Obama's Economic "Dream Team"?

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Dream on if you believe it, and something must be up if Karl Rove says it. In a November 28 Wall Street Journal op-ed, he called it "a first-rate economic team" while at the same time objecting to possible (not yet announced) stimulus package elements not entirely to be the kinds "conservatives" prefer like tax cuts for the rich. He nonetheless called Obama's team "reassuring" and hopes it will leave a "market-oriented imprint."

Not to worry, as that's what it's there for – the privileged elite and not the other 90% or more who at best will be very stingerly aided, and as economist Michael Hudson points out to let them repay their bank debts.

On November 24, Obama made his long-awaited announcement – his economic team to lead the nation out of its worst ever economic crisis, a task perhaps more than even Houdini could handle according to economist and author F. William Engdahl.

Nonetheless and with fanfare, the major media highlighted them with commentaries ranging from cautious to enthusiastic. The Wall Street Journal for example as follows:

"The advisors Mr. Obama named on Monday hail from the centrist part of the Democratic Party. During the Clinton years they played an important role in turning a budget deficit into a surplus. Now they argue the worsening economy requires steep deficit spending."

The New York Times stressed the ailing economy, prospective measures to help jump-start it, and efforts to "inject confidence into the trembling financial markets" that for the moment at least were reassured, or so it seemed.

Not for long according to Merrill Lynch economist David Rosenberg in a recent commentary. In January, he was the first Wall Street economist to predict recession, called it an "epic event," and said it will be long and painful as a result of at least three major shocks – credit, housing and oil.

He now sees the S & P 500 bottoming at around 660 or a 61.8% reversal from its high. Others see it even lower given a policy response "to get people to (spend more,) add to their debt burdens," and exacerbate the very problem that created the crisis. Rosenberg says it's "like giving an alcoholic another drink for his cure. We have a situation where Congress (and the Obama administration) want more credit created, even though it was excess (debt and) leverage that got us into this mess." In other words, the cure may be worse than the disease if the Obama team continues the same failed Bush administration policies, and it looks like they will.

In earlier comments, Rosenberg offered a different prescription in saying for the US economy to expand, savings must rise to the pre-bubble 8% level, housing stocks must come way down, and the household interest coverage ratio must fall to 10.5%. The future he sees is "frugality" with households having to make very different sorts of spending decisions than the kinds they've been used to for years. Those days are over.

So is world stability according to UK Telegraph writer Ambrose Evans-Pritchard in his latest November 30 commentary. He sees the "political bubble bursting (with) spreads on geo-strategic risk now widening as dramatically as the spreads on financial risk at the onset of the credit crunch."

From Mumbai to worker unrest in China to Eastern Europe and Russia at a time when it's "too early in this crisis to conclude whether Europe's monetary union is a source of stability, or is itself a doomsday machine" given the growing rift between "North and South" countries and Germany's reluctance "to unpin the system with a fiscal blitz."

He compares today to the 1930s. After the crash, stocks rallied sharply for months as though the worst was over. It was just beginning but who could know at the time. "The crisis came in pulses, each followed by months of normality – like today. The global system did not snap until September 1931," after which one event led to another and they were all bad, both political and economic. Who knows what's ahead today at a time debt excesses are far greater than then, and this is what Obama's team will confront.

According to Paul Krugman on December 1:

— today's economic indicators are worse than at any point during Japan's 1990s contraction;

— all conventional policy tools aren't working;

— consumer spending is in free fall;

— investment spending is plunging;

— unemployment may top 10%; and

— recovery won't occur before 2011.

According to Oppenheimer & Co. analyst Meredith Whitney, US credit card lenders may withdraw over $2 trillion of lines (or about 45%) over the next 18 months because of regulatory changes and to minimize risk. She calls credit cards the key source of consumer liquidity after jobs. As a result, she expects sharp consumer spending declines.

