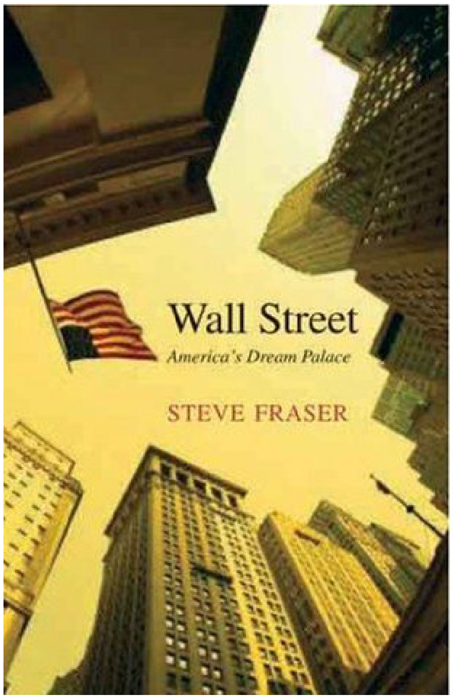
ROOSEVELT'S BRAIN TRUST vs OBAMA'S BRAINIACS

BEYOND THE BAIL-OUT STATE

STEVE FRASER

ColdType



THE AUTHOR

STEVE FRASER is a visiting professor at New York University and the author of *Wall Street: America's Dream Palace*. He is a regular contributor to TomDispatch.com and co-founder of the American Empire Project (Metropolitan Books).

This essay originally appeared at www.tomdispatch.com

ColdType

WRITING WORTH READING FROM AROUND THE WORLD

www.coldtype.net

EMPIRE OF DEPRESSION

INTRODUCTION BY TOM ENELHARDT

If you want to catch something of the fears and hopes of Americans right now, go to News.Google.com and try searching for a few words. For instance, put in "FDR" – the well-known initials of the man who was president four times and took America through the Great Depression and all but the last months of World War II – and endless screens of references pop up.

The *Nation* and the *National Review* have both devoted space to him. Paul Krugman and George Will both thought this was the moment to focus on him. Checking out the headlines you might think that the intervening sixty-four years since his death had simply vanished: ("Will FDR Inspire Obama?" "Obama's jobs plan could echo FDR's," "Clinton's potential pitfalls seen in FDR's secretary of State," Channeling FDR," "FDR saved capitalism – now it's Obama's turn," and so on); headlines galore, not to speak of that *Time* magazine "Obama as FDR?" cover.

Or, if you have another moment, try "the New Deal," or even the 2008 Obama version of the same,"the new New Deal"; or, if you really want to get a sense of the moment, try "since the Great Depression," which now seems to be embedded in any article about the present economic situation – as in the "worst crisis since the Great Depression," or "the worst economic downturn since the Great Depression," or even "the most severe credit crunch since the Great Depression." It's a phrase that hovers between horror and euphemism, between the urge to invoke the word "depression" for our moment and an almost superstitious fear of doing so.

Historian Steve Fraser, author of *Wall Street: America's Dream Palace*, has been writing at *TomDispatch* about both the Great Depression and the possibility of a modern version of the same for some time. Now, he returns to the dawn of the Rooseveltian era to offer a unique and telling comparison – between FDR's expansive, experimental "brain trust" and Obama's new "team of rivals." In his usual fashion, he raises the truly pregnant question:

What kind of new administration could actually get beyond Roosevelt's era as well as our own staggering disaster, leaving "the bailout state" behind us? *– **Tom Engelhardt***

BEYOND THE BAIL-OUT STATE

ROOSEVELT'S BRAIN TRUST vs OBAMA'S BRAINIACS

BY STEVE FRASER

On a December day in 1932, with the country prostrate under the weight of the Great Depression, ex-president Calvin Coolidge – who had presided over the reckless stock market boom of the Jazz Age Twenties (and famously declaimed that "the business of America is business") – confided to a friend: "We are in a new era to which I do not belong." He punctuated those words, a few weeks later, by dying.

A similar premonition grips the popular imagination today. A new era beckons. No person has been more responsible for arousing that expectation than President-elect Barack Obama. From beginning to end, his presidential campaign was born aloft by invocations of the "fierce urgency of now," by "change we can believe in," by "yes, we can!" and by the obvious significance of his race and generation. Not surprisingly then, as the gravity of the national economic calamity has become terrifyingly clearer, yearnings for salvation have attached themselves ever more firmly to the incoming administration.

