

Obama Is Running Out of Time: Summers Has To Go Now

by Debra Hanania-Freeman

April 4—Lyndon LaRouche repeated on March 26, with even greater emphasis, what he had initially said during an international webcast on March 21: that President Obama had to fire Larry Summers, director of the National Economic Council, and hence, a top advisor to the President on economic policy.

Within days of the publication of LaRouche's call, which was accompanied by the release of documentation, that Summers' outlook and actions throughout his career were, and continue to be, explicitly contrary to the stated objectives of the Obama Administration (and to the American System itself), a tsunami of statements and articles expressing that sentiment flooded the print and electronic media, including the blogosphere.

A Carefully Calculated Attack

Nobel laureate Paul Krugman took to the pages of the *New York Times* on March 30 to rip into Summers for selling the Obama Administration on returning to the very policies that are responsible for destroying the financial system. After reporting on a recent, characteristically arrogant comment by Summers, that "I don't know of any economist who doesn't believe that better functioning capital markets in which assets can be traded are a good idea," Krugman suggests: "Mr. Summers needs to get out more."

The Administration is "still in the grip of the market mystique," Krugman correctly notes. "They still believe in the magic of the financial marketplace and in the prowess of the wizards who perform that magic....

But the wizards were frauds, whether they knew it or not, and their magic turned out to be no more than a collection of cheap stage tricks."

Back in the 1960s, Krugman says, the financial sector was small, boring—and it worked. Then, the lunacy of "securitization" took over, whereby everything imaginable was turned into a financial instrument, leveraged, sold, and resold. The problem is that the President has been convinced that, "once investors calm down, securitization—and the business of finance—can resume where it left off a year or two ago."

"As you can guess, I don't share that vision," Krugman stated. "I don't think the Obama administration can bring securitization back to life, and I don't believe it should try."

The cover story of the April 6 issue of *Newsweek* followed up the attack. The piece by Evan Thomas, entitled "Obama's Nobel Headache," leads with the introduction: "Paul Krugman has emerged as Obama's toughest liberal critic. He's deeply skeptical of the bank bailout and pessimistic about the economy. Why the establishment worries he may be right."

Thomas quotes Krugman as saying, "Larry has more faith in the markets. I'm more of an interventionist."

As the markets continue to go to hell despite massive injections of government liquidity, LaRouche noted that Krugman's comment was a carefully calculated attack, a subtle poisoning of the environment around Summers.

In an interview that was initially published on the



LaRouche PAC

LaRouche PAC organizers went to town with this organizing poster.

Democracy Now website, but soon picked up internationally, University of Texas economist James Galbraith called Summers' latest trillion-dollar bailout plan nothing but "a new derivative," designed to expand the market power of the largest financial institutions.

Galbraith has published other recent attacks on the bailout policy, one of which was discussed at length by LaRouche in his March 21 webcast (*EIR*, March 27, 2009). Galbraith's father, John Kenneth Galbraith, was an economic advisor to President Kennedy.

James Galbraith said that in the Summers securitization swindle, "the Treasury has half the capital and provides 85 percent of the value of the purchase in the

form of a low-interest, non-recourse loan that's designed to make the purchase of these so-called assets from the banks a highly profitable proposition for hedge funds and private equity investors and others who are in a position to risk their capital without having to face fiduciary consequences.

"And so, you know, it's something which I suppose there may be investors out there who think that they could make money off of this. But I'll tell you who it would be particularly attractive to, if they could get away with it, and that is the banks themselves or people acting on their behalf, because what it would mean is that, in effect, the banks can transfer—someone acting on behalf of a bank could arrange for the transfer—of a dollar's worth of these bad securities at face value for seven-and-a-half cents of risk. And that means that you're really, in effect, creating a conduit, which would just take these losses off of the books of the banks, put them on the books of the Federal Deposit Insurance Corporation. And I would say that would solve the problem for the banks, but it wouldn't solve the problem for anybody else."