Millions of accounts will be closed, credit lines cut, and interest rates raised to minimize a tsunami of expected defaults. Whitney also said that "the entire mortgage market hit a wall, and we believe it will, for the first time ever, show actual shrinkage over the next few months." The credit card market is 18 months behind mortgages and will begin contracting in 2010. She also expects a further 20% drop in home prices, earlier called Citigroup a goner, said it can't remain in its current form, and believes it's in such a mess that even (distinguished mathematician and physicist) "Stephen Hawking couldn't turn this company around."

She didn't say but may feel the same about most other major banks. In early November she called the economy and financials "so far off the tracks it's hard to see anything helping right now.” Securitization isn’t coming back, the entire mortgage market is contracting, banks aren’t lending, loan balances are getting smaller, and bank earnings going forward will be up to 70% less than consensus forecasts, and she calls this conservative. Banks are in big trouble, and none are immune.

“Dream Team” Selections

Timothy Geithner

Currently the New York Federal Reserve Bank president and vice-chairman of the Fed Open Market Committee (FOMC), he’ll head the team as Treasury Secretary along with current Fed chairman Bernanke whose term runs until January 31, 2010.

After his education, he joined (international consultants) Kissinger Associates for three years and then the US Treasury’s International Affairs division in 1988. He remained at Treasury in various posts until 2002 when he left for the Council on Foreign Relations as a Senior Fellow in the international economics department. He also served at the International Monetary Fund as director of Policy Development and Review from 2001 – 2003 after which he was named New York Fed president.

With these credentials, he’s an insider’s insider and hardly a surprising pick. Wall Street approved with a sharp rally that continued through Thanksgiving week as others on the economic team were also praised. And why not, elitists all and assembled for a common purpose that hardly needs explaining.

Geithner’s been partnered with Paulson and Bernanke in their Treasury-looting scheme. His appointment signals more of the same which is why Wall Street approves. It’s also reported that he was the principal architect behind the Bear Stearns bailout, and various other deals, including Fannie and Freddie, Merrill Lynch, Washington Mutual, Wachovia, the demise of Lehman Bros., Citigroup, and AIG.

It’s gotten $150 billion so far (and counting) to buy some of its collateralized debt obligations (CDOs) to clean out its credit default swap (CDS) insurance on them. But the effort only deals with a small part of AIG’s CDSs, and its woes are similar to what ails all of Wall Street. If Geithner won’t address them any differently, he’s the wrong man at the wrong time for a vital task to cure a very sick economy.

Take the $55 trillion CDS problem alone. If enough of them default in the coming months, no amount of bailing will save things. Yet Paulson and Geithner believe these levered bets should be paid in full.

With what, short of reckless amounts of currency debasing? The alternative apparently is off the table – the fiscal sanity of letting bankruptcy be the price for financial imprudence. In other words, take the pain upfront and not let this monster of a problem drag out for a decade or longer, leave much greater wreckage in its wake, and threaten world economies with it. Geithner will apparently risk it, and even by Las Vegas standards it’s a very bad bet.

It affects the entire financial industry as well as companies with high-risk debt like the auto giants. Even Warren Buffett’s Berkshire Hathaway who’s warned repeatedly about the problem, and this is only one among others that would challenge the most dedicated and talented of policy makers. Based on what he’ll likely do, Geithner isn’t one of them, but try hearing that through the din of praise for him.

It remains to be seen but he'll likely continue the same failed bailout policies, pile more debt on the current unsustainable amount, and add lots of (real estate) infrastructure fiscal stimulus for the rich. As economist Michael Hudson explains:

"To a mortgage banker, a commercial developer or real estate company is a prime customer, the bulwark of bank balance sheets. It is hard to imagine a new American infrastructure program not turning into a new well of real estate gains for the FIRE (finance, insurance and real estate) sector. Real estate owners on favorably situated sites will sell out to buyers-on-credit, creating a vast new profitable loan market for banks. The debt spiral will continue upward" and make a monster of a problem even greater.

Given how strapped state and city budgets are, "privatiz(ation) from the outset" is planned and Geithner got the job to do it. He's not for "change you can believe in" or what people voted for from Obama.