This is as it should be – and as it once was. When in March 1933, a few months after Coolidge gave up the ghost, Franklin Delano Roosevelt was inaugurated president, people looked forward to audacious changes, even if they had little or no idea just what, in concrete terms, that might mean. If Coolidge, an iconic representative of the old order, knew that the ancien régime was dead, millions of ordinary Americans had drawn the same conclusion years earlier. Full of fear, depressed and disillusioned, they nonetheless had an appetite for the untried. Like Obama, FDR had, during his campaign, encouraged feverish hopes with no less vaporous references to a "new deal" for Americans.

Brain Trust vs Brainiacs

Yet today, something is amiss. Even if everyone is now using the Great Depression and the New Deal as benchmarks for what we're living through, Act I of the new script has already veered away from the original.

A suffocating political and intellectual provincialism has captured the new administration in embryo. Instead of embracing a sense of adventurousness, a readiness to break with the past so enthusiastically promoted during the campaign, Obama seems overcome with inhibitions and fears.

Practically without exception he has chosen to staff his government at its highest levels with refugees from the Clinton years. This is emphatically true in the realms of foreign and economic policy. It would, in fact, be hard to find an original idea among the new appointees being called to power in those realms – some way of looking at the American empire abroad or the structure of power and wealth at home that departs radically from views in circulation a decade or more ago. A team photo of Obama's key cabinet and other appointments at Treasury, Health and Human Services, Commerce, the President's Economic Recovery Advisory Board, the State Department, the Pentagon, the National Security Council, and in the U.S. Intelligence Community, not to speak of senior advisory posts around the President himself, could practically have been teleported from perhaps the year 1995.

Recycled Clintonism is recycled neo-liberalism. This is change only the brainiacs from Hyde Park and Harvard Square could believe in. Only the experts could get hot under the collar about the slight differences between "behavioral economics" (the latest academic fad that fascinates some high level Obama-ites) and straight-up neo-liberal deference to the market. And here's the sobering thing: despite the grotesque extremism of the Bush years, neoliberalism also served as its ideological magnetic north.

Is this parochialism, this timorousness and lack of imagination, inevitable in a period like our own, when the unknown looms menacingly and one natural reaction is certainly to draw back, to find refuge in the familiar? Here, the New Deal years can be instructive.

Roosevelt was no radical; indeed, he shared many of the conservative convictions of his class and times. He believed deeply in both balanced budgets and the demoralizing effects of relief on the poor. He tried mightily to rally the business community to his side. For him, the labor movement was terra incognita and – though it may be hard to believe today – played no role in his initial policy and political calculations. Nonetheless, right from the beginning, Roosevelt cobbled together a cabinet and circle of advisers strikingly heterogeneous in its views, one that, by comparison, makes Obama's inner sanctum, as it is developing today, look like a sectarian cult.

Heterogeneous does not mean radical. Some of FDR's early appointments – as at the Treasury Department – were die-hard conservatives. Jesse Jones, who ran the Reconstruction Finance Corporation, a Hoover administration creation, retained by FDR, that had been designed to rescue tottering banks, railroads, and other enterprises too big to fail, was a practitioner of business-friendly bailout capitalism before present Treasury Secretary Henry Paulson was even born.

But there was also Henry Wallace as Secretary of Agriculture, a Midwestern progressive who would become the standard bearer for the most left-leaning segments of the New Deal coalition. He was joined at the Agriculture Department – far more important then than now – by men like Mordecai Ezekiel, who was prepared to challenge the power of the country's landed oligarchs.

Then there were corporatists like Raymond Moley, Donald Richberg, and General Hugh Johnson. Moley was an original member of FDR's legendary "brain trust" (a small group of the President's most influential advisers who often held no official government position). Richberg and Johnson helped design and run the National Recovery Administration (the New Deal's first and failed attempt at industrial recovery). All three men were partial to the interests of the country's peak corporations. All three wanted them released from the strictures of the Sherman Anti-Trust Act so that they could collaborate in setting prices and wages to arrest the killing deflation that gripped the economy. But they also wanted these corporate behemoths and the codes of competition they promulgated subjected to government oversight and restraints.

