



THE FLY BOTTLE

Sunday, November 16, 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, November 16, 2008 after watching "The McLaughlin Group," "The Chris Matthews Show" and "This Week with George Stephanopoulos."

Salit: Yikes, what a mess. There are a lot of things that aren't working.

Newman: That's an understatement.

Salit: Paul Krugman, the economist, was on the Stephanopoulos panel. They were talking about the auto industry, about whether the government should bail out the Big Three automakers. The industry is about to go under. There are three million workers involved and Krugman says that if this were 1999, under more normal circumstances, he'd favor having the Big Three go into bankruptcy. This sets in motion a restructuring of the companies but allows them to continue to operate because they can access credit while they are in bankruptcy. But the problem now is that the credit markets are frozen and so bankruptcy is really not an option in this situation. And, of course, the credit markets being frozen is a function of the meltdown on Wall Street. So, you're basically left with only two options: Chapter 7, which is liquidation. Or a bailout. Then the "go for the bailout" argument runs up against the agitated response "Well, is this a free market economy or not?" The auto industry has refused to innovate. It's refused to create products to allow it to be competitive, etc. Where do you draw the line on the bailout process? That's the fly bottle that the American economy is stuck in. How do you think about working out of that? How does Obama think about working out of that? How do we, as a country, think about working out of that?

Newman: I don't know. In some ways, the question seems as complex and hard to me as: "This is how the system that we, collectively, the United States set up and – forget about who did it or why it happened – it's no longer working." So, what do you do? You keep investing money in the system that you've set up, because that's what worked for you before. And what's happening with that approach? So far, it fails more. So, what do you do? You either let it fail more and hold your breath. Or you come up with some reforms of that system which, in some ways, nobody wants to do. Why? Because it's a very big system and you don't want to change the whole system because you don't know what you're going to wind up with.

Salit: You don't know where that will take you.

Newman: Right. So, you try to make the smallest possible changes in the system. But that might be the fastest road to failing altogether.

Salit: Yes.

Newman: What do you do? I don't know. What's the process by which you decide that? Well, it turns out that the American people just weighed in and said: *Change it.*

Salit: Change with a capital "C."

Newman: Which is not how America does things. That's not a method by which we deal with these kinds of things. What will Bush and the current Congress do? I think, by and large, they'll continue to do nothing and try to maintain. What does Obama do, in the face of that? Obviously, that's what he's trying to determine.

Salit: Do you think the American people voted for change with a capital "C"?

Newman: You might say that or you might say they voted, at least in substantial measure, to get rid of the people and/or the approach which got us into this disaster. Which is not necessarily the same thing as voting for change with a capital "C."

Salit: OK.

Newman: The American people are saying, if you listen to them carefully: *We've gotten into this trouble before. And we've gotten out of it.*

Salit: Yes.

Newman: After all, there's something potentially conservative in the vote for Obama. It could be interpreted to mean that many Americans think we've been excessive in the way we have characteristically dealt with economic crises, as in extreme deregulation vs. dramatic welfare statism, and that what we really have to do is something more ordinary, rather than excessive. Some people might argue there's a third camp.

Salit: A third camp?

Newman: The third camp being to find a clear workable, pragmatic distinction between a conservative and a much more liberal approach. Is there one? It's not clear that there is.

Salit: When you said that one way to look at the vote for Obama is that it's a conservative vote, I thought you might have meant that many people are thinking *America's been in a big jam, a Great Depression, before and we worked our way out of it. So we want you, Barack Obama, to come in and be the president and work the country out of it. And we are confident that you can do that.* Certainly the polls show that. The polls show 72% of Americans think that Obama can fix the economy.

Newman: But they don't know what fixing it is going to entail.

Salit: No.

Newman: Of course, they believe in Obama. And 97% of Americans believe in God, but it's not clear that God has a workable plan for this.

Salit: OK. But the point of my question is this. Is the fact that America has worked its way out of a great crisis before something that people can be comforted by? Does that fact make it more reasonable to expect that it can be done this time, too?

Newman: Who knows? There's a big distinction between having gotten out of the Depression and getting out of one again. Those are two very different things.

Salit: Yes. And we see a recognition of that in the reports coming out of the world economic summit. Twenty nations gathered in Washington and discussed a "road map" for updating and overhauling a range of financial regulations on an international basis.

Newman: Bush doesn't like any of that.

Salit: No, not at all. The Europeans do. But the most important thing about the meetings is that they took place and twenty countries, rather than the usual seven or eight took part. And they did entertain the idea of regulators having cross-border authority, even though the group took no action.

Newman: The next meeting is scheduled for April – about 100 days after Obama takes office. That's when Obama is going to have to articulate and define how he sees the United States participating in such a global reordering.

Salit: How does he weigh all that, do you think?

Newman: I don't presume to know. But I think some of the big factors have to do with the triadic relationship between the U.S., Europe and China. Obama will need to further develop U.S.-China trade and financial ties, but he will also want to make sure that Europe remains a dominant financial and economic player. So, he will have to calibrate how much he is willing to further empower China, which can be good for the U.S. economy, and how much he wants to help shore up the European position. All of this has to be framed against the backdrop of government-sponsored economic stimulus for the U.S.

Salit: Well, no wonder he focused on the puppy at his press conference! Thanks, Fred.