EIR National

President Obama Must Dump Summers To Save His Presidency

by Debra Hanania-Freeman

March 27—During an international webcast on March 21, Lyndon LaRouche noted that the real problem in the Obama Administration's economic policy team is not Treasury Secretary Tim Geithner. Instead, LaRouche stressed, the man whose policies pose the gravest danger to both the nation and Barack Obama's Presidency is Larry Summers, the head of the President's National Economic Council. LaRouche called for Summers to be removed from his post.

LaRouche's Saturday warning, that Summers posed a significant threat to the Administration, was borne out very quickly. By Monday, as Geithner unveiled the latest phase of the biggest bailout swindle in history, it was announced that the President's popularity had plummeted from a high of 78%, which he enjoyed in the days following his inauguration, to just under 50%. In fact, during the course of that week alone, the President's approval rating dropped by more than 13%!

As the week progressed, it became increasingly apparent that there was a potentially cataclysmic split inside the Administration. While a hoodwinked President Obama was persuaded by Summers and his backers that the way to solve this worst financial and monetary crisis in modern history was to turn over the keys to the banking system—at taxpayers' expense—to a gang of hedge fund thieves, saner voices echoed the policies outlined by LaRouche. Prominent and accomplished economists, most notably Texas economics professor and noted author James Galbraith (the son of FDR's economic advisor John Kenneth Galbraith) and Nobel Laureate Paul Krugman, insisted that, not only would the latest (and worst) of the bailout schemes fail, but it would make things much worse. They argued instead for the solution employed by FDR; the same solution that Lyndon LaRouche put on the table almost two years ago: to save the U.S. banking system by reorganizing it under bankruptcy protection.

Volcker: Revive Glass-Steagall

Former Federal Reserve Chairman Paul Volcker, who heads the President's Economic Recovery Advisory Board, during a March 27 speech in New York City, was even more emphatic on a point he has addressed before: that the current system absolutely had to be reorganized, and reorganized in a Glass-Steagall framework.[1]

Apparently, Summers, a notorious egomaniacal blowhard, whose inability to work with anyone has cost him more than one job in the past, threw a hissy fit, and told the President that he wasn't going to con-

1. The Glass-Steagall Act (a.k.a. the Banking Act of 1933) introduced the separation of commercial and investment banking, and founded the Federal Deposit Insurance Corporation (FDIC) for insuring bank deposits. It was repealed in 1999.


White House/Pete Souza

The White House's disastrous economic policies, LaRouche declared, do not originate with Treasury Secretary Geithner (seated, right foreground), but with the egomaniacal Larry Summers (standing). As LaRouche recently mused, "If Summers falls, can Spring be far behind?" Shown: a meeting of the President's Budget Committee, Feb. 6, 2009.

tinue to play in the same sandbox as Volcker. Unfortunately, Obama has been brainwashed into believing that, in order for him to begin to solve the disaster he inherited from the Bush-Cheney Administration, he needs the support of the very Wall Street thieves who are largely responsible for this latest phase of the collapse, and that Larry Summers is critical to winning him that support.

So, on March 25, Office of Management and Budget (OMB) director Peter Orszag announced that President Obama was putting Volcker in charge of a tax-code review aimed at closing loopholes, streamlining the law, and generating revenue. Orszag said the review, given a deadline of Dec. 4, was being ordered to make recommendations on steps to simplify the code, built over the last 96 years, in ways that would reduce tax evasion, and what he called "corporate welfare."

There was no mistaking what had occurred. Just after Volcker had disagreed with Summers over both the timing of regulatory reform, and the core question of the necessity of bringing back Glass-Steagall, which Summers personally worked to wreck in 1999, the former Fed chairman was being sent off to work on taxes for the rest of the year. Obama's personnel choice was not only wrong, but potentially fatal to his Presidency. Despite Volcker's many problems, he is one of the few serious economic thinkers in the U.S., and the only such person inside the Obama Administration, who has the stature to credibly oppose Summers' bullying economic insanity.

In the interest of freeing President Obama from the toxic threat that Summers poses to his Presidency and to the nation, it is time to take a close look at just what Larry Summers represents.

