

Obama's flunking economy: the real cause

Ezra Klein observes the people around the US leader

Ron Suskind's *Confidence Men* is not a calm first draft of history. It is not an impartial or unbiased look at the Obama administration's first two years. Rather, it is an investigation. The crime is homicide, and the victim is the promise of Barack Obama's presidency.

But this isn't a suspenseful whodunit. Suskind tips his hand in the first pages. He's describing the press conference in September 2010 where President Obama announced that Elizabeth Warren would help set up the Consumer Financial Protection Bureau. The mystery is why Obama seems to be holding her at arm's length.

It's quickly solved. The villain of this vignette and one of the key villains of the rest of the book is "the boyish man in the too-long jacket at Obama's right hip, bunched cuffs around his shoes, looking more than anything like a teenager who just grabbed a suit out of his dad's closet."

So who is this man-child who can't find a properly sized suit to wear to the Rose Garden? "That's Treasury secretary Tim Geithner," Suskind says, "looking sheepish."

Suskind's book doesn't just have good guys and bad guys. It has good guys who look like good guys, and bad guys who squirm beneath the weight of their badness.

Of Larry Summers, Obama's first director of the National Economic Council, Suskind says that his personality "recalls that of Nixon and Henry Kissinger, or, more recently, Dick Cheney." As for Rahm Emanuel, Obama's first chief of staff, he's "all impulse and action, with very modest organizational skills."

I mentioned this was a murder mystery, so I won't leave you in suspense about the perpetrator: Suskind's investigation leads him right to Obama's senior staff, who he believes took advantage of the young president's inexperience and led a refreshingly unconventional candidate into a depressingly conventional presidency.

Suskind's story goes something like this: In 2008, Obama was presented with an economic crisis of astonishing severity and complexity. In the beginning, he showed himself to be unexpectedly prepared to deal with it, both intellectually and temperamentally.

His self-assurance and personal magnetism attracted a variety of impressive and able advisers, including former Federal Reserve Chairman Paul Volcker, billionaire investor Warren Buffett, UBS America chief Robert Wolf, former Labor Secretary Robert Reich, and former SEC Chairman William Donaldson.

But as "the severity of the crisis bore down on him," Obama found himself leaning toward a different sort of adviser: safer, more predictable. He wanted people who knew Washington, and knew how to get things done.

The "bold visions of the campaign season had meanwhile resolved into the serious, often risk-averse business of actually governing," writes Suskind. "In the midst of a battering economic storm, it no longer seemed like the right time to be making waves."

If you want to know what killed Obamaism,

the answer is the stagnant economy. No president, no matter how politically graceful or personally confident, looks good in the midst of an economic crisis. Americans don't want leaders so much as they want jobs. And that's Obama's problem now, too.

The great counterfactual of Suskind's book is, "What if Obama had chosen a different team of advisers?" But by the end of his book, the counterfactual was coming true. Emanuel was out. Summers, too. Christina Romer, head of the Council of Economic Advisers, had left, and so had Peter Orszag, the first budget director. Even David Axelrod, Obama's longtime political adviser, was decamping back to Chicago. Only Geithner remains.

In his conclusion, Suskind seems appreciative of the replacements Obama chose. "Following the midterms," reports Suskind, "the president seemed to be assembling the team he'd originally wanted."

That was almost a year ago. Today, Obama's poll numbers are weaker than ever. The political betting markets give him a less than 50 percent chance of being reelected in 2012. Why? It's that unemployment is stuck above 9 percent. It's that a double-dip recession is a real possibility.

Obama's fortunes won't rebound until the economy rebounds. And so any account of what he has done wrong, or what he could do right, needs to provide, first and foremost, a persuasive case of how the White House could have done more to promote an economic recovery over the last three years, or could do more to accelerate one now.

Suskind's narrative takes place in the White House. But the economic response really took place elsewhere. Almost anything the White House wanted to do that would cost money had to be authorized by Congress. Tax cuts? State and local aid? Infrastructure spending? Nationalizing the banks? Congress. Giving bankruptcy judges the power to write down mortgage principal? Direct-employment programs? German-style work-sharing programs? In each case, Congress.