Meanwhile, Felix Frankfurter (another confidant of FDR's and a future Supreme Court justice), aided by the behind-the-scenes efforts of Supreme Court Justice Louis Brandeis, fiercely contested the influence of the corporatists within the new administration, favoring anti-trust and then-new Keynesian approaches to economic recovery. Secretary of Labor Frances Perkins used her extensive ties to the social work community and the labor movement to keep an otherwise tone-deaf president apprised of portentous rumblings from that quarter. In this fashion, she eased the way for the passage of the Wagner Act that legislated the right to organize and bargain collectively, and that ended the reign of industrial autocracy in the workplace.

Roosevelt's "brain trust" also included Rexford Tugwell. He was an avid proponent of government economic planning. Another founding member of the "brain trust" was Adolph Berle, who had published a bestselling, scathing indictment of the financial and social irresponsibility of the corporate elite just before FDR assumed office.

People like Tugwell and others, including future Federal Reserve Board chairman Marriner Eccles, were believers in Keynesian deficit spending as the road to recovery and argued fiercely for this position within the inner councils of the administration, even while Roosevelt himself remained, until later in his presidency, an orthodox budget balancer.

All of these people – the corporatists and the Keynesians, the planners and the anti-trusters – were there at the creation. They often came to blows. A genuine administration of "rivals" didn't faze FDR. He was deft at borrowing all of, or pieces of, their ideas, then jettisoning some when they didn't work, and playing one faction against another in a remarkable display of political agility. Roosevelt's tolerance of real differences stands in stark contrast to the new administration's cloning of the Clinton-era brainiacs.

It was this openness to a variety of often untested solutions – including at that point Keynesianism – that helped give the New Deal the flexibility to adjust to shifts in the country's political chemistry in the worst of times. If the New Deal came to represent a watershed in American history, it was in part due to the capaciousness of its imagination, its experimental elasticity, and its willingness to venture beyond the orthodox. Many failures were born of this, but so, too, many enduring triumphs.

Beyond the Bailout State

Why, at least so far, is the Obama approach so different? Some of it no doubt has to do with the same native caution that caused FDR to navigate carefully in treacherous waters. But some of it may result from the fallout of history. Because the Great Depression and the New Deal happened, nothing can ever really be the same again.

We are accustomed to thinking of the Bush years – maybe even the whole era from the presidency of Ronald Reagan on – as a throwback to the 1920s or even the laissez-faire golden years of the Gilded Age of the late nineteenth century. In some respects, that's probably accurate, but in at least one critical way it's not. Back in those days, faced with a potentially terminal financial crisis, the government did nothing, simply letting the economy plunge into depression. This happened repeatedly until 1929, when it happened again.

Since the New Deal, however, inaction has ceased to be a viable option for Washington. State intervention to prevent catastrophe has become an unspoken axiom of political life in perilous times. Of course, thanks to regulatory mechanisms installed during the New Deal years, there was no need to engage in heroic rescues – not, at least, until the triumph of deregulation in our own time.

Then crises began to erupt with ever greater frequency – the stock market crash of 1987, the savings and loan collapse at the end of that decade, the massive Latin American debt defaults of the early 1990s, the collapse of the economies of the Asian "tigers" in the mid-1990s, the near bankruptcy of the then-huge hedge fund, Long Term Capital Management, later in that decade, the dot-com implosion at the turn the century, climaxing with the general global collapse of the present moment. Beginning perhaps with the bailout of the Chrysler Corporation in the late 1970s, these recurring crises have been met with increasingly strenuous efforts to stop the bleeding by what some have called "the bailout state."

The Resolution Trust Corporation, created to rescue the savings and loan industry, first institutionalized what Kevin Phillips has since described as a new political economy of "financial mercantilism." Under this new order the state stands ready to backstop the private sector – or at least the financial subsector which, for the past quarter century, has been the driving engine of economic growth – whenever it undergoes severe stress.

Today, the starting point for all mainstream policymakers, even those who otherwise preach the virtues of the free market and the evils of big government, is the active intervention of the state to prevent the failure of private-sector institutions considered "too big to fail" (as with most recently Citigroup and the insurance company AIG). So, too, the tolerance level for deficit spending, not only for military purposes but, in extremis, to help stop ordinary people from going under, is infinitely higher than in 1932. Ronald Reagan was prepared to live with such spending, if necessary, even as he removed portraits of Thomas Jefferson and Harry S. Truman from the Cabinet Room and replaced them with a canvas of Calvin Coolidge.

The question for our "new era" – not one our New Deal ancestors would have thought to ask – has become: How do we get beyond the bailout state? This is one crucial realm where genuinely new thinking and new ideas are badly needed.

