# The Capitalist Manifesto: Greed Is Good (To a point)

# Fareed Zakaria, Newsweek 2009

A specter is haunting the world—the return of capitalism. Over the past six months, politicians, businessmen and pundits have been convinced that we are in the midst of a crisis of capitalism that will require a massive transformation and years of pain to fix. Nothing will ever be the same again. "Another ideological god has failed," the dean of financial commentators, Martin Wolf, wrote in the Financial Times. Companies will "fundamentally reset" the way they work, said the CEO of General Electric, Jeffrey Immelt. "Capitalism will be different," said Treasury Secretary Timothy Geithner.

No economic system ever remains unchanged, of course, and certainly not after a deep financial collapse and a broad global recession. But over the past few months, even though we've had an imperfect stimulus package, nationalized no banks and undergone no grand reinvention of capitalism, the sense of panic seems to be easing. Perhaps this is a mirage—or perhaps the measures taken by states around the world, chiefly the U.S. government, have restored normalcy. Every expert has a critique of specific policies, but over time we might see that faced with the decision to underreact or overreact, most governments chose the latter. That choice might produce new problems in due course—a topic for another essay—but it appears to have averted a systemic breakdown.

There is still a long road ahead. There will be many more bankruptcies. Banks will have to slowly earn their way out of their problems or die. Consumers will save more before they start spending again. Mountains of debt will have to be reduced. American capitalism is being rebalanced, reregulated and thus restored. In doing so it will have to face up to long-neglected problems, if this is to lead to a true recovery, not just a brief reprieve.

Many experts are convinced that the situation cannot improve yet because their own sweeping solutions to the problem have not been implemented. Most of us want to see more punishment inflicted, particularly on America's bankers. Deep down we all have a Puritan belief that unless they suffer a good dose of pain, they will not truly repent. In fact, there has been much pain, especially in the financial industry, where tens of thousands of jobs, at all levels, have been lost. But fundamentally, markets are not about morality. They are large, complex systems, and if things get stable enough, they move on.

Consider our track record over the past 20 years, starting with the stock-market crash of 1987, when on Oct. 19 the Dow Jones lost 23 percent, the largest one-day loss in its history. The legendary economist John Kenneth Galbraith wrote that he just hoped that the coming recession wouldn't prove as painful as the Great Depression. It turned out to be a blip on the way to an even bigger, longer boom. Then there was the 1997 East Asian crisis, during the depths of which Paul Krugman wrote in a Fortune cover essay, "Never in the course of economic events—not even in the early years of the Depression—has so large a part of the world economy experienced so devastating a fall from grace." He went on to argue that if Asian countries did not adopt his radical strategy—currency controls—"we could be looking at?.?.?.?the kind of slump that 60 years ago devastated societies, destabilized governments, and eventually led to war." Only one Asian country instituted currency controls, and partial ones at that. All rebounded within two years.

Each crisis convinced observers that it signaled the end of some new, dangerous feature of the economic landscape. But often that novelty accelerated in the years that followed. The 1987 crash was said to be the product of computer trading, which has, of course, expanded dramatically since then. The East Asian crisis was meant to end the happy talk about "emerging markets," which are now at the center of world growth. The collapse of Long-Term Capital Management in 1998—which then–Treasury secretary Robert Rubin described as "the worst financial crisis in 50 years"—was meant to be the end of hedge funds, which then massively expanded. The technology bubble's bursting in 2000 was supposed to put an end to the dreams of oddball Internet startups. Goodbye, Pets.com; hello, Twitter. Now we hear that this crisis is the end of derivatives. Let's see. Robert Shiller, one of the few who predicted this crash almost exactly—and the dotcom bust as well—argues that in fact we need more derivatives to make markets more stable.

A few years from now, strange as it may sound, we might all find that we are hungry for more capitalism, not less. An economic crisis slows growth, and when countries need growth, they turn to markets. After the Mexican and East Asian currency crises—which were far more painful in those countries than the current downturn has been in America—we saw the pace of market-oriented reform speed up. If, in the years ahead, the American consumer remains reluctant to spend, if federal and state governments groan under their debt loads, if government-owned companies remain expensive burdens, then private-sector activity will become the only path to create jobs. The simple truth is that with all its flaws, capitalism remains the most productive economic engine we have yet invented. Like Churchill's line about democracy, it is the worst of all economic systems, except for the others. Its chief vindication today has come halfway across the world, in countries like China and India, which have been able to grow and pull hundreds of millions of people out of poverty by supporting markets and free trade. Last month India held elections during the worst of this crisis. Its powerful left-wing parties campaigned against liberalization and got their worst drubbing at the polls in 40 years.

Capitalism means growth, but also instability. The system is dynamic and inherently prone to crashes that cause great damage along the way. For about 90 years, we have been trying to regulate the system to stabilize it while still preserving its energy. We are at the start of another set of these efforts. In undertaking them, it is important to keep in mind what exactly went wrong. What we are experiencing is not a crisis of capitalism. It is a crisis of finance, of democracy, of globalization and ultimately of ethics.

"Capitalism messed up," the British tycoon Martin Sorrell wrote recently, "or, to be more precise, capitalists did." Actually, that's not true. Finance screwed up, or to be more precise, financiers did. In June 2007, when the financial crisis began, Coca-Cola, PepsiCo, IBM, Nike, Wal-Mart and Microsoft were all running their companies with strong balance sheets and sensible business models. Major American corporations were highly profitable, and they were spending prudently, holding on to cash to build a cushion for a downturn. For that reason, many of them have been able to weather the storm remarkably well. Finance and anything finance-related—like real estate—is another story.

Finance has a history of messing up, from the Dutch tulip bubble in 1637 to now. The proximate causes of these busts have been varied, but follow a strikingly similar path. In calm times, political stability, economic growth and technological innovation all encourage an atmosphere of easy money and new forms of credit. Cheap credit causes greed, miscalculation and eventually ruin. President Martin Van Buren described the economic crisis of 1837 in Britain and America thusly: "Two nations, the most commercial in the world, enjoying but recently the highest degree of apparent prosperity and maintaining with each other the closest relations, are suddenly?.?.?.?plunged into a state of embarrassment and distress. In both countries we have witnessed the same [expansion] of paper money and other facilities of credit; the same spirit of speculation?.?.?.?the same overwhelming catastrophe." Obama could put that on his teleprompter today.

Many of the regulatory reforms that people in government are talking about now seem sensible and smart. Banks that are too large to fail should also be too large be leveraged at 30 to 1. The incentives for executives within banks are skewed toward reckless risk-taking with other people's money. ("Heads they win, tails they break even," is how Barney Frank describes the current setup.) Derivatives need to be better controlled. To call banks casinos, as is often done, is actually unfair to casinos, which are required to hold certain levels of capital because they must be able to cash in a customer's chips. Banks have not been required to do that for their key derivatives contract, credit default swaps.

