The Mixed Economic Report Card on Obama's First 100 Days

By Prof Rodrigue Tremblay
Global Research, April 28, 2009
TheNewAmericanEmpire.com 28 April 2009

Region: USA
Theme: Global Economy

> "An election cannot give a country a firm sense of direction if it has two or more national parties which merely have different names but are as alike in their principles and aims as two peas in the same pod."
>
> Franklin D. Roosevelt, 32nd US President (1933-45)
>
> "Behind the ostensible government sits enthroned an invisible government owing no allegiance and acknowledging no responsibility to the people." Theodore Roosevelt, 26th US president (1901-1909)
>
> "I don't remember any time, maybe even in the Great Depression, when things went down quite so fast, quite so uniformly around the world." Paul Volcker, former U. S. Fed Chairman
>
> "Prosperity is just around the corner." President Herbert Hoover, 1932
>
> "This recession was not caused by a normal downturn in the business cycle. It was caused by a perfect storm of irresponsibility and poor decision-making that stretched from Wall Street to Washington to Main Street."
>
> President Barack Obama, April 14, 2009

On April 29, 2009, President Barack Obama completed his first 100 days in office, a symbolic milestone. In somewhat of a parallel to **Franklin Delano Roosevelt**, who succeeded the beleaguered administration of **Herbert Hoover**, **Barack Obama** took over from a most clumsy predecessor, **George W. Bush**.

And, just as for Roosevelt, Obama had a window of opportunity in his first 100 days in office to initiate new ways of doing things and new policies. He had all the incentive, mandate and leeway necessary to distance himself from the previous administration and profoundly change things for the future.

On the economic front, for example, facing a most urgent challenge then as of now, President Roosevelt immediately embarked upon a comprehensive program of fundamental reforms and of public works. For instance, he did not hesitate to close American banks, going as far as to declare a **"bank holiday"** from March 6, 1933 to March 14, 1933, in order to reorganize the banking system and to clean up the banks' books. The purpose, of course, was to renew public **confidence** in financial institutions and to reestablish the flow of credit and the level of spending in the economy.

Some seventy-six years later, it is fair to say that President Barack Obama was much less determined in dealing with a similar, serious banking crisis, firstly by reappointing or keeping officials close to the previous Bush administration (Timothy Geithner, Ben Bernanke, etc.) and secondly, by prolonging Bush's policies of subsidizing "too big-to-fail" and "too big-to-manage" mega-banks with a minimum of conditions, instead of restructuring them and changing their business model.

This applies to Fannie Mae, Freddie Mac, American International Group (AIG), and a host of large international investment banks (J.P. Morgan Chase, Goldman Sachs, Citibank, Wells Fargo, Sun Trust Bank, HSBC Bank USA, etc.) that have indulged in **casino finance** rather than concentrating on channeling stable capital into the economy. In so doing, and in contrast to what Franklin D. Roosevelt did, Obama did not confront and reverse the unhealthy and corrupt symbiosis between **big business** and big government, which most everybody knows to be the main cause of the current financial crisis; he prolonged it.

For example, no thorough investigation on the basic causes of the financial crisis has been launched, and no structural changes in the financial system have been advanced, above and beyond throwing trillions of public dollars to camouflage the problem. Consequently, mega-banks can still rely on casino finance through the derivative market, still package and collaterize long-term loans into risky short-term financial instruments. Similarly, gamblers can still buy Credit Default Swaps (CDS), even though they have no owned securities to protect, while simultaneously engaging in naked short selling of the stocks of companies, in the hope of depressing the price of their collaterized debt obligations (CDO). The derivative market is the greatest grand casino of all, and if left unregulated, it will come again to haunt the real economy in the future.

Another issue that the new administration failed to tackle is the practice of vulture or **predatory capitalism,** where financial operators are allowed to raid profitable companies and to saddle them with the debt incurred to take them over. Through such a process, prudently managed companies become the prey of unscrupulous financial operators who raid them while resorting to the practice of **leveraged finance.**

Most amazing of all, maybe, is the lack of concern about the repeal of the 1933 **Glass-Steagall Act,** and its replacement, in late 1999, by the pro-banks **Gramm-Leach-Bliley Act** (GLBA) that, in effect, removed most regulations of risk-taking investment banking. A similar issue is the lack of concern about the way the **Securities and Exchange Commission (SEC)** abandoned its role of protector of the public interest and became a cheerleader of the mega-banks.

All this leads to the observation that the structural financial problems of the American banking system have not been aggressively tackled and corrected, and that future financial crises and their attendant economic dislocations can be expected. The record will show that President Obama, in his first 100 days in office, has given the impression of being co-opted by Wall Street and its laissez-faire ideology, at a time when a clean break was necessary.

When there are flaws in the policies of a new administration, the responsibility may not rest with the President alone, but one must look at his entourage. For better or for worse, President Barack Obama has surrounded himself with close advisors who are cut from the same cloth: **Rahm Emanuel** as his Chief of Staff, David Axelrod, as his senior political adviser, and Lawrence Summers, director of the National Economic Council and his top economic adviser. Since these advisors have been known in the past to be opposed to the regulation of exotic financial instruments, this could explain why President Obama chose someone to head the strategic Commodity Futures Trading Commission (CFTC) who is also opposed to such regulation, Mr. **Gary Gensler**. Keep in mind that the CFTC is one of the outfits that regulate the trading in futures contracts on a host of derivative products that have magnified the subprime mortgage meltdown.

Sometimes the real influence of close advisors on policies and decisions can be stronger than that of the President himself, the latter being busy making speeches, appearing on TV shows and traveling around the world. The image that comes to mind is the boxer who is taking it on the chin in the ring, while the backroom managers run the shop. Obviously, President Obama's entourage seems to be most influential… for better or for worse. And they have a bias towards Wall Street rather than Main Street.

Rodrigue Tremblay is professor emeritus of economics at the University of Montreal and can be reached at rodrigue.tremblay@ yahoo.com. He is the author of the book The New American Empire. Visit his blog site at www.thenewamericanempire.com/blog.

Author's Website: www.thenewamericanempire.com/ Check out Dr. Tremblay's coming book

The Code for Global Ethics at:

www.TheCodeForGlobalEthics.com/

The French version of the book is now available.

See: www.LeCodePourUneEthiqueGlobale.com/

or: Le code pour une éthique globale