At the moment, as best we can make out, the bailout state is being managed in secret and apparently in the interests, above all, of those who run the financial institutions being "rescued." Often, we don't actually know who is getting what from the Federal Reserve and the Treasury, or on what terms, or even which institutions are being helped and which aren't, or often what our public monies are actually being used for.

What we do know, however, is anything but encouraging. It includes tax exemptions for merging banks, prices for public-equity stakes in failing outfits that far exceed what is being paid by governments (or even private investors) abroad for similar holdings. Add to this a stark lack of accountability, aggravated by the fact that the U.S. government has neither voting rights (nor even a voice) on boards of directors whose firms would be in bankruptcy court without Washington's aid.

Living in an Empire of Depression

Are we, then, witnessing the birth of some warped, exceedingly partial version of state capitalism – partial, that is, to the resuscitation of the old order? If so, lurking within this string of bum deals might there not be a great opportunity? Putting the economy and country back together will require massive resources directed toward common purposes. There is no more suitable means of mobilizing and steering those resources than the institutions of democratic government.

Under the present dispensation, the bailout state makes the government the handmaiden of the financial sector. Under a new one, the tables might be turned. But who will speak for that option within the limited councils of the Obama team?

A real democratic nationalization of the banks – good value for our money rather than good money to add to their value – should be part of the policy agenda up for discussion in the Obama era. As things now stand, the public supplies the loans and the investment capital, but the key decisions about how they are to be deployed remain in private hands. A democratic version of nationalizing the financial system would transfer these critical decisions to new institutions created by the Congress and designed to pursue public, not private, objectives. How to subject the flow of credit and investment capital to public control ought to be on the drawing boards if we are to look beyond the old New Deal to a new one.

Or, for instance, if we are to bail out the auto industry, which we should – millions of jobs, businesses, communities, and what's left of once powerful and proud unions are at stake – then why not talk about its nationalization, too? Why not create a representative body of workers, consumers, environmentalists, suppliers, and other interested parties to supervise the industry's reorganization and retooling to produce, just as the president-elect says he wants, new green means of transportation – and not just cars?

Why not apply the same model to the rehabilitation of the nation's infrastructure; indeed, why not to the reindustrialization of the country as a whole? If, as so many commentators are now claiming, what lies ahead is the kind of massive, crippling deflation characteristic of such crises, then why not consider creating democratic mechanisms to impose an incomes policy on wages and prices that works against that deflation?

Overseas, if everything isn't up for discussion – and it most certainly isn't – it ought to be. What happens there bears directly on our future here at home. After all, we live in the empire of depression. America's favorite export for more than a decade has been a toxic line-up of securitized debt. Having ingested it in lethal amounts, every economy in the world from Iceland's and Germany's to Russia's and Indonesia's is either folding up or threatening to fold up like an accordion under the pressure of economic disaster.

Until now, the American way of life, including its economy of mass consumption, has depended on maintaining the country's global preeminence by any means possible: economic, political, and, in the end, military. The news of the Bush years was that, in this mix, Washington reached for its six-guns so much more quickly.

A global depression will challenge that fundamental hierarchy in every conceivable way. The United States can try to recapture its imperiled hegemony by methods familiar to the Obama-Clinton-Bush (the father) foreign policy establishment, that is by using the country's waning but still intimidating economic and military muscle. But that's a devil's game played at exorbitant cost which will further imperil the domestic economy.

It might, of course, be possible, as in domestic affairs, to try something new, something that embraces the public redevelopment of America in concert with the global South. This would entail at a minimum a radical break with the "Washington Consensus" of the Clinton years in which the United States insisted that the rest of the world conform to its free market model of economic behavior. It would establish multilateral mechanisms for regulating the flow of investment capital and severe penalties and restrictions on speculation in international markets. Most of all, it would mean lifting the strangulating grip of American military might that now girdles the globe.

All of this would require a capacity for re-imagining foreign affairs as something other than a zero-sum game. So far, nothing in Obama's line-up of foreign policy and national security mandarins suggests this kind of potential policy deviance. Again, no Rooseveltian "brain trust" is in sight, even though unorthodoxies are called for, not just because of the hopes Obama's victory have aroused, but because of the urgency of our present circumstances.

If original thinking doesn't find a home somewhere within this forming administration soon, it will be an omen of an even more troubled future to come, when options not even being considered today may be unavailable tomorrow. Certainly, Americans ought to expect something better than a trip down (the grimmest of) memory lanes into the failed neo-liberalism of yesteryear.