Yet at the same time, we should proceed cautiously on massive new regulations. Many rules put in place in the 1930s still look smart; the problem is that over the past 15 years they were dismantled, or conscious decisions were made not to update them. Keep in mind that the one advanced industrial country where the banking system has weathered the storm superbly is Canada, which just kept the old rules in place, requiring banks to hold higher amounts of capital to offset their liabilities and to maintain lower levels of leverage. A few simple safeguards, and the whole system survived a massive storm.

The simplest safeguard American regulators have had, of course, is the interest rate on credit. In responding to almost every crisis in the past 15 years, former Fed chairman Alan Greenspan always had the same solution: cut rates and ease up on money. In 1998, when Long-Term Capital Management collapsed, he suddenly and dramatically slashed rates, even though the economy was roaring along at 6 percent growth. In late 1999, buying into fears about Y2K, he swamped the markets with liquidity. (One effect: between November 1998 and February 2000, when rates finally rose, the NASDAQ jumped almost 250 percent, increasing in value by more than $3 trillion.) And finally, when the technology bubble burst and 9/11 hit, Greenspan again lowered rates and kept them low, this time inflating a massive housing bubble.

Greenspan behaved like most American political leaders over the past two decades—he chose the easy way out of a hard situation. William McChesney Martin, the great Fed chairman of the 1950s and 1960s, once said that his job was to take the punch bowl away just as the party had begun. No one wants to do that in America anymore—not the Fed chairman, not the regulators, not Congress and not the president.

Government actions should be "countercyclical"—that is, they should work to slow down growth. So, in boom times, the Fed would raise rates and require banks to have higher capital and lower leverage. Fannie Mae and Freddie Mac would start worrying about too much easy credit, raise standards for loans and disqualify buyers unlikely to be able to afford houses. Banks would be urged to slow down the supply of credit cards and other credit instruments. In fact, this is exactly how the governments of China and India behaved in 2007, when their economies were booming. At the peak, consumption in India actually declined as a percentage of GDP.

In the United States, the opposite happened: consumption surged from 67 percent to 73 percent of GDP. Presidents and congressmen extolled the virtues of homeownership for everyone. Congress pushed Fannie Mae and Freddie Mac to extend more loans. Regulators eased up on banks, and the Fed kept rates low. And the public cheered this pandering at every step.

Since Ronald Reagan's presidency, Americans have consumed more than we produced and have made up the difference by borrowing. This is true of individuals but, far more dangerously, of governments at every level. Government debt in America, especially when entitlements and state pension commitments are included, is terrifying. And yet no one has tried seriously to close the gap, which can be done only by (1) raising taxes or (2) cutting expenditures. Any sensible proposal will have to feature both prominently.

This is the disease of modern democracy: the system cannot impose any short-term pain for long-term gain. For 20 years, most serious structural problems—Social Security, health care, immigration—have been kicked down the road. And while the problem is acute in America, Europe and Japan face many of the same difficulties. Right now, the U.S. government's boldness is laudable, but it is being bold in spending money. In a few years, when the bills come due, and Congress must enact major spending cuts as well as raise taxes (and not just on the rich), that's when we will see if things have changed.

In reality, the problem goes well beyond Washington. It also goes beyond bad bankers, lax regulators and pandering politicians. The global financial system has been crashing more frequently over the past 30 years than in any comparable period in history. On the face of it, this suggests that we're screwing up, when in fact what is happening is more complex. The problems that have developed over the past decades are not simply the products of failures. They could as easily be described as the products of success.

Here's why we got to where we are. Since the late 1980s, the world has been moving toward a extraordinary degree of political stability. The end of the Cold War has ushered in a period with no major military competition among the world's great powers—something virtually unprecedented in modern history. It has meant the winding down of most of the proxy and civil wars, insurgencies and guerrilla actions that dotted the Cold War landscape. Even given the bloodshed in places like Iraq, Afghanistan and Somalia, the number of people dying as a result of political violence of any kind has dropped steeply over the past three decades.

Then there is the end of inflation. In the 1970s, dozens of countries suffered hyperinflation, which destroyed the middle class, destabilized societies and led to political upheaval. Since then, central banks have become very good at taming the monster, and by 2007 the number of countries with high inflation had dwindled to a handful. Only one, Zimbabwe, had hyperinflation.

Add to this the information and Internet revolutions, and you have a series of historical changes that have produced a single global system, far more integrated and faster-moving than ever before. The results speak for themselves. Over the past quarter century, the global economy has doubled every 10 years, going from $31 trillion in 1999 to $62 trillion in 2008. Recessions have become tamer than ever before, averaging eight months rather than two years. More than 400 million people across Asia have been lifted out of poverty. Between 2003 and 2007, average income worldwide grew at a faster rate (3.1 percent) than in any previous period in recorded human history. In 2006 and 2007—the peak years of the boom—124 countries around the world grew at 4 percent a year or more, about four times as many as 25 years earlier.

Many of these countries had more cash than they knew what to do with. China sits on a war chest of more than $2 trillion, while eight other emerging-market nations have reserves of more than $100 billion. They've all looked to the safest investment they could imagine—U.S. government debt. In buying so much debt, they drove down the interest rate Washington had to offer, which in turn made credit in America cheap. So the effect of all this money sloshing around the world was to subsidize Americans in their favorite activity: shopping. But it affected other Western countries as well, from Spain to Ireland, where consumers and governments loaded themselves up with debt.

Good times always make people complacent. As the cost of capital sank over the past few years, people became increasingly foolish. The world economy had become the equivalent of a race car—faster and more complex than any vehicle anyone had ever seen. But it turned out that no one had driven a car like this before, and no one really knew how. So it crashed.

The real problem is that we're still driving this car. The global economy remains highly complex, interconnected and im-balanced. The Chinese still pile up surpluses and need to put them somewhere. Washington and Beijing will have to work hard to slowly stabilize their mutual dependence so that the system is not being set up for another crash.

More broadly, the fundamental crisis we face is of globalization itself. We have globalized the economies of nations. Trade, travel and tourism are bringing people together. Technology has created worldwide supply chains, companies and customers. But our politics remains resolutely national. This tension is at the heart of the many crashes of this era—a mismatch between interconnected economies that are producing global problems but no matching political process that can effect global solutions. Without better international coordination, there will be more crashes, and eventually there may be a retreat from globalization toward the safety—and slow growth—of protected national economies.

Throughout this essay, I have avoided treating this economic crisis as a grand morality play—a war between good and evil in which demon bankers destroyed all that is good and true about our socie-ties. Complex historical events can rarely be reduced to something so simple. But we are suffering from a moral crisis, too, one that may lie at the heart of our problems.

