators of the earlier era, has continued an ongoing active complicity in financial fraud. And the perpetrators, of course, prospered as never before: reporting profits that they would not have been able to report under honest accounting standards and converting tax payer support into bonuses; while at the same time cutting back savagely on loans to businesses and individuals, and ramping up foreclosures, much of that accomplished with forged documents and perjured affidavits.

Could the President and his administration have done something? Yes, they could have. Where was the Federal Deposit Insurance Corporation? Why did they choose not to implement the law, the Prompt Corrective Action law, which requires the federal government to take into receivership financial institutions when there is a significant risk of large taxpayer losses to the insurance fund? Where were the FBI and the Department of Justice? Did the President do anything? No. Is he doing anything now? No. Why not? The most likely answer is that he did not want to. My understanding in fact is that there was one meeting where this issue was raised, and the President stated that his economic team had assured him they had the situation under control.

On the larger economic policy front, the White House gave away the game from the beginning. How? First by guessing at the scale of the disaster. When leading economic advisers (I believe, in fact, it was President Summers) announced that the unemployment rate would peak at 8%, they not only guessed wrong, but gave away the right to assign responsibility to the previous administration when things got worse. This was either elementary bad politics or deliberate self-sabotage. But, it gets worse. The optimistic forecast helped to justify a weak program. Useful things were done, but not nearly enough to convey the impression of a forceful policy to the broader public. Then once the banks were taken care of and the stock market took off again it seems clear that the team at the White House didn't care anymore.

Again, could they have done differently? Of course. The President could have told the truth, which is that we faced a historic meltdown, a collapse of the core financial institutions of our economy, and that we had really no way of knowing how bad economic conditions might get or how long this would endure and that therefore the situation would require a full mobilization: all resources, all hands on deck, major departures of policy, no holding back, and the responsibility for trouble and failure falling plainly on those who would obstruct the course. None of the people he chose to advise him on economic policy was remotely capable of thinking in those terms.

We've learned this morning from Vic Fingerhut and Mike Lux that the administration went down in public esteem when people realized it was working for the banks and not for them. Why did think this? Why they go from "blaming Bush and Wall Street to blaming Obama and Wall Street"? Because plainly they could see what was in front of their faces. Except in manner, President Bush never really pretended to be a President for ordinary folks; President Obama did. Bush was who he was; Obama held out, fostered, and promoted vast hopes, mobilizing the American population behind his leadership on

that basis. And he disappointed those hopes--to use a very harsh word, one could say he has betrayed those hopes. How can one therefore blame the voters for acting as they have acted?

What happens next? Let's again not kid ourselves, we have lost a great many seats in the House of Representatives and the House of Representatives isn't coming back into a Democratic majority in the near future. Simply because of the balance of exposures – the larger numbers of Democratic Senators exposed to reelection in the next cycle, the greatest likelihood is that the Senate will also go Republican in two years time. President Obama has set his course. He has surrounded himself with the advisers of his choice and as he moves to replace President Summers we hear from the press that the priority is to “repair the rift with his investors on Wall Street.” What does that tell you? It tells me that he does not have President Clinton's fighting and survival instincts. I've not heard one good reason all day to believe that we are going to see from this White House the fight that we want, that he could win in two years, or any reason we should be backing him now.

The Democratic Party has become too associated with Wall Street. This is a fact. It is a structural problem. It seems to me that we as progressives need --- this is my personal position—we need to draw a line and decide that we would be better off with an under-funded, fighting progressive minority party than a party marked by obvious duplicity and constant losses on every policy front as a result of the reversals in our own leadership.

What is at stake in the long-run? Two things, mainly, in my view. First, it seems to me that we as progressives need to make an honorable defense of the great legacies of the New Deal and Great Society -- programs and institutions that brought America out of the Great Depression and bought us through the Second World War, brought us to our period of greatest prosperity, and the greatest advances in social justice. Social Security, Medicare, housing finance -- the front-line right now is the foreclosure crisis, the crisis, I should say, of foreclosure fraud -- the progressive tax code, anti-poverty policy, public investment, public safety, and human and civil rights. We are going to lose these battles —get used to it. But we need to make an honorable fight, to state clearly what our principles are and to lay down a record which is trustworthy for the future.

Beyond this, bold proposals are what we should be advancing now; even when they lose, they have their value. We can talk about job programs; we can talk about an infrastructure bank; we can talk about Juliet Schor's idea of a four-day work week; we can talk about my idea of expanding Social Security and creating an early retirement option so that people who are older and unemployed or anxious to get out of the labor force can leave on comfortable terms, and so create job openings for younger people who, as we've heard today, are facing very long periods of extremely aggravating and frustrating unemployment; we can talk about establishing a systematic program of general revenue sharing to support state and local governments, we can talk about the financial restructuring we so desperately need and that we'll have to have if we are going to have a country which has a viable private credit system and in which large financial power is not constantly dictating the terms of every political maneuver.

We are not going to get these things, but we should have a clearly defined program so that people know what they are. And then frankly, as was said earlier today, said most elegantly by Jeff Madrick, in the long run we need to recognize that the fate of the entire country is at stake. Its governance can't be entrusted indefinitely to incompetents, hacks, and lobbyists. Large countries can and do fail, they have done so in our own time. And the consequences are very grave: drastic declines in services, in living standards, in life expectancies, huge increases in social tension, in repression, and in violence. These are the consequences of following through with crackpot ideas such as those embodied in the Bowles-Simpson deficit commission, as Jeff Madrick again outlined, such notions as putting arbitrary limits on the scale of government, or arbitrary limits on the top tax rate affecting the wealthiest Americans.

This isn't a parlor game. The outcome isn't destined to be all right. It will not necessarily end in progress whatever happens. What we do, how we proceed, and how we effectively resist what is plainly about to happen, matters very greatly for the future of our country, of our children, and of another generation to come. We need to lose our fear, our hesitation, and our unwillingness to face the facts. If we thereby lose some of our hopes, let's remember the dictum of William of Orange that "it is not necessary to hope in order to persevere."

The President should know that, as Lincoln said to the Congress in the dark winter of 1862, he "cannot escape history." And we are heading now into a very dark time, so let's face it with eyes open. And if we must, let's seek leadership that shares our values, fights for our principles, and deserves our trust.

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