The Lessons of FDR's New Deal

Like LaRouche, Galbraith has repeatedly pointed out that the crisis is systemic. On March 31, in testimony to the Senate Banking Subcommittee on Economic Policy, chaired by Sen. Sherrod Brown (D-Ohio), Galbraith continued his assault on the Summers plan, by referencing the lessons of the New Deal: "Like our present troubles, the Great Depression flowed from a collapse of the banking system and asset values—the Great Crash. This eliminated the possibility that recovery could be led by a revival of the financial system." He emphasized that social insurance and government employment, entitlements which neo-Friedmanite Summers abhors as fostering unemployment, were crucial elements of the New Deal's success, and that "the early New Deal's policies were not conceived as a 'fiscal stimulus,' but rather as programs to create jobs and for public investment."

In what was considered an ominous warning to Summers' Wall Street patrons, Galbraith also referenced the critical role of the 1932-36 Pecora Commission: "The Roosevelt Administration understood very well that the Depression originated in the Great Crash of 1929 and the collapse of the banking system of 1930. At the heart of the problem, as the Pecora investigations revealed, lay a culture of corruption, speculation, and

self-dealing on Wall Street....”

Galbraith has repeatedly urged President Obama to abandon Summers’ view that he must win the support of Wall Street to effectively deal with the current crisis, noting that President Franklin Roosevelt didn’t court the Wall Street bankers, but scorned them.

During the hearings, Galbraith pointed out that despite massive opposition from the financial establishment, FDR’s New Deal created 3.5 million jobs and reduced unemployment from 25% in 1933 to 9% in 1936. Quoting economist Marshall Auerback, Galbraith said, “The government initially hired about 60% of the unemployed in public works and conservation projects that planted over a billion trees, saved the whooping crane, modernized rural America, and built such diverse projects as the Cathedral of Learning in Pittsburgh, the Montana State Capitol, much of the Chicago Lake Front, New York’s Lincoln Tunnel and Triboro Bridge, the Tennessee Valley Authority, and the aircraft carriers *Enterprise* and *Yorktown*.”

Galbraith offered a sharp rebuttal to the Summers’ plan, arguing that monetary policy was never a key factor in FDR’s recovery plan; that FDR’s New Deal was “not a Keynesian stimulus,” but rather was comprised of economic programs whose aim and results were long-term qualitative transformations of the economy and improving the lives of Americans by building or renovating 2,500 hospitals, 45,000 schools, 13,000 parks and playgrounds, 7,800 bridges, 700,000 miles of roads and 1,000 airfields. It also employed 50,000 teachers and hired 3,000 writers, musicians, and artists.

Unfortunately, President Obama still hasn’t figured out that Summers has a vested interest in preserving the status quo of a corrupt and venal financial establishment, despite the fact that the White House’s own financial disclosure forms, released on April 3, show that Summers raked in more than \$5 million last year from the D.E. Shaw hedge fund, and collected \$2.7 million in speaking fees from the very same Wall Street companies that received government bailout money, including JP Morgan, Citigroup, Goldman Sachs, and Lehman Brothers.

It isn’t the only thing the President has failed to figure out. Despite having earlier stated strong disagreements with British Prime Minister Gordon Brown, at a press conference at the close of the G20 Summit in London last week, President Obama shocked many of

his supporters when he endorsed Brown’s entire agenda, expressing his appreciation for the work of Brown and his staff (see article on the Summit in *Economics*). He claimed for himself a decisive role in “forging a consensus.”

In a strongly worded statement, LaRouche pointed out that the British had clearly suckered the President, based precisely on this profile he has of himself as the forger of consensus. As a consequence, LaRouche said, Obama is “on the edge of going down. They didn’t have to control him, because he could control himself. This is tragic.”

An increasing number of the nation’s top leadership shares LaRouche’s assessment, and views Obama’s recent behavior in London, as well as his continuing embrace of the likes of Larry Summers in an effort to win the approval of Wall Street, as a betrayal of everything he has said he is committed to.

So far, the American people have been patient, but that patience is running out. If the President wishes to maintain the mandate the American people so graciously bestowed upon him, he is going to have to act quickly to restore their confidence that he is, indeed, committed to do what he promised. Firing Summers, and correcting himself on the G20, would be crucial steps in the right direction.