Most of what happened over the past decade across the world was legal. Bankers did what they were allowed to do under the law. Politicians did what they thought the system asked of them. Bureaucrats were not exchanging cash for favors. But very few people acted responsibly, honorably or nobly (the very word sounds odd today). This might sound like a small point, but it is not. No system—capitalism, socialism, whatever—can work without a sense of ethics and values at its core. No matter what reforms we put in place, without common sense, judgment and an ethical standard, they will prove inadequate. We will never know where the next bubble will form, what the next innovations will look like and where excesses will build up. But we can ask that people steer themselves and their institutions with a greater reliance on a moral compass.

One of the great shifts taking place in American society has been away from the old guild system of self-regulation. Once upon a time, law, medicine and accounting viewed themselves as private-sector participants with public responsibilities. Lawyers are still called "officers of the court." And historically they acted with that sense of stewardship in mind, thinking of what was appropriate for the whole system and not simply for their firm. That meant advising their clients against time-consuming litigation or mindless mergers. Elihu Root, a leader of the New York bar in the late 19th century, once said, "About half the practice of a decent lawyer consists in telling would-be clients that they are damned fools and should stop."

It's not just the law that has changed; so have all the professions. Ever since the 1930s, accountants have been given a unique trust. "Who audits you?" asked Sen. Alben Barkley during a 1933 committee hearing. "Our conscience," replied Arthur Carter, the head of a large accounting firm. But by 2002 The Wall Street Journal was describing a different world, in which accountants had gone from "watchdogs to lapdogs," telling clients whatever they wanted to hear. Bankers similarly once saw themselves as being stewards of capital, responsible to their many constituents and embodying trust. But over the past few decades, they too became obsessed with profits and the short term, uncertain about their own future and that of their company. The most recent example of this phenomenon has been at the rating agencies, which were generating fees that were too lucrative to be exacting in their judgments about their clients' products.

None of this has happened because businesspeople have suddenly become more immoral. It is part of the opening up and growing competitiveness of the business world. Many of the old banks and law firms operated as monopolies or cartels. They could afford to take the long view. They were also run by a WASP elite secure in its privilege. The members of today's meritocratic elite are more anxious and insecure. They know that they are being judged quarter by quarter.

The failure of self-regulation over the past 20 years—in investment banking, accounting, rating agencies—has led inevitably to the rise of greater government regulation. This marks an important change in the Anglo-American world, away from informal rules often enforced by private actors toward the more formal bureaucratic system common in continental Europe. Perhaps the state should not set the pay of the private sector. But surely CEOs should exercise some judgment about their own compensation, and tie it far more closely to the long-term health of the company. It will still be possible to get very rich—Warren Buffett, after all, draws a salary of only $100,000.

There's a need for greater self-regulation not simply on Wall Street but also on Pennsylvania Avenue. We get exercised about the immorality of politicians when they're caught in sex scandals. Meanwhile they triple the national debt, enrich their lobbyist friends and write tax loopholes for specific corporations—all perfectly legal—and we regard this as normal. The revolving door between Washington government offices and lobbying firms is so lucrative and so established that anyone pointing out that it is—at base—institutionalized corruption is seen as baying at the moon. Not everything is written down, and not everything that is legally permissible is ethical. Who was the last ex-president to refuse to take a vast donation for his library from a foreign government that he had helped when in office?

We are in the midst of a vast crisis, and there is enough blame to go around and many fixes to make, from the international system to national governments to private firms. But at heart, there needs to be a deeper fix within all of us, a simple gut check. If it doesn't feel right, we shouldn't be doing it. That's not going to restore growth or mend globalization or save capitalism, but it might be a small start to sanity.

**Franklin Delano Obama?**

By **Paul Krugman**   
Source: International Herald Tribune   
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PRINCETON, New Jersey: Suddenly, everything old is New Deal again. Reagan is out; FDR is in. Still, how much guidance does the Roosevelt era really offer for today's world?

The answer is, a lot. But Barack Obama should learn from FDR's failures as well as from his achievements: The truth is that the New Deal wasn't as successful in the short run as it was in the long run. And the reason for FDR's limited short-run success, which almost undid his whole program, was the fact that his economic policies were too cautious.

About the New Deal's long-run achievements: The institutions FDR built have proved both durable and essential. Indeed, those institutions remain the bedrock of America's economic stability.

Imagine how much worse the financial crisis would be if the New Deal hadn't insured most bank deposits. Imagine how insecure older Americans would feel right now if Republicans had managed to dismantle Social Security.

Can Obama achieve something comparable? Rahm Emanuel, Obama's new chief of staff, has declared that "you don't ever want a crisis to go to waste." Progressives hope that the Obama administration, like the New Deal, will respond to the current economic and financial crisis by creating institutions, especially a universal health care system, that will change the shape of American society for generations to come.

But the new administration should try not to emulate a less successful aspect of the New Deal: Its inadequate response to the Great Depression itself.

Now, there's a whole intellectual industry, mainly operating out of right-wing think tanks, devoted to propagating the idea that FDR actually made the Depression worse. So it's important to know that most of what you hear along those lines is based on deliberate misrepresentation of the facts. The New Deal brought real relief to most Americans.

That said, FDR did not, in fact, manage to engineer a full economic recovery during his first two terms. This failure is often cited as evidence against Keynesian economics, which says that increased public spending can get a stalled economy moving. But the definitive study of fiscal policy in the 1930s, by the MIT economist E. Cary Brown, reached a very different conclusion: Fiscal stimulus was unsuccessful "not because it does not work, but because it was not tried."

This may seem hard to believe. The New Deal famously placed millions of Americans on the public payroll via the Works Progress Administration and the Civilian Conservation Corps. To this day we Americans drive on WPA-built roads and send our children to WPA-built schools.

Didn't all these public works amount to a major fiscal stimulus?

Well, it wasn't as major as you might think. The effects of federal public works spending were largely offset by other factors, notably a large tax increase, enacted by Herbert Hoover, whose full effects weren't felt until his successor took office. Also, expansionary policy at the federal level was undercut by spending cuts and tax increases at the state and local level.

And FDR wasn't just reluctant to pursue an all-out fiscal expansion - he was eager to return to conservative budget principles. That eagerness almost destroyed his legacy. After winning a smashing election victory in 1936, the Roosevelt administration cut spending and raised taxes, precipitating an economic relapse that drove the unemployment rate back into double digits and led to a major defeat in the 1938 midterm elections.

What saved the economy, and the New Deal, was the enormous public works project known as World War II, which finally provided a fiscal stimulus adequate to the economy's needs.

This history offers important lessons for the incoming administration.

The political lesson is that economic missteps can quickly undermine an electoral mandate. Democrats won big last week - but they won even bigger in 1936, only to see their gains evaporate after the recession of 1937-38. Americans don't expect instant economic results from the incoming administration, but they do expect results, and Democrats' euphoria will be short- lived if they don't deliver an economic recovery.