Summers' Perfidy

Long before Summers became Treasury Secretary during the last 18 months of Bill Clinton's second term, he distinguished himself as an ardent opponent of the American system of economics. After studying under Martin Feldstein at Harvard, Summers joined the staff of the Council of Economic Advisors under Ronald Reagan. In that post, he argued successfully for radical cuts in both corporate and capital gains taxes as the best incentive for economic growth. He also insisted that unemployment insurance and welfare payments are among the single greatest contributors to unemployment, and as such, should be scaled back.

In December 1991, when Summers served as chief economist for the World Bank, a memo that bore his signature was leaked to the press. The internal memo, which clearly was not intended for the public, argued that although free trade would not necessarily benefit the environment in developing sector countries, there was clear economic logic in dumping waste there. In an aside to the memo, leaked to the press, Summers cynically suggested that "I think the economic logic behind dumping a load of toxic waste in the lowest wage countries is impeccable and we should face up to that.... I've always thought that under-populated countries in Africa are also vastly underpolluted."

In 1993, Summers joined the Clinton Administration as Undersecretary for International Affairs. In that post, he promoted genocidal economic shock therapy against the Russians, demanded an expansion of the power of the IMF, and increased deregulation by the Japanese (in 1997); he brags about his role in forcing the Korean government to raise its interest rates and balance its budget in the midst of a horrible economic crisis, a policy sharply criticized at the time by Nobel Laureates Paul Krugman and Joseph Stiglitz.

At the same time, according to a book by Paul Blustein, Summers, along with Paul Wolfowitz, tried to convince the Clinton Administration to effect a regime change in Indonesia.

All of this paled in comparison to the pain and damage inflicted on this nation and its people once he became Treasury Secretary. During the California energy crisis of 2000, Secretary Summers teamed up with Federal Reserve chairman Alan Greenspan and Enron executive Kenneth Lay to work over California Gov. Gray Davis, lecturing him that the cause of the crisis was excessive government regulation. Summers bullied Davis into further deregulating California's utilities and relaxing California's environmental standards in order to "reassure the markets."

However, nothing did more damage to this nation or more to cause this current crisis than the wrecking operation Summers led against any and all forms of financial regulation. As Treasury Secretary, Summers played the decisive role in convincing Congress to do what had been attempted, but failed, more than 12 times in 25 years: repeal the Glass-Steagall Act, which had been enacted in 1933 after the Pecora Commission catalyzed popular support for stronger regulation by hauling bank officials in front of the Senate Banking and Currency Committee to answer for their role in the stock market crash.

Immediately after taking over as Treasury Secretary, when the Administration, and especially the President, were distracted by other matters, Summers mounted a relentless lobbying effort to pass the Gramm-Leach-Bliley Act, which repealed key portions of Glass-Steagall, and allowed commercial banks to get into the mortgage-backed securities and collateralized debt obligations game. The measure also created an oversight disaster, with supervision of banking conglomerates now split among a host of different government agencies—agencies that, more often than not, failed to let each other know what they were doing, and what they were uncovering.

Another dirty little secret about Summers' tenure as Treasury Secretary was the role he played in torpedoing any regulation of derivatives trading. Just prior to moving up to the top post at Treasury, Summers became a singular and strong advocate, inside the Clinton Administration, for what was nothing less than a time bomb: Sen. Phil Gramm's (R-Tex.) other measure that let these banking-conglomerates-in-the-making create and trade derivatives without regulation.

Promoting Derivatives

Indeed, during a 1998 Senate hearing, Summers testified against the regulation of the derivatives market on the grounds that we could trust Wall Street! "The parties to these kinds of contracts," he said, "are largely sophisticated financial institutions that would appear to be eminently capable of protecting themselves from fraud and counterparty insolvencies, and most of which are already subject to basic safety and soundness regulation under existing banking and securities laws." He continued to defend over-the-counter derivatives and block all moves to regulate them, up through 2000, calling them "an important component of the American capital markets, and a powerful symbol of the kind of innovation and technology that has made the American financial system as strong as it is today."

