



WHAT CRASHED? Sunday, October 12, 2008

Every Sunday CUIP's president Jacqueline Salit and strategist and philosopher Fred Newman watch the political talk shows and discuss them. Here are excerpts from their dialogue on Sunday, October 12, 2008 after watching "The Chris Matthews Show," "The McLaughlin Group" and "This Week with George Stephanopoulos."

Salit: There seems to be across the board agreement, to use James Baker's phrase, that 'This economic crisis is bigger than the private sector can take care of by itself.' At this point in the process, I'd call that a bit of an understatement. But, there are discussions going on about the connection between the crisis in the financial markets and the state of the overall economy. Larry Summers, former Treasury Secretary, said on *Stephanopoulos* that 'The financial system can't be made any healthier than the overall economy.' Presumably, Summers feels that balance needs to be attended to. Mort Zuckerman, who we saw on *McLaughlin*, seems to have a slightly different take on this. Of course, he agrees this is an unprecedented financial crisis. But, when talking about the differences between 1929 and today, he observes that there are so many sectors of the American economy, including the public sector, that are insulated from the financial markets and from the downturn. I guess he's suggesting that the economy is healthier than one might think, and that what's going on in the financial markets may not dramatically effect what he calls the "real economy." So, I'm not asking you this question as an economist, because you're not an economist, but you are a Marxist and a methodologist. I'm wondering what you think about this relationship between the state of the financial system and the overall economy.

Newman: What's most critical about it, it seems to me, is the relationship between the ways each of those two economic sectors create value. There has to be a balance between those two. If the financial world grows, or as it grows in ways that are completely out of whack with the capacity of the overall economy to develop in a positive way, then you have very, very significant problems.

Salit: And it's a problem that feeds on itself.

Newman: Yes, because it drives investors – large and small – in the best tradition of human greed, to turn to where it appears they can make the most dough the most quickly, regardless of the ways in which that undermines the creation of value, the creation of real growth based on actual development. So, the way in which the financial community has been making money, is properly under scrutinization. But one question, at any rate, is whether it might be too little and too late.

Salit: So, what "crashed" – on this view – is the relationship between the activity of the financial markets and the "real" growth of the economy.

Newman: That gap just got stretched out too far. This is perhaps a simple-minded characterization, but it seems to me that Wall Street is supposed to maintain some degree of balance or concern, even in a self-regulatory way, between how it's creating wealth and how the society overall is creating value.

Salit: But they didn't.

Newman: No, and people went along with it, including people who saw some of the inherent problems. No one complained about it very much. Neither Democrats or Republicans. They thought it might be where American productivity had come to. But, it does seem clear to me that you can't depend on paper value indefinitely. It has to have a connection to the real economy. Now, will government have to play a big role in connecting this? Yes. No question. As Jim Baker said, the private sector lacks the scale needed to solve its own problems. Of course, people are still subliminally fighting some underlying philosophical battles about how much government involvement they want.

Salit: Yes. So, now to fixing the problem. Larry Summers says, 'You could say that the problem on Wall Street was that there was too much greed and not enough fear.' But now, he says, 'The problem is there's too much fear' And then he stops talking.

Newman: He didn't complete the analogy.

Salit: No, he didn't. He didn't say *And not enough greed*.

Newman: Well, you can't say that politically.

Salit: No, you can't really come out openly for more greed.

Newman: But, some people think you can assert that we have to look out for number one.

Salit: Meaning?

Newman: Don't give anything else away. Nobody else is going to. That was Pat Buchanan's argument on *The McLaughlin Group*. More nationalism is an acceptable form of American greed. I don't know if I'm sympathetic to that. I know I'm not sympathetic in philosophical terms. But even in relatively practical terms, I think globalization has gone too far for that to be a real possibility.

Salit: For economic nationalism and the policies that flow from it to be viable.

Newman: Frankly, I think that's just his ideological point of view coming out in some opportunistic ways. So, I don't know that the G-7 has to make a decision by 11 a.m. this morning. But they're going to have to find some ways of looking at this

internationally. And I suspect they will. Now, is there going to be big resistance to that? Yes. Of course. That's what globalization amounts to.

Salit: Alright, so more on fixing the problem. George Will says 'Well, what's going on right now is public policy as psychotherapy.' And he was being cute and provocative, but I presume this is his way of talking about how a system, how a society, reestablishes trust. Even Larry Summers, a former Treasury Secretary who has a lot of command of the details of what has to be done to fix this, talks about "trust" as the fundamental issue. And trust is both subjective and objective. Do you have to establish "trust" in order to make things happen that solidify the markets or do you have to solidify the markets in order to create trust?