The economic lesson is the importance of doing enough. FDR thought he was being prudent by reining in his spending plans; in reality, he was taking big risks with the economy and with his legacy. My advice to the Obama people is to figure out how much help they think the economy needs, then add 50 percent. It's much better, in a depressed economy, to err on the side of too much stimulus than on the side of too little.

In short, Obama's chances of leading a new New Deal depend largely on whether his short-run economic plans are sufficiently bold.

Progressives can only hope that he has the necessary audacity.

**FDR's Lessons for Obama**

By David M. Kennedy

Alas for countless pundits and inspirational speakers, it is apparently not the case that the Chinese word for *crisis* is spelled by joining the characters for *danger* and *opportunity.* But that common fallacy nevertheless captures an important metaphorical truth: whatever the perils it brings with it, a crisis can be a grand opportunity. Among those who have understood that truth was Franklin D. Roosevelt.

Writing to his fellow Democrats in the 1920s, Roosevelt noted that their party could not hope to return to power until the Republicans led the nation "into a serious period of depression and unemployment." The Great Depression soon brought a far longer and deeper period of woe than F.D.R. foresaw. But the crisis of the 1930s also provided an object lesson in the relationship between economic danger and political opportunity — a lesson Barack Obama is now trying to follow. Obama, too, came to office in the midst of an economic crisis, and in the solutions he has offered, it appears he has often looked to the example of F.D.R., whose presidency — and the very idea of activist government that it represents — is very much back in the public mind this year. Roosevelt pushed through policies that aimed not just to deal with the immediate challenge of the Great Depression but also to benefit generations of Americans to come. Pulling off a similar feat will require Obama to persuade Americans to see opportunities in the present crisis as well.

**A More Secure America**  
It's old news that F.D.R.'s New Deal did not end the Depression. On that score, there was little difference between Roosevelt and Herbert Hoover. But unlike Hoover, F.D.R. seized the occasion to shape a legacy of durable reforms. For that accomplishment — along with winning World War II — historians routinely rank him among the greatest Presidents.

So what did Roosevelt's greatness consist of, and how did he attain it?

Forget about the Hundred Days of 1933, the legendary crucible in which F.D.R.'s anti-Depression strategy was supposedly forged. The legislative frenzy of that fabled springtime gave a stricken nation a valuable psychological boost, but many of its initiatives did not survive the Depression decade. F.D.R.'s greatest achievements came later. Their essence can be summed up in a single word: security.

All the major New Deal reforms that endured had a common purpose: not simply to end the immediate crisis of the Depression but also to make America in the future a less risky place, to temper for generations thereafter what F.D.R. called the "hazards and vicissitudes" of life. By creating the Federal Deposit Insurance Corporation (FDIC), the New Deal provided more confidence to bank depositors. With the Securities and Exchange Commission (SEC), it guaranteed more reliable information for investors. The Federal Housing Administration gave more protection to mortgage lenders and thus more options to home buyers. The National Labor Relations Board brought more stability to dealings between capital and labor. The Fair Labor Standards Act ensured more predictable wages for the most vulnerable workers. And Social Security offered at least a minimal safety net for both the unemployed and the elderly.

Those reforms constitute our most valuable heritage from the Depression era. Few of them generated any appreciable economic stimulus in the short run. But taken together, those measures laid the foundation for unprecedented economic growth and broadly shared prosperity in the years after World War II — an era that the novelist Philip Roth once aptly described as "the greatest moment of collective inebriation in American history."

**A Postwar Roosevelt Boom**  
Roosevelt's innovations dramatically changed the character of American society. They deeply shaped the life trajectory of the so-called Greatest Generation, as well as the fates of millions born well after the Depression passed. It was no coincidence that African-American aspirations for full citizenship, denied for a century, were substantially realized at last in that context of stable economic health and almost giddy national self-confidence. By any conceivable metric, the New Deal's reforms were a success, as gauged by the conspicuous upward social mobility of several postwar generations of both genders and all races and ethnicities.

With the exception of the FDIC, however, none of them dates from the Hundred Days, or even from 1933. Therein lies an important lesson. Had the Hundred Days swiftly brought about economic recovery, a return to business as usual might have meant politics as usual as well. In that scenario it is doubtful that any of those landmark reforms would have come to pass. Roosevelt, in short, understood the difference between the urgent and the important. He could hardly ignore the compelling need to steer the economy out of the Depression, but he refused to allow that task to deflect him from his more important objective of making American life less hazardous — and more inclusive — ever after. He aimed not merely to end the crisis at hand but to forestall similar calamities in the future, and thereby to build a country, as he once said, "in which no one is left out."

F.D.R. appreciated the irony that it was the Depression that made it possible for him to realize those larger objectives. It would be too much to say that he deliberately prolonged the crisis to preserve the possibilities for reform. But he candidly acknowledged the relationship between peril and progress in his second Inaugural Address, on Jan. 20, 1937. He began on that day by boasting of "our progress out of the Depression" and went on to list several signs of returning prosperity.

But then he said something decidedly unusual in the canon of presidential addresses. "Such symptoms of prosperity," he warned, "may become portents of disaster!" Only then did he utter one of his most quoted and most misunderstood lines: "I see one-third of a nation ill housed, ill clad, ill nourished."

The address in its entirety makes it clear that when he spoke of that "one-third of a nation," F.D.R. was not referring primarily to the victims of the Great Depression, which he thought was ending. He was speaking, rather, about the accumulated social and human deficits spawned by more than a century of buccaneering, laissez-faire American capitalism — deficits that he considered not yet fully redeemed in 1937. Solving that problem was what he meant when he said in June 1936 that "this generation of Americans has a rendezvous with destiny."

Such rendezvous are rare in American history, and not without reason. As the historian Henry Adams wrote, among the founders of the Republic, the greatest fear "was power; not merely power in the hands of a president or a prince, of one assembly or several, of many citizens or few, but power in the abstract, wherever it existed and under whatever form it was known." That's why the framers of the Constitution constructed a political order based on "checks and balances." That arrangement has conspicuous virtues, but it also designs a measure of paralysis into the American political system. It impedes swift adjustment to changing economic and social realities. It sustains a chronic deadlock in which trauma and shock become the necessary preconditions for effective political action. To a degree not found in other political cultures, it forges a perverse partnership between danger and opportunity.

President Obama knows this. Asked by PBS news anchor Jim Lehrer in February if he did not feel burdened by the several crises now besetting the country, Obama noted that the moment "is full of peril but full of possibility" and that such times are "when the political system starts to move effectively."