It would be hard to make assumptions that turned out to be more wrong. Larry Summers was either the most corrupt and sinister Treasury Secretary in our nation's history, or the most incompetent one. However, his high-level managing position for D.E. Shaw, one of the most secretive of hedge funds, upon leaving office, would tend to argue in favor of the former.

Even more damning, though, was an op-ed by Summers in the Nov. 19, 2005 *New York Times*. In that piece, written upon the death of radical libertarian economist Milton Friedman, Summers makes the startling revelation that Friedman was "his hero." In the piece, which he entitled "The Great Liberator," Summers argues that "any honest Democrat will admit that we are now all Friedmanites," writing that Friedman not only made enormous contributions to monetary policy, but even greater contributions "in convincing people of the importance of allowing free markets to operate unencumbered."

It is little wonder, then, that an increasing number of economists and Democrats believe that President Obama is, as Rep. Peter DeFazio (D-Ore.) has stated, "ill-advised by Larry Summers." In January 2009, as the Administration tried to pass its stimulus bill, DeFazio, along with economists, including James Galbraith, Paul Krugman, and Joseph Stiglitz, argued that more of the stimulus money should be spent on much-needed infrastructure projects. DeFazio stated that he wasn't surprised that Summers favored more tax cuts instead. "Larry Summers *hates* infrastructure," he said. "[He] was very much part of creating the problem; now they're going to solve the problem? And they don't like infrastructure. So they want to have a consumer-driven recovery. We need an investment and productivity driven recovery for this country—a long-term recovery. Instead of borrowing from future generations, we should invest in future generations, and Larry is pretty much on record as being anti-infrastructure. . . ."

Yet, it is this man who right now has the ear of a President who campaigned on the need to overhaul and re-regulate the nation's financial and banking system, who wants to pass a sweeping social agenda, who says he wishes to be known as the President who initiated the construction of a continental high-speed, maglev transportation system, and who led the United States out of the greatest economic crisis in its history.

In order to save this nation and his own Presidency, it would do President Obama well to heed LaRouche's "Emergency Address to President Obama and the American People" of March 26 (see box).

Emergency Address to the President and the People

Lyndon LaRouche's emergency video address is posted on the website of the LaRouche Political Action Committee, at http://www.larouchepac.com/node/9757.

You may recall that I was the only person, back on July 25, 2007, who warned of exactly what has happened to the world economy since. Now, more recently, a few leading economists have come forth to, in their own way, support views which coincide with my own. I say, as an expert, to people who said the contrary over the intervening years, that this policy, which has been foisted upon the President of the United States, *can sink the United States and his Presidency very quickly.* There is no way the President could expect to survive, politically, from this policy, even in the relatively short term. First of all, it is incompetent, it is unconstitutional, and it will destroy the United States. And the people out there—not the liberals he's listening to, the higher-paid liberals—but the typical citizens out there, the lower 60% to 70% of the population, will turn against him harshly, *if he doesn't abandon this foolish policy*.

There is a solution, and there always has been one solution, since I specified that between July 25, 2007 and September of 2007: *Put this entire system into bankruptcy reorganization.* Take all the crap and throw it away! Reconstruct the banks according to *Glass-Steagall standards.* Bail out the banks. Don't bail out the creditors! Bail out the banks, by providing them credit, government credit, which enables them to build their way back to solvency.

Don't buy out the speculators! Don't bribe the speculators! Otherwise, you're not going to be President much longer, Mr. President.

I've been doing everything I can, to help you survive as President, and succeed. But *this*, this mistake you've made now, under bad advice—under *incompetent* advice!—can sink you, and sink the Presidency, and sink the United States. Because if you go down now, you're going to take the United States down with you. And you're going to get increasingly unpopular over the coming days and weeks. So change, now. Abandon this policy which is unconstitutional, in any case. And it's not only unconstitutional, *it's immoral!*

So, be a moral President: Reject this! And I am sure, that you will find that the great majority of the American citizens will come to your aid, if you do this.

Cut it out, now, Mr. President—it's a terrible mistake.

I'm the expert; I'm the best-qualified expert. Yeah, there are other people who agree with me, more or less, among leading people today. But I'm the expert, and I'm telling you: *Don't make this mistake. It's like political suicide. Stop it, now!*