Hudson again: "The change that Mr. Obama is talking about is largely marginal to (the top 1%'s) wealth, not touching its economic substance – or its direction." He may give wage earners some relief (to pay off their bank debts), but top earners "prefer not to earn income" and rely heavily on capital gains. They try to avoid losses and when can't get the government to bail them out. Obama supports it, so expect billions more for the rich, crumbs for the many, and torrents of high-sounding platitudes to soothe them.

Hudson compares Obama to Boris Yeltsin – a giver who kept on giving "for the kleptocrats to whom the public domain and decades of wealth were given with no quid pro quo." And he's assembled the same ("anti-labor, pro-financial team") that empowered Russia's kleptocrats, let them loot the country, and for the most part keep it.

His key economic advisor, Robert Rubin, was Clinton's Treasury Secretary. After leaving, he helped manage Citigroup close to collapse where it may end up anyway since it's problems are so huge perhaps no amount of billions may save it. Now he's manipulated his protege team into top posts (including Geithner) with the rest of them profiled below.

Even the Wall Street Journal criticizes Rubin for defending his role and taking no responsibility for Citi's problems. The Journal asks:

"Why are Robert Rubin and other directors still employed? Another Sunday night, another ad hoc bank rescue" with taxpayers footing the bill. "Such a record of persistent failure suggests a larger, (perhaps) systemic management problem. If taxpayers have to risk so much to save Citigroup, then regulators should at least exert the discipline to break up this behemoth so it is never again too big to succeed, much less fail."

What the Journal didn't say is that any bank or business too big to fail is too big to exist, and anti-trust laws should never let them get this big in the first place.

As for Rubin, are his choices right for high Obama administration posts? Might they not wreck the economy the way Rubin & company hurt Citi. Worse still, were picked to do it – to suck all possible trillions out of it, then leave behind an empty hulk and mass human wreckage when they're done. Under Bush, we're well along toward it, so maybe Wall Street chose Obama to finish the job.

Lawrence Summers

Seeing how Wall Street loves him is reason enough to worry as he's slated to be Obama's chief economic advisor as head of the National Economic Council (NEC). This writer's November 10 Obama Mania article said this about him:

"From 1982 – 1983, he served on the Reagan administration's Council of Economic Advisors. Then in 1993 in the Clinton administration as Under-Treasury secretary for International Affairs and as Treasury Secretary from 1999 – 2001. Earlier from 1991 – 1993, he was chief economist for the World Bank where he authored a controversial memo stating that "the economic logic behind dumping a load of toxic waste in the lowest wage country is impeccable and we should face up to that."

"Summers was later president of Harvard University from 2001 – 2006 where controversy again dogged him. For his contentious relations with faculty members and for suggesting that the presence of few women in upper-level science and math positions was because of innate differences between men and women. The combination led to his 2006 resignation."

"He now teaches at Harvard's Kennedy School of Government, is a consultant to Goldman Sachs, and is a managing director of the DE Shaw & Company hedge fund. His name is being floated as the leading candidate for Treasury secretary, and as Michel Chossudovsky states: "Putting a Hedge Fund manager (with links to the Wall Street financial establishment) in charge of the Treasury is tantamount to putting the fox in charge of the chicken coup," and more evidence that Obama plans the kind of business as usual that he pledged to get rid of."

Treasury no, NEC yes where along with Geithner and Bernanke he'll be foxy indeed, and look at his record. In the 1990s, he helped deregulate financial markets with among other measures the 1999 Gramm-Leach-Bliley Act that repealed (1933 enacted) Glass-Steagall. It let commercial and investment banks and insurance companies combine and opened the door to the kinds of rampant speculation, fraud and abuse that created today's mess.

In 2000, the Commodity Futures Modernization Act (CFMA) came next. It was so odious it had to be tucked undebated into an appropriations bill near the end of Clinton's tenure. It legitimized "swap agreement" and other "hybrid instruments" at the core of today's problems. It prevented regulatory oversight of derivatives and leveraging and turned Wall Street sharks loose on unsuspecting investors.