Roosevelt could not have said it better. F.D.R. championed a long-deferred reform agenda that put security at its core. Obama wants to advance another set of reforms that have long been stalled. He has already used the crisis to propose new regulatory rules for the banking-and-finance industry. But there are many more objectives on the horizon. Universal health care was first advocated in the platform of Theodore Roosevelt's Progressive Party in 1912. A cogent energy policy has been pushed by every President since Richard Nixon, to no avail. Immigration begs for comprehensive rethinking, as do education, a host of environmental issues, and central tenets of national-security policy and military doctrine.

Like F.D.R., Obama must take measures to turn the economy around. If he doesn't, he'll go down in the history books as another Hoover. But to warrant comparison with Roosevelt, he will be judged not simply on whether he manages a rescue from the current economic crisis but also on whether he grasps the opportunity to make us more resilient to face those future crises that inevitably await us.

*Kennedy teaches history at Stanford University. He is the author of* Freedom from Fear: The American People in Depression and War, 1929-1945, *which won the 2000 Pulitzer Prize for history*

# Barack Hoover Obama: The best and the brightest blow it again

*Harper’s Magazine 2009, By Kevin Baker*

Three months into his presidency, Barack Obama has proven to be every bit as charismatic and intelligent as his most ardent supporters could have hoped. At home or abroad, he invariably appears to be the only adult in the room, the first American president in at least forty years to convey any gravitas. Even the most liberal of voters are finding it hard to believe they managed to elect this man to be their president.

It is impossible not to wish desperately for his success as he tries to grapple with all that confronts him: a worldwide depression, catastrophic climate change, an unjust and inadequate health-care system, wars in Afghanistan and Iraq, the ongoing disgrace of Guantanamo, a floundering education system.

Obama’s failure would be unthinkable. And yet the best indications now are that he *will* fail, because he will be unable—indeed he will refuse—to seize the radical moment at hand.

Every instinct the president has honed, every voice he hears in Washington, every inclination of our political culture urges incrementalism, urges deliberation, if any significant change is to be brought about. The trouble is that we are at one of those rare moments in history when the radical becomes pragmatic, when deliberation and compromise foster disaster. The question is not what can be done but *what must be done.*

We have confronted such emergencies only a few times before in the history of the Republic: during the secession crisis of 1860–61, at the start of World War II, at the outset of the Cold War and the nuclear age. Probably the moment most comparable to the present was the start of the Great Depression, and for the scope and the quantity of the problems he is facing, Obama has frequently been compared with Franklin Roosevelt. So far, though, he most resembles the other president who had to confront that crisis, Herbert Hoover.

The comparison is not meant to be flippant. It has nothing to do with the received image of Hoover, the dour, round-collared, gerbil-cheeked technocrat who looked on with indifference while the country went to pieces. To understand how dire our situation is now it is necessary to remember that when he was elected president in 1928, Herbert Hoover was widely considered the most capable public figure in the country. Hoover—like Obama—was almost certainly someone gifted with more intelligence, a better education, and a greater range of life experience than FDR. And Hoover, through the first three years of the Depression, was also the man who comprehended better than anyone else what was happening and what needed to be done. And yet he failed.

The story of the real Herbert Hoover reads like something out of an Indiana Jones script, with touches of Dickens and the memoirs of Albert Schweitzer. Orphaned and penniless by the age of nine, Hoover was raised by an exploitative uncle who considered him more chattel than son. He had no illusions about the America he grew up in, writing years later, “As gentle as are the memories of the times, I am not recommending a return to the good old days. Sadness was greater, and death came sooner.”

Removed from public school at fourteen to work as his uncle’s office boy, Hoover nonetheless learned enough at night school to make the very first class at the newly opened Stanford University, where he studied geology and engineering. He paid his own way by working as a waiter, a typist, and a handyman, and eventually running a laundry service, a baggage service, and a newspaper route. (Unsurprisingly, his favorite book was *David Copperfield.*) After graduation, he ran mining camps and scouted new strikes around the globe. It was an adventurous life; on one occasion he made a small fortune by following an ancient Chinese map and tiger tracks into a moribund silver mine in Burma. By the time he was forty, Hoover was worth $85 million in today’s dollars, and he retired from business to take up public life. “The ideal of service,” he would later write, was no burden on the striving entrepreneur but a “great spiritual force poured out by our people as never before in the history of the world.”

He had long lived up to his ideals. Caught in the siege of the Western delegations in Peking during the Boxer Rebellion of 1900, only Hoover and his fearless wife, Lou, cared enough to sneak food and water to the Chinese Christians besieged elsewhere in the city. He first came to national attention after the start of World War I, when he led the effort to feed the 7 million people of occupied Belgium and France. He worked for free, donated part of his own fortune to the cause, and risked his life repeatedly crossing the U-boat–infested waters of the North Atlantic. His postwar relief efforts rescued millions more throughout Europe and especially in the Soviet Union; it’s unlikely that any other individual in human history saved so many people from death by starvation and want. Questioned about feeding populations under Bolshevik control, he banged a table and insisted, “Twenty million people are starving. Whatever their politics, they shall be fed!” In 1920, many people in both major parties wanted to run him for president, but he opted for the Republican cabinet. As secretary of commerce under Warren Harding and Calvin Coolidge, he was a dynamic figure, tirelessly promoting new technologies, work-safety rules, and voluntary industry standards; he supervised relief to Mississippi and Louisiana during the terrible 1927 floods and advocated cooperation between labor and management.

“We had summoned a great engineer to solve our problems for us; now we sat back comfortably and confidently to watch the problems being solved,” the journalist Anne O’Hare McCormick wrote of Hoover’s inauguration in March 1929, in words that might easily have been used in January 2009. “Almost with the air of giving genius its chance, we waited for the performance to begin.”

Genius got its chance less than eight months after Hoover was sworn in, when the stock market collapsed. At the time, such an event wasn’t seen as having anything much to do with the president. Wall Street crashes happened every five to ten years in the old American economy, and it was understood that these crashes would sometimes start nationwide recessions. They might last a year or two, like the recession that started in 1920, or for much longer, like the devastating depression that began in 1873 and, according to some economists, didn’t really end until 1897. How long would it take to recover from the crash of ‘29? Who could know? Mere politicians were supposed to leave the outcome to the workings of the market. But Hoover—much like Obama—plunged right in, with a response that was designed to rise above old ideological battles and effect a new partnership between the public and private sectors. Less than a month after the Wall Street crash, he began what would be weeks of meetings at the White House with hundreds of “key men” from the business world. There the president briefed them on everything he had done so far and urged them to cut as few jobs as possible for the duration of the slump. He also encouraged public and private construction projects, signed bills recognizing the right of unions to organize, and used the fledgling Federal Reserve both to ease credit and to discourage banks from calling in their stock-market loans.