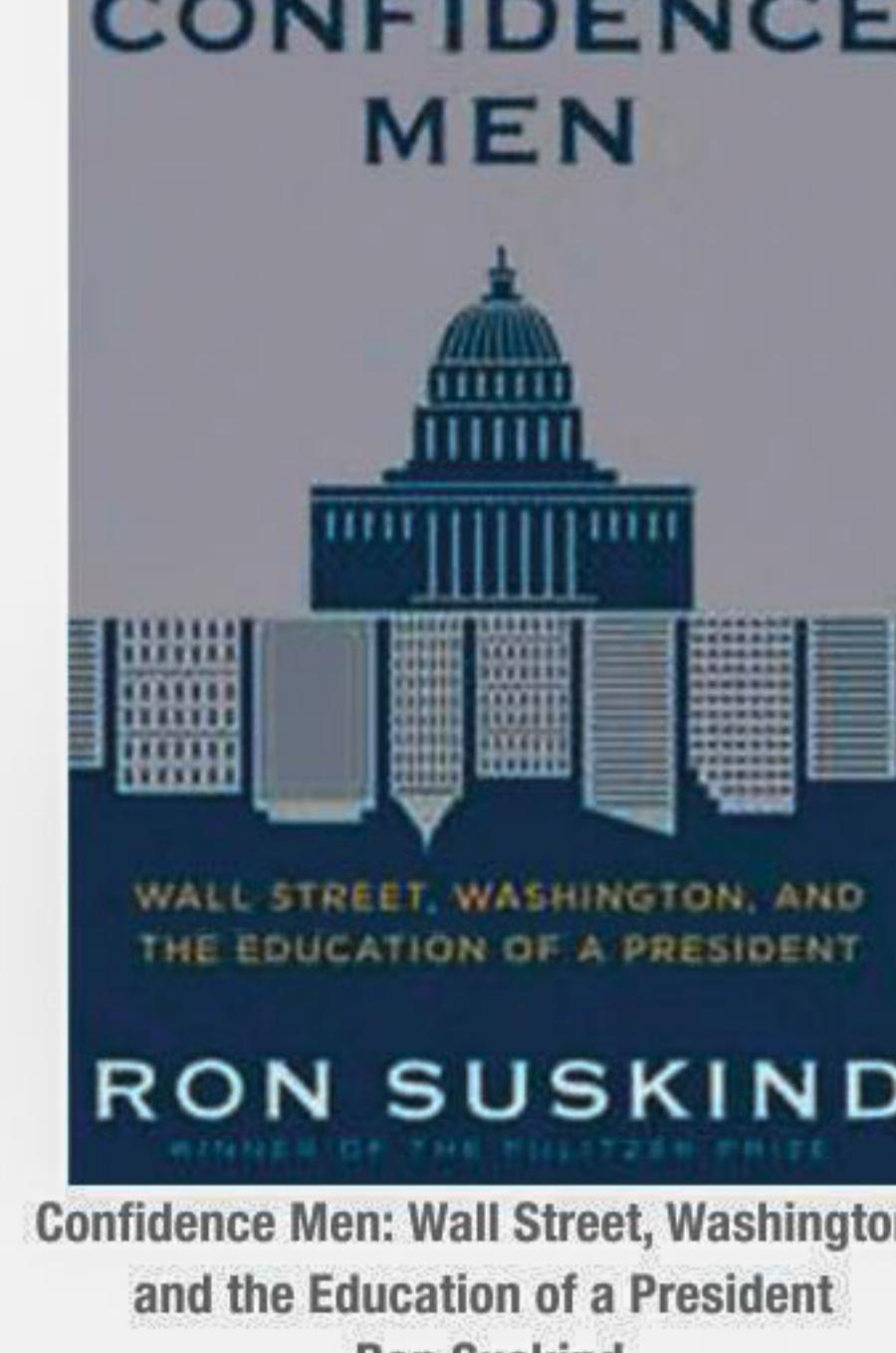
It is easy to tell the story of what the White House did wrong in its response to the financial crisis: It underestimated it. It had good reason to underestimate it, of course. Almost everyone was underestimating it. In the fourth quarter of 2008, when Obama's economic team was meeting in Chicago to map out their policies, the Bureau of Economic Accounts thought the economy was contracting at a rate of 3.8 percent per year. It wouldn't be until this year that we learned the economy was really contracting at a rate of 9 percent.

The observers who got it right were the ones who could tell a story that didn't rely on the early data. Kenneth Rogoff and Carmen Reinhart, who would publish "This Time Is Different: Eight Centuries of Financial Folly," their epic history of financial crises, in late 2009, saw that the recovery would be slow and tough. Economists like Paul Krugman and Joseph Stiglitz, who were more knowledgeable about the struggles over recession in Japan and

had their own Keynesian understanding of financial panics, were also suitably pessimistic.

But early mistakes can be corrected. If the initial stimulus is too small, you make it bigger. If your housing policies are too modest, you toughen them up. If the private sector sheds jobs and long-term unemployment becomes a problem, you begin hiring workers directly.

Or so goes the theory. The reality is more troubling. The initial stimulus was too small, but there's no plausible case that Congress would have been willing to make it much bigger just because the Obama administration had a theory that the financial crisis would lead to a worse recession than most forecasters expected. The trouble was that attacking a financial crisis with a too-small stimulus was a bit like attacking pneumonia with too-few antibiotics: You feel better for awhile, and then



Confidence Men: Wall Street, Washington, and the Education of a President

Ron Suskind

Harper

it comes back. And this time, it's harder to kill.

The problem is political. Having very publicly passed a very big policy that you promised would revive the economy, the country blames you when the economy does not, in fact, revive. Your policies are discredited and your opponents are emboldened. You lose seats in the next election and your leverage over lawmakers. So you can't, with any prospect of success, go back to the well and ask for a bigger stimulus or more money to buy up bad mortgages. And then, when the economy gets worse, you're simultaneously in charge and out of options. You came to Washington promising change and now you're begging for patience. It's a crummy situation, and there's no combination of policy proposals or speeches that can get you out of it. But this is the vice that has tightened around Barack Obama's presidency.

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