It also contained the "Enron Loophole" for its "Enron On-Line" – the first internet-based commodities transaction system, unregulated to let Enron do as it pleased, and the rest, as they say, is history.

After his World Bank tenure, Summers joined the Clinton administration in 1993 where he served as Treasury Under-Secretary for International Affairs and later as Secretary. As a result, he played a major role in a decade Professor James Petras calls "the golden age of pillage." Summers was involved in all economic policy decisions ranging from fiscal ones to NAFTA, WTO, and various neoliberal responses to the decade's financial crises:

— in 1995, the destruction of Mexico's economy by raising interest rates to unmanageable levels and all of NAFTA's wreckage ;

— pillaging Russia that began before his tenure, continued throughout the decade, and exploded during the country's 1998 financial crisis; and

— the 1997 Asian crisis; manufactured in Washington; debt bondage and open markets became the solution, and human wreckage the price for resolution.

At the end of his tenure, Summers was awarded the Alexander Hamilton Medal, the Treasury department's highest honor.

Bill Richardson

He'll become Commerce Secretary, is currently New Mexico's governor, and served earlier in the Clinton administration as Energy Secretary and UN Ambassador. He's a former congressman, was Democratic National Convention chairman in 2004, and Democratic Governors Association chairman in 2005 and 2006. He also earlier worked for Kissinger Associates and sat on various energy company boards of directors.

Peter Orszag

Another Rubin protege, he'll become Office of Management and Budget director. He earlier was on the Council of Economics Advisors under Clinton and has been Congressional Budget Office director since 2007. In 2004, he co-authored a book titled "Saving Social Security" in which he predicts its insolvency and advocates a revamping by a combination of payroll and "benefits adjustments" – meaning slow destruction by cutting retiree payouts.

Jason Furman

Reportedly to become a senior economic adviser, he also wants Social Security benefits cut and the System privatized for Wall Street. Under the Clinton administration, he served as a special assistant to the President for Economic Policy and on the Council of Economic Advisors staff. He also headed the Brookings Institution's Hamilton Project, a Robert Rubin-founded economic think tank advocating the policies he supported as Treasury Secretary that left human wreckage everywhere.

Christina Romer

A University of California Berkeley economist, she's been a career academic thus far and will become Council of Economic Advisors (CEA) chairperson. She's a student of the Great Depression, a monetarist, reportedly centrist, and according to UC Berkeley Professor Brad DeLong she's receptive to short-run fiscal stimulus but believes that large deficits are harmful.

Paul Volker

Now age 81, he's a Trilateralist, corporatist, former (Rockefeller) Chase Manhattan Bank executive, and ideologically far to the right of center. He earlier served as Fed chairman from 1979 under Jimmy Carter and Ronald Reagan until Alan Greenspan replaced him in 1987. He's been a key Obama economic advisor and will head a special Economic Recovery Advisory Board to oversea financial markets stabilization policies.

He's no friend of working people and proved it during his tenure as Fed chairman. In fighting high 1970s inflation, he engineered the 1981 – 82 recession by raising the Fed funds rate to 20% in June 1981 (compared to 1% currently and nominally near zero).

In fact, his role was far more than fighting inflation. It was to destroy family farms, crush labor, reduce wages, lower living standards, send unemployment soaring, rev up deindustrialization, and supercharge the early years of financialization and casino capitalism. In August 1981, he openly praised Reagan's firing of 11,000 striking PATCO air traffic controllers, an act that told business that the day of worker demands was over and corporate interests above all others would be served.

Volker's been out of Washington for a while, and as one observer puts it: He's "like a criminal returning to the scene of the crime." He'll continue bailing out bankers, the auto giants as well, aggressively serve business interests overall, and do it at the expense of working people who'll end up worse off than ever under him and the entire Obama economic team. It's not "change to believe in" unless you're a Wall Street banker assured of getting no other kind.

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