All of these projects were anathema to old-line conservatives in Hoover’s own party, such as Andrew Mellon, the tax-slashing secretary of the treasury throughout the go-go years of the 1920s boom, who offered the president the absurdist advice to let the market “liquidate labor, liquidate stocks, liquidate the farmers, liquidate real estate.” Cutting one of the main ties to the trickle-down wisdom of what was suddenly a previous era, Hoover eventually shipped Mellon off to serve as ambassador to England.

Yet there remained little immediate action that the president could take, hobbled as he was by the limits of a federal government that made up less than 4 percent of the GDP and by the reluctance of those around him to interfere in any way with the sanctity of the markets. At what John Kenneth Galbraith would later skewer as “no-business” meetings, the key men of industry pledged their full support, then went home to slash wages and cut as many jobs as they could. By the end of 1930, the gross national product had dropped by nearly 13 percent, unemployment had shot up to nearly 9 percent, and over 600 banks had closed. The Democrats won a majority in the House of Representatives, but the primary response to the Depression offered by their laconic speaker, “Cactus Jack” Garner, was a national sales tax designed to balance the budget. Liberal legislators in both parties were more sympathetic, but they wielded little power.

As the Depression spread around the world, Hoover—like Obama—towered above the squabbling, suspicious leaders of Europe as well. Only Hoover, who had lived all around the world (like Obama) and also been part of the U.S. delegation at Versailles, seemed to understand the true threat the Depression posed to the global economy. Democratic forms of government were under assault everywhere in the West, and especially in the Weimar Republic, still staggering under the indemnity the victorious Allies had imposed on Germany in 1919. Hoover sought to alleviate the growing world credit crunch by pushing through a moratorium on the repayment of Europe’s considerable war debt to the United States—on the condition that the Allies also forgave Germany its indemnity. It was an example of statesmanship at its most enlightened, and if any single U.S. action at the time could have prevented the rise of the Nazis to power, this would have been it.

Back on the domestic front, Hoover tried to organize national, voluntary efforts to hire the unemployed, provide charity, and create a private banking pool. When these efforts collapsed or fell short, he started a dozen Home Loan Discount Banks to help individuals refinance their mortgages and save their homes, and created an unprecedented government entity called the Reconstruction Finance Corporation. Authorized to spend up to the then-astonishing sum of $2 billion, the RFC was a direct rebuttal to Andrew Mellon’s prescription of creative destruction. Rather than liquidating banks, railroads, and agricultural cooperatives, the RFC would lend them money to stay afloat.

Hoover, as the historian David M. Kennedy writes, had shown “himself capable of the most pragmatic, far-reaching, economic heterodoxy,” a trait that “would in the end carry him and the country into uncharted economic and political territory.” New Dealer Rexford Tugwell would, many years later, claim that “practically the whole New Deal was extrapolated from programs that Hoover started.” Indeed, “Hoover had wanted—and had said clearly enough that he wanted—nearly all the changes now brought under the New Deal label.”

Tugwell’s appraisal, though considerably exaggerated, nonetheless testifies to the boldness of Hoover’s program. The only problem was that it did not work. The nation’s credit system still would not thaw, banks kept falling like dominoes, unemployment rates and human suffering continued to rise. For all of his willingness to break with precedent and intervene directly in the economy, Hoover remained unable to turn his back fully on what Kennedy describes as the prevailing “legacy of perception and understanding of economic theory.”

As Europe faltered, for instance, foreign gold began to flow out of America’s banks and back home. Hoover reacted by *increasing* interest rates and *raising* taxes, in an effort to further deflate the economy, balance the federal budget, and thereby lure the gold back. This was the textbook economic response of the time to fleeing gold reserves; in the midst of the Great Depression, it was a disaster.

Meanwhile, the RFC was derided by populist critics as “bank relief” and “a millionaire’s dole”—criticisms echoed today by all those who see George W. Bush’s Troubled Asset Relief Program and Obama’s own Public-Private Investment Program as outrageous giveaways. And, as Kennedy points out, once Hoover had set in motion the great bank bailout of 1931, he “had given up the ground of high principle” and “implicitly legitimated the claims of other sectors for federal assistance.” Critics raised the same criticisms they would raise about Obama’s bailout plans seventy-eight years later. If the banks get a bailout, why not everyone else? Were bailouts only for the rich?

Exacerbating the entire situation was the RFC itself. Hoover’s leading weapon to combat the Depression performed with TARP-like languor, secrecy, and nepotism. Throughout 1932, as banks continued to topple by the hundreds, the RFC disbursed only three-quarters of its available money. Although Hoover had declared that the agency was “not created for the aid of big industries or big banks,” a record of its operations revealed that most of its money had indeed gone to a very few of the country’s biggest financial institutions. In June of 1932, the RFC’s president, Charles G. Dawes—who had just served as vice president of the United States under Calvin Coolidge—resigned his post, took a new job as head of the Central Republic Bank in Chicago, and promptly secured for his employer an RFC loan that nearly equaled the bank’s total deposits. Dawes’s successor, Atlee Pomerene, then lent another $12 million to a Cleveland bank of which *he* remained a director.

These facts were, in the end, wrestled out in the open only by congressional fiat. The recipients of some $642 million of the RFC’s loans—nearly half its total expenditures—were not revealed at all. Hoover, like Obama, had insisted on secrecy to keep the proceedings from being “politicized,” but, inevitably, this fear of politicization in the end only led to more politics. The writer John T. Flynn, who reported much of the RFC scandal in the pages of this magazine, found that most of the money was distributed “by a group of directors drawn from those business groups whose performances during the pre-crash years have rendered them objects of suspicion to the American people” and that the “immense sums they dispensed were given to borrowers, many of whom, to put it mildly, have forfeited, justly or unjustly, the confidence of the people.”

The RFC’s deliberations were understood—with good reason—not as effective management but as insider dealing: common financial practice through the 1920s, but politically and morally insupportable at a time when millions of Americans were losing their jobs, their homes, and their savings, and when some were literally dying of starvation. What’s more, even the loans that were made proved less than effective. The rescued banks, much like the rescued banks today, simply hoarded the new capital and refused to venture out into the marketplace.

Neither the RFC nor any of Hoover’s other programs did anything to seriously address the other major problems then plaguing the American economy: the decades-long farm crisis that was sweeping away Dust Bowl farmers’ actual soil along with their holdings; the near annihilation of the labor movement; a wildly unequal distribution of wealth; the lack of any real safety net for the old, the indigent, and the unemployable; a corrupt, non-transparent financial system that remained largely unregulated—in short, the need for systematic, wholesale reform of a nation that had foundered on the changing circumstances of the modern world.

It would have been very difficult to make most of these changes, because by and large they were advocated only by what were then the most radical individuals on the fringes of the political system. The one thing to be said in favor of such changes was that they were absolutely necessary.