Newman: And the answer is "Neither." You have to do something about the relationship between the two. And so, ultimately – if there is an ultimately – that will happen. And I think the movement is going to go in the opposite direction of nationalism.

Salit: The opposite direction?

Newman: Yes, I don't know if it's quite internationalizing the economic system, but it's at least away from nationalism. And Pat Buchanan, I think, is blind on this. He just doesn't like it. It doesn't suit his temperament or politic. But it happens to be what's happening.

Salit: Well, to make the obvious point, any reforms that would tie the hands of American finance capital from participating in the global market, would be strongly resisted.

Newman: By pretty much everybody.

Salit: Except Pat Buchanan.

Newman: Which is why he got .3% of the vote when he ran for president.

Salit: Exactly.

Newman: Despite the fact that he was enormously popular. Many of his ideas are interesting, but they're out of whack with where the world is at.

Salit: Dan Balz from the *Washington Post* talked about the ways in which these events have overwhelmed everything in their path, the policymakers, the political leadership, the president, the Congress, the candidates for president.

Newman: It hasn't overwhelmed everything in its path. It just looks that way, because it is everything. It's the world situation. What's the "path" separate from the entirety of

this world situation? I think that people are still using language which suggests that there's something else than what there is.

Salit: OK.

Newman: It's the same thing with the confidence and trust issues. George Will's remark reveals his misunderstanding of psychotherapy. Of course, you've got to engage the real world in psychotherapy. You can't just say to a person, *Well, this is horrible, this is horrible, this is ghastly, this is awful, this is terrible, but you should maintain your confidence.* You can't say that to a real person. You've got to engage the interconnection between the two, because that connection – or lack of connection – produces varying degrees of pathology. It's not just about what's going on in the mind, but what's going on in the world as well.

Salit: So, how do you think about this? Dan Balz's narrative is the crisis starts, the bottom falls out of the housing market, the markets start to tumble, and then Henry Paulson and Ben Bernanke and the president (sort of!) get up and say 'Here's what we need to do and we've summoned all the top corporate financial leaders in the country, and we've met with everybody over the weekend' – you know, which makes it seem like it's really serious because they had to do it over the weekend – 'and now we have a plan.' And then, two weeks later, they're back at the table because the plan didn't address the full depth and breadth of the unraveling, because the unraveling is continuing, in new and different ways. I ask you about this both as a political person, and also as a psychotherapist. Is this experience of institutions being overrun by events, by the world as it were – do you take that to be a new and different kind of thing?

Newman: Well, it both is new and different and it's also comparable to other situations. It's not identical to other situations, but comparable. It's one of those points where you have to say, with proper intonation, it is what it is and not another thing. That's what it is. There's no world other than the world that they're talking about and relating to. It's not as if there's another world we can turn to.

Salit: Let's talk a little about the effects of all of this on the campaigns, which is probably a funny formulation too, since the effect of "all of this" makes it sound like something other than the world in which the campaigns are taking place. This just happens to be what the world in which the campaigns are taking place looks like at this moment in time

Newman: Yes.

Salit: But, they were talking about the "negative" attacks coming into the homestretch.

Newman: So, what else is new?

Salit: Right. So, more than one commentator observed that the attacks, in particular the attacks coming from the McCain/Palin camp on Obama, that the attacks 'are not working in this economy.' OK. So there's a premise that's operative here, which I suppose is *Negative attacks generally do work, but they're not working today and that's because of the economic situation.*

Newman: Well, they still work. But, I don't think they work quite as well because people have their focus on something else. I don't think it's more complex than that. And that's true. It's accurate to say that the economic situation favors the outsider as opposed to the incumbent party. George Bush was an enormous negative for the Republicans going into this. And he's no less of one now. So, and this is the dialectic of these things, it's that situation that further forces McCain into using the attack mode.

Salit: And how do you react to Paul Krugman's remark 'It's going to be very ugly after the election.'

Newman: It was very ugly before the election. As you well know, the major party system, meaning two party politics, is structured for this kind of ugliness, and we see it in different degrees and different ways. Has it changed? Well, in some respects. But it's structural, literally, in its design. However, it produces a lot of things that people like less and less, particularly for the newer people on the planet. So, there's a generational aspect to it. The new generation is polarized within itself, but strategically, acceptance of negative campaigning is on a downward curve. People are looking for non-polarization, and, arguably, that's starting to happen. After all, we managed to get here. Obama is black and leading in the polls to become President of the United States. Will he succeed? I don't know. Could there be a last minute this or a last minute that? Of course. I don't know what will happen. Election Day is three weeks away. We're all going to have to learn to be a little less impatient.

Salit: Thank you.