

US Economic Crisis. Analysts are preaching gloom and doom

Carter Redux

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Even before the euphoria evaporates, analysts are preaching gloom and doom for Obama on the home front.

The easy part is over. A flourish of executive orders closing Guantanamo, dismantling much of president George W Bush's architecture for the "war on terror", allowing family planning promotion abroad. The hard part has begun. United States President Barack Obama is faced with an economy in galloping depression, the worst since the 1930s on all counts.

The economic growth of the Bush years, such as it was, was fueled by an explosion of private debt; now credit markets have collapsed and the economy is in free-fall. Housing starts, the traditional indicator of which direction an economy is going in, have never dropped so steeply since records began. Prices are falling, and not only oil prices. The Federal Reserve interest rate is now zero. Median income fell over the past decade and continues to fall. Industrial production last year fell 7.8 per cent from 2007, and manufacturing by 10 per cent. Unemployment is sky-rocketing, with millions of jobs already lost.

He must wrestle with the \$700 Troubled Asset Relief Programme (TARP). Like Bush's original Operation Iraq Liberation (OIL), it has an embarrassing acronym, considering it is a "cover" for bailing out the rich. The first installment padded the books of floundering financial institutions and bailed out the major US automakers, without any of the guilty parties even having their knuckles rapped. The Associated Press contacted 21 banks which received over \$1 billion of federal bailout money, and none of them were able or willing to disclose the use of the funds. Obama's Treasury Secretary Timothy Geithner told the Senate that TARP required "fundamental reform", as it favoured big financial institutions over small businesses, distressed workers and home owners.

The financial meltdown is only going to get worse given the Democrats' inability to abide anything that smacks of socialism. The only feasible solution, as implemented in similar circumstances by the Swedes (a rightwing government, no less), is nationalization of the culprits. The Swedes bit the bullet, splitting the banks into good and bad parts; the former continued business as usual, while the latter, holding largely illiquid real estate, were managed by the government till the economy improved. The taxpayer ended up almost breaking even. "If you go in with capital, you should have full voting rights," insists self-proclaimed neoliberal Bo Lundgren, Sweden's minister of fiscal and financial affairs at the time.

As it is, the hemorrhaging will continue and the credit markets will remain frozen as the economy enters a deflationary spiral. Strike one for Obama.

As for the \$825 billion economic recovery package, the American Recovery and Reinvestment Bill of 2009, it is already being picked at from all sides. Sixty per cent will be federal spending on education, aid to states for Medicaid, increases in unemployment benefits, dozens of major public works projects to create jobs, and — for the Republicans — \$350 billion in tax breaks.

Instead of generating enthusiasm, it is being criticised for lacking strategic vision. There are 152 different appropriations, “an undisciplined sprawl of health, education, entitlement and other spending,” with modest short term impact, according to analyst David Brooks. It will cost \$223,000 to create each job. Obama’s inspiration is president Franklin Delano Roosevelt, whose ambitious Works Progress Administration was a similarly sprawling array of public programmes. Though it provided millions of unemployed with much needed jobs building dams and highways, it did little to make a dent in the Great Depression.

In his inauguration speech, Obama’s admiration for “the selflessness of workers who would rather cut their hours than see a friend lose their job” sounded like something out of a Dickensian novel. His vow to enact universal health care became a vague “Our health care is too costly.” Considering the already accelerating growth in unemployment, he will most likely be presiding over an increase in uninsured Americans, rather than a decrease. His paraphrase of Keynes — “our workers are no less productive ... our minds no less inventive, our goods and services no less needed” did not call for any radical government action, as Keynes did, but for an end “of standing pat, of protecting narrow interests and putting off unpleasant decisions.” Timid platitudes.

His economic advisers are all Clinton hacks with their expertise in Rubinomics, which is pre-Keynesian in its focus on balanced budgets and prudence. Sure, they might change their stripes, but there are many less doctrinaire economists who were not part of the Clinton-Bush era deregulation mania that led to the present mess, such as James Galbraith or Nobel Laureate George Stiglitz, who could hit the ground running, as the dire times require. Strike two.

If things go badly in Iraq and Afghanistan, and Israel continues its Nazi-esque slaughter in Palestine, as most surely will be the case, Obama will soon be in very hot water on all fronts.

The way out, of course, is principled government economic activity, sometimes called socialism. Thatcher’s “There Is No Alternative” (TINA), but in reverse. There are lots of precedents. We have mentioned Sweden in the early 1990s. Taking a leaf from US history, the government owned about a third of the banking system through its own bailout programme by 1935, and used that ownership stake to insist that banks actually help the economy, pressuring them to lend out the money they were getting from Washington. The New Deal went further and lent money directly to businesses, home owners and buyers.

Another leaf from the socialistic 1930s is FDR’s social security programme (which could be emulated by universal health care today) and drive for greater income equality. Under FDR, America went through what labour historians call the Great Compression, a dramatic rise in wages for ordinary workers that greatly reduced income inequality. Before the Great

Compression, America was a society of rich and poor; afterward it was a society in which most people, rightly, considered themselves middle class. Nobel Laureate Paul Krugman calls for another Great Compression to recreate the middle class lost from president Ronald Reagan on. Again, TINA.

Many argue that the US itself is bankrupt, with its massive trade and budget deficits. But the government can always legislate expenditures, and even with debt-based money creation, when the interest rate is zero, it can, through intelligent spending, create a multiplier effect, increasing employment and consumption at no real cost. It's possible that reviving the economy — including universal health care — might cost as much as a trillion dollars over the course of Obama's first term. But the Bush administration wasted at least twice that much on illegal wars and tax cuts for the wealthiest.

However, it can't convince the world of its creditworthiness without cutting military spending — in itself a blessing. True, the arms industry and the armed forces provide millions of jobs, but they are very, very expensive and destructive ones, and a principled government can do much better things with its money. Ending its bullying of other countries would be another blessing.

Like Obama after Bush, president Jimmy Carter also faced the daunting task of picking up the pieces after a discredited Republican administration, with Middle East politics and an energy crisis topping the agenda. But Carter had it relatively easy compared to Obama. Bush followed in Reagan's footsteps and effectively bankrupted America with his massive tax cuts to the rich and even more massive spending on the military and failed wars. Far more corrupt and deserving of impeachment than Nixon, his crimes have so far been untouched.

Both Carter and Obama were swept into the White House from nowhere, promising to restore American ideals, pursue alternative energy, support education, help the common man. More to the point, like Carter, Obama was chosen by the ruling economic elite as a pretty face to keep that common man happy despite the economic mess that his predecessors left behind. David Rockefeller met Carter in the mid-1970s and invited him to join the Trilateral Commission. He then went from obscurity to president almost overnight. Obama was discovered by Rockefeller's protege Zbigniew Brzezinski, invited to join the Council for Foreign Relations, and experienced an equally miraculous climb to the top. His (and Hillary's) meeting with the Bilderberg Group in June, during the height of the primaries, is well known.

But the approval of the backroom boys doesn't guarantee success, as Carter famously found out. Sometimes the hand dealt is unplayable. The eminences grises can drop a loser on a dime, as Carter also famously found out. But that may be yet another blessing for someone with courage and integrity. Yet another Nobel Laureate, and one who Obama would do well to consult along with Stiglitz and Krugman, Carter is the only living ex-president with those traits, however flawed his presidency was.

The world fervently hopes that Obama has some of them as well. But his presidency will be made or broken on how he handles the economy. The question is whether he has enough room to manoeuvre, given his poor hand, his patrons and his impatient supporters. The odds, given Carter's failed presidency, do not look good.

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