By the summer of 1932, the country was in a state of near rebellion, with the “Bonus Army” of angry veterans camped out in Washington, farmers dumping their produce on the highways in protest, and mobs forcibly stopping evictions in the cities. The liberals in Congress had moved at last beyond Hoover, with even Jack Garner backing a $2.1-billion package of public works and direct relief. Hoover vetoed it, warning against the moral entrapments of “the dole.”

Why was Herbert Hoover so reluctant to make the radical changes that were so clearly needed? It could not have been a question of competence or compassion for this lifelong Quaker, who had rushed sustenance to starving people around the world regardless of their nationalities or beliefs. Ultimately, Hoover could not break with the prevailing beliefs of his day. The essence of the Progressive Era in which he had come of age—the very essence of his own public image—was that government was a *science.* It was not a coincidence that this era brought us the very term “political science,” along with the advent of “nonpartisan” elections and “city managers” to replace mayors.

Since the 1890s, Hoover and his contemporaries had promoted this brand of progressivism as an alternative not only to the political and corporate corruption of the Gilded Age but also to the furious class and regional warfare that progressivism’s predecessor, populism, seemed to promise. Progressivism aspired to be something of a political science itself, untrammeled by ideological or partisan influence: there was a right way and a wrong way to do things, and all unselfish and uncorrupted individuals could be counted on to do the right thing, once they were shown what that was.

There were plenty of progressives, led by Teddy Roosevelt, who understood that bringing real change meant fighting to bust up trusts, regain public ownership of utilities, and secure rights for labor, women, and others. But the great national effort inspired by World War I softened memories of the bitter class conflict that had characterized much of American politics since the Civil War, just as the rollicking prosperity of the 1920s erased memories of the postwar Red Scare and the crushing of labor unions. Throughout the decade, big business sought to co-opt any lingering labor resentments by forming “company unions” under what they called “the American Plan.” Volunteerism and boosterism would take care of the rest. Prosperity would come through an always rising stock market.

Hoover’s every decision in fighting the Great Depression mirrored the sentiments of 1920s “business progressivism,” even as he understood intellectually that something more was required. Farsighted as he was compared with almost everyone else in public life, believing as much as he did in activist government, he still could not convince himself to take the next step and accept that the basic economic tenets he had believed in all his life were discredited; that something wholly new was required.

Such a transformation would have required a mental suppleness that was simply not in the makeup of this fabulously successful scientist and self-made businessman. And it was this inability to radically alter his thinking that, ultimately, distinguished Hoover from Franklin Roosevelt. FDR was by no means the rigorous thinker that Hoover was, and many observers then and since have accused him of having no fixed principles whatsoever. And yet it was Roosevelt, the Great Improviser, who was able to patch and borrow and fudge his way to solutions not only to the Depression but also to sustained prosperity and democracy. It was FDR, brought up with the entitled, patronizing worldview of a Hudson Valley aristocrat, who was able to overcome attachments to all classes, all theories. It was Roosevelt who understood the imperfections, the rough-and-tumble of politics. The programs of the First and Second New Deals were a hodgepodge of ideologies—which is precisely why they worked. The innovations they brought about, however sloppily, were the core of twentieth-century American liberalism in that they reflected the complex ever-changing realities of the modern world.

Originally, Roosevelt, too, endorsed much of the progressive vision—or at least its pale 1920s imitation—as evidenced by his National Recovery Administration, a flabby utopian plan that would have had business, labor, and government collaborate to set prices, wages, and industry standards down to the most minute details. The NRA would have carried 1920s-style business progressivism right to the doorstep of the corporate state, had it been even vaguely workable. But right from the beginning, Roosevelt also endorsed reforms, from regulating Wall Street to saving the farmers to backing labor unions in their organizing wars, that required \_conflict—\_the only way in which a political and economic system can be fundamentally remade. When the NRA quickly proved to be a bust, FDR discarded it, and replaced his failure with the Second New Deal, in which business, labor, and government were situated as countervailing forces against one another—a fundamental power shift that enabled advances in both prosperity and democracy unmatched in human history.

Much like Herbert Hoover, Barack Obama is a man attempting to realize a stirring new vision of his society without cutting himself free from the dogmas of the past—without accepting the inevitable conflict. Like Hoover, he is bound to fail.

President Obama, to be fair, seems to be even more alone than Hoover was in facing the emergency at hand. The most appalling aspect of the present crisis has been the utter fecklessness of the American elite in failing to confront it. From both the private and public sectors, across the entire political spectrum, the lack of both will and new ideas has been stunning. When it came to the opposition, Franklin Roosevelt reaped the creative support of any number of progressive Republicans throughout his twelve years in office, ranging from New York Mayor Fiorello La Guardia to Nebraska Senator George Norris to key cabinet members such as Henry A. Wallace, Harold Ickes, Henry Stimson, and Frank Knox. Obama, by contrast, has had to contend with a knee-jerk rejectionist Republican Party.

More frustrating has been the torpor among Obama’s fellow Democrats. One might have assumed that the adrenaline rush of regaining power after decades of conservative hegemony, not to mention relief at surviving the depredations of the Bush years, or losing the vestigial tail of the white Southern branch of the party, would have liberated congressional Democrats to loose a burst of pent-up, imaginative liberal initiatives.

Instead, we have seen a parade of aged satraps from vast, windy places stepping forward to tell us what is *off* the table. Every week, there is another Max Baucus of Montana, another Kent Conrad of North Dakota, another Ben Nelson of Nebraska, huffing and puffing and harrumphing that we had better forget about single-payer health care, a carbon tax, nationalizing the banks, funding for mass transit, closing tax loopholes for the rich. These are men with tiny constituencies who sat for decades in the Senate without doing or saying anything of note, who acquiesced shamelessly to the worst abuses of the Bush Administration and who come forward now to chide the president for not concentrating enough on reducing the budget deficit, or for “trying to do too much,” as if he were as old and as indolent as they are.

Senate Majority Leader Harry Reid—yet another small gray man from a great big space where the tumbleweeds blow—seems unwilling to make even a symbolic effort at party discipline. Within days of President Obama’s announcing his legislative agenda, the perpetually callow Indiana Senator Evan Bayh came forward to announce the formation of a breakaway caucus of fifteen “moderate” Democrats from the Midwest who sought to help the country make “the changes we need” but “make sure that they’re done in a practical way that will actually work”—a statement that was almost Zen-like in its perfect vacuousness. Even most of the Senate’s more enlightened notables, such as Russ Feingold of Wisconsin or Claire McCaskill of Missouri or Sherrod Brown of Ohio, have had little to contribute beyond some hand-wringing whenever the idea of a carbon tax or any other restrictions on burning coal are proposed.

President Obama, with a laudable respect for the separation of powers, has left the details and even the main tenets of his agenda to be worked out by these same congressional Democrats. This approach looks like an exercise in democracy drawn from his days as a community organizer, the sort of strategy that helps a neighborhood to decide whether it wants, say, a health clinic or a youth center. What he doesn’t care to acknowledge is that, in the case of the U.S. Congress, he’s dealing with a neighborhood where maybe half want a health clinic and the rest are holding out for grenade launchers and crystal meth.

Some have suggested that this is a subtle strategy to ensure that the White House retains the whip hand, that Obama is reserving for himself the role of “decider” over competing plans. But what is the decision then? Half a health clinic and one grenade launcher? A plan for universal health care that is not universal and doesn’t cut costs will not work. A plan for combating climate change that perpetuates the shibboleth of “clean coal” will do nothing. Far from controlling the process, Obama’s procedure is more likely to commit him to one of Congress’s nebulous non-plans.

Yet Obama’s lack of direction, his lack of accomplishments in his Hundred Days and counting, cannot be attributed solely to his illusions about the august body he just vacated. Obama, like Hoover in his time, is almost alone among politicians in grasping the magnitude of the crisis. In his masterful February speech before the joint houses of Congress, Obama explained to the country why we cannot afford to continue with a tottering health-care system that has left 46 million Americans uninsured and that impedes our exports by adding, for instance, $1,500 to the cost of every GM car; why it is that climate change has to be addressed now, and how by addressing it we can regain our industrial base and actually begin to make things again; why it is that our financial system could not simply be bailed out and patched up but must be fundamentally reformed and re-regulated. Above all, he explained the necessary interaction of all these reforms, of how they were not just some liberal wish list but the actions that the radical moment demanded.

Speeches almost as powerful have followed, always linking these ideas together. But, like Hoover, Obama has been unable to make his actions live up to his words. Health care is being gummed to death on Capitol Hill. Obama has done nothing to pass “card check” provisions that would facilitate union organization and quietly announced that he would not seek stronger labor and environmental protections in NAFTA. He has capitulated on cap-and-trade in the budget outline and never even bothered to push for an actual carbon tax. Only minuscule portions of the stimulus bill or his budget proposals were dedicated to mass transit, and his indifference to the issue—what must be a major component of any serious effort to go green—was reflected in his appointment of a mediocre Republican time-server, Ray LaHood, as his transportation secretary.

Still worse is Obama’s decision to leave the reordering of the financial world solely to Larry Summers and Timothy Geithner, both of whom played such a major role in deregulating Wall Street and bringing on the disaster in the first place. It’s as if, after winning election in 1932, FDR had brought Andrew Mellon back to the Treasury. Just as Herbert Hoover could not, in the end, break away from the best economic advice of the 1920s, Barack Obama is sticking with the “key men” of the 1990s. The predictable result is that, even as he claims to recognize the interlocking nature of the problems facing us and vows to solve them as a whole, the president is in fact abandoning most of his program, at least for the time being.

No doubt, President Obama and his chief of staff, Rahm Emanuel, would claim that by practicing “the art of the possible,” they are ensuring that “the perfect does not become the enemy of the good.” But by not even proposing the relevant legislation, Obama has ceded a key part of the process—so much so that his retreat seems not so much tactical as a reversion to his core political beliefs.

A major theme of Obama’s 2006 book *The Audacity of Hope* is impatience with “the smallness of our politics” and its “partisanship and acrimony.” He expresses frustration at how “the tumult of the sixties and the subsequent backlash continues to drive our political discourse,” and voices a professional appreciation for Ronald Reagan’s ability to exploit such divisions. The politician he admires the most—ironically enough, considering the campaign that was to come—is Bill Clinton. For all his faults, Clinton, in Obama’s eyes, “instinctively understood the falseness of the choices being presented to the American people” and came up with his “Third Way,” which “tapped into the pragmatic, non-ideological attitude of the majority of Americans.”

This is an analysis consistent with Obama’s personal story. Like Herbert Hoover, Obama grew up as an outsider and overcame formidable odds—hence his constant promotion of personal responsibility and education. He came of age in a time when hardworking young men and women like him went to Wall Street or to Silicon Valley, and—once properly “incentivized” by the likes of Ronald Reagan and Bill Clinton—seemed to save the national economy, creating what appeared to be great general prosperity while doing well themselves. There’s no need to do battle with these strivers and achievers, individuals as accomplished in their fields as Obama is in his. All that’s required is to get them back on their feet, get the money running again, and maybe give them a few new rules to live by, a new set of incentives to get them back on track.

Just as Herbert Hoover came to internalize the “business progressivism” of his era as a welcome alternative to the futile, counterproductive conflicts of an earlier time, so has Obama internalized what might be called Clinton’s “business liberalism” as an alternative to useless battles from another time—battles that liberals, in any case, tended to lose.

Clinton’s business liberalism, however, is a chimera, every bit as much a capitulation to powerful and selfish interests as was Hoover’s 1920s progressivism. We are back in Evan Bayh territory here, espousing a “pragmatism” that is not really pragmatism at all, just surrender to the usual corporate interests. The common thread running through all of Obama’s major proposals right now is that they are labyrinthine solutions designed mainly to avoid conflict. The bank bailout, cap-and-trade on carbon emissions, health-care pools—all of these ideas are, like Hillary Clinton’s ill-fated 1993 health plan, simultaneously too complicated to draw a constituency and too threatening for Congress to shape and pass as Obama would like. They bear the seeds of their own defeat.

Obama will have to directly attack the fortified bastions of the newest “new class”—the makers of the paper economy in which he came of age—if he is to accomplish anything. These interests did not spend fifty years shipping the greatest industrial economy in the history of the world overseas only to be challenged by a newly empowered, green-economy working class. They did not spend much of the past two decades gobbling up previously public sectors such as health care, education, and transportation only to have to compete with a reinvigorated public sector. They mean, even now, to use the bailout to make the government their helpless junior partner, and if they can they will devour every federal dollar available to recoup their own losses, and thereby preclude the use of any monies for the rest of Barack Obama’s splendid vision.

Franklin Roosevelt also took office imagining that he could bring all classes of Americans together in some big, mushy, cooperative scheme. Quickly disabused of this notion, he threw himself into the bumptious give-and-take of practical politics; lying, deceiving, manipulating, arraying one group after another on his side—a transit encapsulated by how, at the end of his first term, his outraged opponents were calling him a “traitor to his class” and he was gleefully inveighing against “economic royalists” and announcing, “They are unanimous in their hatred for me—and I welcome their hatred.”

Obama should not deceive himself into thinking that such interest-group politics can be banished any more than can the cycles of Wall Street. It is not too late for him to change direction and seize the radical moment at hand. But for the moment, just like another very good man, Barack Obama is moving prudently, carefully, reasonably toward disaster.